



# **OWNERSHIP AGREEMENT ANNUAL REPORT**

**For**

***Cayman Islands Health Services Authority***

***For the year ended 30 June 2007***

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## 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 financial statements for the year ended 30 June 2007 of which a disclaimer of opinion was issued by the Auditor General.

The Board and management continued a sustained focus on improving the Authority's financial management during the 2007 financial year with the implementation of additional safeguards and the recommendations made by the Auditor General from the previous financial year to improve financial reporting, organizational controls and management accountability.

The success of these measures is reflected in the continued improvement of the HSA's financial position and the elimination of the need for government's equity injection to cover operating losses as represented below:

Equity Injection (Operating Loss and Capital Subsidies)

|           | <u>Capital Subsidy</u> | <u>Operating Loss Subsidy</u> | <u>Total Subsidy</u> |
|-----------|------------------------|-------------------------------|----------------------|
| • 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 Authority has developed a three year action plan in 2010 with three identified priorities which we anticipate will achieve full compliance with the law and financial regulations.

The plan addresses three key areas which are as follows:

- Revenue management – to improve financial management and revenue enhancements measures.
- Inventory Controls – implementation of an effective integrated inventory management system to assist with management, tracking, procurement, inventory and distribution of supplies.
- Fixed Assets Valuation – to determine the true value of all assets owned by the HSA.

Further details of the above plan are included in the succeeding paragraphs. Additionally, the Authority has already undertaken far-reaching changes in many areas of its operation, some over and beyond the immediate recommendations of the Auditor General, to correct any weaknesses in the following manner:

- Strengthening the financial department – through recruitment of additional personnel including a Financial Controller and redefining functions and responsibilities to enhance our level of financial reporting.

- *Governance and Oversight* – through the planned formation of an Audit Committee to ensure:
  1. Integrity of the financial statements and its conformity with standards, laws and regulations.
  2. Accountability with legal and regulatory compliance.
  3. Oversight of the external and internal audits, including the scope of work and dealing with the findings.
- *Increased focus on risk management* – implementation of a robust risk management program to mitigate and minimize our financial 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.
- *Reconciliation controls* – implementation of processes to monitor reconciliation procedures as part of the period-end financial reporting process for key balances and amounts; including review, approval, and proper documentation
- *Policies and procedures* – Development of policies and procedures for bad debt including procedures for write-offs through:
  - Clarification of criteria to write-off;
  - Involvement of Collection Department – actual account status;
  - Adequate documentation; and
  - Board approval and Finance committee oversight.
- *Increased public awareness* – through ongoing public education the Authority has realized increased compliance by patients with payment for services rendered. The campaign will be ongoing to reinforce the policies being implemented.
- *Staff Training and Development* – Implementation of continuous training and quality monitoring systems for registration officers.
- *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 and 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.

We believe the steps already taken along with the three year action plan which has been developed will produce further significant improvements in our operational and financial management.

In reference to the disclaimer of opinion received on our financial statements for 2006/7, there were five significant matters (2005/6: seven significant matters) that prevented the Auditor General from completing their audit. The Health Authority has made significant strides in resolving these matters. An update of the actions taken on each of these recommendations from the Auditor General is provided below.

**1. Incomplete records relating to patient revenues**

*Status to date: We are currently implementing policies and procedures that will address revenue completeness.*

**2. Incomplete records to value accounts receivable and reasonableness of bad debt expense**

*Status to Date: (1) We are hoping that this issue with respect to revenue recognition and completeness are resolved, any issues with respect to accounts receivable would be impacted in a positive way. (2) Policy, methodology and rate and basis of bad debts are all documented in our Bad Debts Policy which took effect in July 2009 to ensure proper valuation of accounts receivable.*

**3. Incomplete records relating to supplies and materials expenses**

*Status to Date: A new customized hospital based computerized system is to be acquired to maintain perpetual inventory records, merging ENCOM and IRIS database in order to provide a better control environment.*

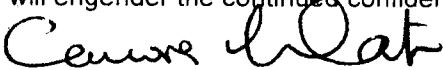
**4. Incomplete records for the reporting and disclosure of fixed assets and reasonableness of depreciation expense**

*Status to Date: All issues relating to fixed assets' completeness and existence had been resolved in December 2008 except for land and building valuation. The valuation of the buildings post re-construction is to be done by the Lands & Survey department and a request has already been made. Alternatively, we are also seeking to engage a private valuation entity and targeting the completion of this project for the 2010/11 fiscal year.*

**5. Incomplete information to determine completeness and disclosure of provisions and contingent liabilities.**

*Status to Date: This has been addressed using the standard template starting 2007/8 financial statements to provide provisions and contingent liabilities including disclosures, congruent international requirements.*

The Board and management of the HSA takes seriously our obligations as specified in 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 population, legislators and regulators.



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 2007.

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 2006/7, 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 primary and secondary levels of healthcare services, and 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.

There are 42 medical doctors currently practicing in the Authority's service, including four based on Cayman Brac. This number includes outpatient services staff, i.e. general practice and emergency services. There are seven dentists currently practicing in the Authority's service.

Emergency Services is staffed with specially trained nurses, doctors, emergency medical technicians and paramedics who provide seven-days-a-week, 24-hour pre-hospital care. Specialist services are also available in the fields of: surgery, gynaecology & obstetrics, paediatrics, internal medicine, dermatology, anaesthesiology, orthopaedics, psychiatry, cardiology, gastroenterology, radiology, neurology, ophthalmology, otolaryngology, periodontology, reconstructive surgery, faciomaxillary surgery, urology and oncology.

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

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, school health programs and administrative staff provides this service under the direction of the Medical Officer of Health.

Public Health services include:

- Health promotion 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 now owns and operates all healthcare facilities previously operated by the Health Services Department of the Government. These include two aforementioned hospitals, 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 first aid station in Little Cayman.

## **Compliance during the Year**

Throughout the year, the HSA was compliant with all our core business and activities as stipulated in its ownership agreement to the country.



## **4. Strategic Goals and Objectives**

### **Approved Strategic Goals and Objectives**

The key strategic goals and objectives (from an ownership perspective) for the Cayman Islands Health Services Authority for the 2006/7 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 international 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 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 **\$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 **\$6.526 million** in 2006/7 and **\$6.526 million** in 2007/8. It is anticipated that, at a minimum, 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 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**

*The following are the achievements of the key strategic goals and objectives of the Health Services Authority for 2006/7 financial year are as follows:*

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

- A joint Pan American Health Organization (PAHO) and Caribbean Epidemiological Centre (CAREC) initiative was launched for accreditation of the laboratory services as part of our strategic objective for full accreditation of the Cayman Islands Hospital to further establish our position as a quality health care provider equal to any hospital in North America or Europe.
- The Cayman Islands Hospital was the recipient of a CAREC and PAHO award for excellence in Communicable Disease Surveillance Committee based on submission of weekly and monthly reports about communicable diseases, and timeliness of response to incidents such as food recalls.
- Commissioning of a modern DNA Lab in conjunction with the Attorney General's Department. The Forensic DNA Laboratory service will provide an increased scope of local forensic DNA service and expertise to law enforcement and the courts.
- Expansion of the range of specialist medical services offered to include plastic surgery.
- Collaborate 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**

- Partnership with the Cancer Society for the acquisition of state-of-the-art mammography machine marks the start of what is intended to be ongoing collaboration with interest groups in the private sector for the benefit of our patients.
- Collaboration with the Cayman Islands Medical and Dental Society for the hosting of the first Cayman Islands Medical Conference.
- Partnership with private sector medical providers for medical services to ensure continuity of care on island 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. These include collaboration with Chrissie Tomlinson Hospital, Cayman Medical and other providers.

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

- Strengthened the partnership with St. Mathews University to further enhance the Clinical shadowing program which will boost 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.**

- Improved customer service and quality indicators to reduce patient complaints
- Improved patient scheduling and response with the implementation of a voice and email system providing patients with greater flexibility for booking appointments.
- Implemented on-going customer service training program extended to all frontline employees with mechanism for ongoing evaluation and further training to ensure expectations and standards are met at all levels.

**E. Improve Financial/Cost effectiveness of the Health Services Authority**

- Improved financial performance with reduction in losses for the 2006/7 financial year to \$13.6 million. This is an improvement over the \$14.6 million loss in the 2005/6 financial year.
- Continued development programs to introduce effective financial controls, policies and procedures throughout all areas of the Authority's operations to ensure fiscal accountability and responsibility and revenue enhancement.
- Enhanced the effectiveness of the clinical information systems to support management decisions through on-going training of staff and additional software upgrades.
- Development of payment policies and processes to enhance revenue collection by reviewing credit term for patients, creating a payment plan, & utilization of credit/debit machine.

**F. Create a stable and motivated workforce**

- Completed a comprehensive Job Evaluation by Deloitte which will measure all jobs within the HSA against similar positions locally and internationally to ensure fair and competitive remuneration for all employees
- Completed staff survey to measure employee satisfaction
- Implementation of a cost of living increase for all employees
- Development of an organizational code of values statement which will ensure recruitment and retention of staff committed to the organisation's mission.
- Strengthen employee performance incentive/reward system with Employee of the Month recognition, Physician and Nursing Awards
- Implementation of a robust continuing education program for all staff to ensure the highest level of clinical, technical and professional skills and competency levels among staff.

## 5. Ownership Performance Targets

The ownership performance targets achieved [as specified in schedule 5 to the Public Management and Finance Law (2005 Revision)] for Health Services Authority for the 2006/7 financial year are as follows.

### Financial Performance

| Financial Performance Measure                                                       | 2006/7<br>Actual<br>\$ | 2006/7<br>Budget<br>\$ | Annual<br>Variance<br>\$ |
|-------------------------------------------------------------------------------------|------------------------|------------------------|--------------------------|
| Revenue from Cabinet                                                                | 18,585,822             | 17,443,000             | 1,142,822                |
| Revenue from ministries, portfolios, statutory authorities and government companies | 20,662,440             | 18,924,900             | 1,737,540                |
| Revenue from other persons or organisations                                         | 18,613,084             | 23,257,500             | (4,644,416)              |
| Surplus/deficit from outputs                                                        | -                      | -                      | -                        |
| Other expenses                                                                      | 72,006,708             | 63,848,390             | 8,158,318                |
| Net Surplus/Deficit                                                                 | (14,145,362)           | (4,222,990)            | (9,922,372)              |
| Total Assets                                                                        | 53,968,121             | 68,265,093             | (14,296,972)             |
| Total Liabilities                                                                   | 6,553,896              | 3,278,436              | 3,275,460                |
| Net Worth                                                                           | 47,414,225             | 64,986,657             | (17,572,432)             |
| Cash flows from operating activities                                                | (9,836,346)            | (4,605,721)            | (5,230,625)              |
| Cash flows from investing activities                                                | (4,333,847)            | (1,784,000)            | (2,549,847)              |
| Cash flows from financing activities                                                | 16,750,000             | 16,750,000             | -                        |
| Change in cash balances                                                             | 2,579,807              | 136,279                | 2,443,527                |

| Financial Performance Ratio         | 2006/7<br>Actual | 2006/7<br>Budget | Annual<br>Variance |
|-------------------------------------|------------------|------------------|--------------------|
| Current Assets: Current Liabilities | 1.51             | 6.85             | (5.34)             |
| Total Assets: Total Liabilities     | 8.23             | 20.82            | (12.59)            |

### Explanation of Variances

- The HSA net worth is approximately 26% in unfavourable variance with the largest cause of this being the rate used in estimating bad debts at 4%. Analysis shows that 16% of revenue will not be collected less contractual adjustment for employee benefits and public health services.
- During 2006/7, the HSA had \$ 1,579,747 spent in construction contract with Mc Alpine and a broad range of capital assets investment especially medical equipment in particular ultrasound unit, life support pack, Stream Clave, Xpress CR system which cause a 143% in unfavourable variance with the budget for investing activities.

### Maintenance of Capability

| <b>Human Capital Measures</b>                                                                         | <b>2006/7<br/>Actual</b>          | <b>2006/7<br/>Budget</b>          | <b>Annual<br/>Variance</b>             |
|-------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------------------------------|
| Total full time equivalent staff                                                                      | 719                               | 680                               | 39                                     |
| Staff turnover (%)                                                                                    | 10.97%                            | 10%                               | 0.97%                                  |
| Average length of service (Number)<br>Senior management<br>Professional staff<br>Administrative staff | 11.14 yrs<br>6.40 yrs<br>6.63 yrs | 13.75 yrs<br>6.74 yrs<br>6.67 yrs | (2.61 yrs)<br>(0.34 yrs)<br>(0.04 yrs) |
| Significant changes to personnel management system                                                    | None                              | None                              | -                                      |

| <b>Physical Capital Measures</b>                                           | <b>2006/7<br/>Actual<br/>\$</b> | <b>2006/7<br/>Budget<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|----------------------------------------------------------------------------|---------------------------------|---------------------------------|-----------------------------------|
| Value of total assets [Cost]                                               | 58,459,519                      | 68,265,093                      | (9,805,574)                       |
| Asset replacements: total assets                                           | 7.41%                           | 3.00%                           | 4.41%                             |
| Book value of depreciated assets: initial cost of those assets (less land) | 74.39%                          | Unavailable                     | Unavailable                       |
| Depreciation: Cash flow on asset purchases                                 | 46.87%                          | 70%                             | (23.13%)                          |
| Changes to asset management policies                                       | None                            | None                            | -                                 |

| <b>Major Capital Expenditure Projects</b>          | <b>2006/7<br/>Actual<br/>\$</b> | <b>2006/7<br/>Budget<br/>\$</b>  | <b>Annual<br/>Variance<br/>\$</b> |
|----------------------------------------------------|---------------------------------|----------------------------------|-----------------------------------|
| Re roofing Materials Management                    | -                               | 160,000                          | (160,000)                         |
| Security Equipment                                 | -                               | 259,759                          | (259,759)                         |
| Dialysis Flooring                                  | -                               | 29,000                           | (29,000)                          |
| Medical Equipment                                  | 1,290,069                       | 1,928,241                        | 16,685                            |
| Advance payments for medical equipment             | 654,857                         |                                  |                                   |
| Other Equipment (Telephone, Signage , Photocopier) | 109,606                         | 173,000                          | (63,394)                          |
| Computer and furniture & fixtures                  | 242,568                         | 0                                | 242,568                           |
| Various Construction Project – Hurricane Ivan:     |                                 | Funded from Insurance Settlement |                                   |
| • Buildings                                        | 557,917                         |                                  |                                   |
| • Construction work in progress                    | 1,478,830                       |                                  |                                   |
| <b>Total</b>                                       | <b>4,333,847</b>                | <b>2,550,000</b>                 | <b>(252,900)</b>                  |

## Risk Management

| Key risks                                                                                     | Actions to be taken during 2006/7 to Manage risk                                                                                                                                         | Status of Risk as at 30 June 2007                                                                                                                                                                                       | Financial Value of risk |
|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Key Staff vacancies                                                                           | Recruit Chief Executive Officer<br><br>Recruit Chief Financial Officer<br><br>Recruit Director, Human Resources.                                                                         | HR Director Vacancy<br>Medical Director Recruited<br>Financial Controller Recruited<br>PFS Director Recruited<br>Pathologist Recruited                                                                                  | unquantifiable          |
| Loss of key Staff                                                                             | Introduction of renewal bonuses for staff<br><br>Proposal to carry out Salary Review<br><br>Review organisational structure<br><br>Nurse Training Course<br><br>Increase training budget | Reinstate Performance Increments<br><br>Salary Review and Job Evaluation in progress.<br><br>Pending<br><br>LPN Training Course has been resumed.<br><br>Align funding approved this year with the HSA succession plan. | \$150,000<br><br>\$1.2M |
| Natural Disaster – Loss of Vital Information                                                  | Ensure contingency plan is in place for electronic and paper documents                                                                                                                   | Remote hosting for EMR in place                                                                                                                                                                                         | unquantifiable          |
| Natural Disaster – Loss of Communication                                                      | Ensure contingency plan is in place for communications                                                                                                                                   | Redundancy for communication in place (Digicel & TeleCayman)                                                                                                                                                            | unquantifiable          |
| Security Risk                                                                                 | Improve security system, enclose open areas, restrict entry points to Cayman Islands 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<br>Monitor expenditure on a monthly basis<br>Monitor revenue collections on a monthly basis                                                                       | In process                                                                                                                                                                                                              | Bad debts - \$7.6M      |

## 6. Summarised Financial Statements

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

A summary of those is as follows.

| <b>Operating Statement</b> | <b>2006/7<br/>Actual<br/>\$</b> | <b>2006/7<br/>Budget<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|----------------------------|---------------------------------|---------------------------------|-----------------------------------|
| Revenue                    | 57,861,346                      | 59,625,400                      | (1,764,054)                       |
| Operating Expenses         | 72,006,708                      | 63,848,390                      | 8,158,318                         |
| <i>Net Surplus/Deficit</i> | <i>(14,145,362)</i>             | <i>(4,222,990)</i>              | <i>(9,922,372)</i>                |

| <b>Balance Sheet</b> | <b>2006/7<br/>Actual<br/>\$</b> | <b>2006/7<br/>Budget<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|----------------------|---------------------------------|---------------------------------|-----------------------------------|
| Assets               | 53,968,121                      | 68,265,093                      | (14,296,972)                      |
| Liabilities          | 6,553,896                       | 3,278,436                       | 3,275,460                         |
| <i>Net Worth</i>     | <i>47,414,225</i>               | <i>64,986,657</i>               | <i>(17,572,432)</i>               |

| <b>Statement of Cash Flows</b>           | <b>2006/7<br/>Actual<br/>\$</b> | <b>2006/7<br/>Budget<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|------------------------------------------|---------------------------------|---------------------------------|-----------------------------------|
| Net cash flows from operating activities | (9,836,346)                     | (4,605,721)                     | (5,230,625)                       |
| Net cash flows from investing activities | (4,333,847)                     | (1,784,000)                     | (2,549,847)                       |
| Net cash flows from financing activities | 16,750,000                      | 16,750,000                      | -                                 |

### Explanation of Variances

- ☐ Total assets in unfavourable budget variance due to increase of provision for bad debts from 4% to 16%.
- ☐ Additional Government equity during the year due to the increase bad debt provision

## 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                                                                                 | 2006/7<br>Actual<br>\$ | 2006/7<br>Budget<br>\$ | Annual<br>Variance<br>\$ |
|---------------------------------------------------------------------------------------------|------------------------|------------------------|--------------------------|
| Equity Investments into Cayman Islands Health Services Authority                            | 16,750,000             | 16,750,000             | -                        |
| 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 <sup>1</sup>     | 0                      | 0                      | 0                        |
| Remuneration <sup>2</sup> Payments made to Key Management Personnel                         | 1,081,072              | 1,460,630              | 379,558                  |
| Remuneration Payments made to Senior Management                                             | 1,067,516              | 1,075,200              | 7,684                    |

|                                | 2006/7<br>Actual | 2006/7<br>Budget |
|--------------------------------|------------------|------------------|
| No of Key Management Personnel | 16               | 28               |
| No of Senior Management        | 10 (3 vacancies) | 13 (2 vacancies) |

<sup>1</sup> Key Management Personnel as defined by International Public Sector Accounting Standards No 20, eg Minister, Board Member and Senior Management Team

<sup>2</sup> 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 2006/7 financial year

*Signature]*

**[relevant Minister]**

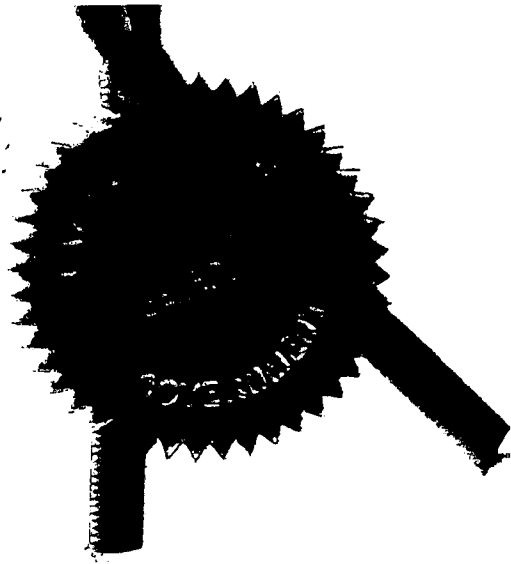
**on behalf of the Cabinet**

*[Signature]*

**Chairman of the Board**

*Cayman Islands Health Services Authority*

**Date 2007**



Financial Statements of

**CAYMAN ISLANDS HEALTH  
SERVICES AUTHORITY**

June 30, 2007

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

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Cayman Islands

Office of the Auditor General  
Cayman Islands Government  
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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 2007, 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 five significant matters that prevented me from completing my audit;

1. Incomplete records relating to patient revenues
2. Incomplete records to value accounts receivable and reasonableness of bad debt expense
3. Incomplete records for the valuation and disclosure of fixed assets and reasonableness of depreciation expense
4. Incomplete records relating to supplies and materials expenses
5. Incomplete information to determine completeness and disclosure of provisions and contingent liabilities.

These significant matters are further described in the paragraphs below.

**Incomplete records relating to patient revenues**

I was unable to satisfy myself by the tests I performed as to the completeness of patient revenues reported on the statement of revenues and expenses. Every time a patient receives a service from the hospital, it is referred to as an "encounter". I found there were a total of more than 30,000 encounter numbers (unique computer generated reference numbers) missing from the Authority's revenue accounting system. There were approximately 284,000 known encounters during the year. In addition, my review and tests of the controls to ensure that all patient service fees are recorded in the revenue accounting system identified significant weaknesses. Because I have not been provided with an acceptable explanation for the missing transactions or the order of numbers generated by the revenue accounting system, and of my concerns regarding the significant weaknesses in controls, I was unable to determine that the reported amount for gross patient services fees of \$48 million is complete.

**Incomplete records to value accounts receivable and reasonableness of bad debt expense**

I was unable to determine the completeness, existence, and valuation of accounts receivable reported on the balance sheet for accounts receivable for similar reasons as reported for patient revenues. In addition, I was unable to satisfy myself that the reported amounts for the allowance for bad debts and associated bad debt expense are accurate. Management does not have appropriate policies and systems in place to establish an accounting estimate with reasonable basis and to assess the reasonableness of its net accounts receivable balance and, therefore, could not provide sufficient information to support its accounting estimate for bad debts.

**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 \$44 million due to the lack of appropriate accounting records. Because of the lack of information regarding the fixed assets of the Authority, I was also unable to satisfy myself with the accuracy of the amount reported for depreciation expense.

The Authority is required to maintain proper accounting records for its fixed assets that would identify all its assets and their location, their cost, when they were acquired and if they are still in use. These accounting records are not maintained in a manner that allowed me to carry out appropriate audit procedures.

**Incomplete records relating to supplies and materials expenses**

I was unable to satisfy myself that \$1.6 million of supplies and materials and other operating expenses occurred and are accurate. The amount relates to an adjustment by the Authority to reconcile the inventory balance for results of the year-end physical count. The Authority was unable to provide accounting information about the charges to supplies and materials and other operating expenses and identify them as valid purchases and if the inventories had been used in its operations. I was therefore unable to verify whether these expenses on the statement of revenue and expenses occurred and are accurate.

**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.

In addition to the five 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 review that I needed to conduct my audit. The following were identified as significant:

1. There were no inventory records for drugs in stock in the pharmacy outlets operated by the Authority resulting in an amount not included in 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.
2. Lands and Surveys documentation to determine the value of the Authority's land and buildings was not available for my audit
3. Inability to review revenue-related transactions such as adjustments to patient fees and write-offs processed in the Authority's revenue accounting system
4. Incomplete documentation for recorded patient revenues. Approximately two-thirds of receipts and bank deposits that I requested for my audit could not be provided
5. The Authority did not evaluate certain assets, especially fixed assets, to determine possible impairment of their reported values. As a result, there have been no adjustments and disclosures in the financial statements.
6. 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 have been expensed in the year incurred.
7. Appropriate records were not provided for:
  - o special allowances totaling \$665 thousand under staff costs;
  - o overseas medical benefits provided to employees amounting to \$1.3 million;
  - o purchase and sales transaction of inventories (particularly drugs);
  - o certain employment contracts and other human resources documents; and
  - o invoices for sample selections of equipment purchases.

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**

##### **Accounting policy not followed**

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. The stated accounting policy was therefore not implemented appropriately.

#### Other significant disclosures omitted

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 to other government agencies for medical services provided and from 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. Inventory amounts charged to operations during the year
5. Pharmacy revenues (sales of goods), distinct from patient revenues (sales of services)
6. Balances and amounts related to contributed capital and accumulated deficit required to be presented separately and a description of the reserves
7. Contractual commitments

#### Credit balances in accounts receivables

Credit balances exist in many individual patient receivable balances (particularly from "self-pay accounts") and certain account details indicate that the credit balances result from excess credit adjustments applied to the affected accounts. As a result, accounts receivable in the balance sheet and patient revenue in the statement of revenue and expenses are understated by \$1.7 million.

#### Inaccuracies in revenues and accounts receivable

I found errors in the application of fee rates used to charge patients as well as more than 5,000 patient encounters in the amount of approximately \$732,000 with discharge dates prior to 1 July 2006 that are recorded in the current year.

#### Accuracy of personnel costs

I was not able to satisfy myself as to the overall accuracy of personnel cost as there was no explanation provided for a difference of \$808,000 in the accounting records.

#### Other errors in the financial statements

I found several other accounting errors resulting in total assets to be understated by \$1.5 million, total liabilities to be overstated by \$0.3 million, and net income and general reserves to be understated by \$1.8 million. This is in addition to the effect of the errors described in all preceding paragraphs. These errors stem from unexplained discrepancies in the accounting records and errors in accounting treatment for individual transactions.

#### **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 matters

I draw attention to the following matters:

1. 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.
2. Equity payments amounting to \$2.55 million received from the Cayman Islands Government during the year was intended for the acquisition of medical equipment. However, only \$1.25 million was expended for this purpose in contravention of the applicable appropriation acts and the *Public Management and Finance Law (2005 Revision)*.



Dan Duguay, MBA, FCGA  
Auditor General

Cayman Islands  
27 January 2010



# CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

## Balance sheet

As at June 30, 2007

(stated in Cayman Islands dollars)

|                                       | Note | 2007          | 2006         |
|---------------------------------------|------|---------------|--------------|
| <b>Current assets</b>                 |      |               |              |
| Cash and cash equivalents             | 3    | (104,699)     | (2,684,506)  |
| Other receivables                     | 4    | 579,392       | 4,007,453    |
| Accounts receivable, net              | 5    | 7,874,928     | 7,742,813    |
| Inventory                             | 6    | 1,539,558     | 2,811,735    |
|                                       |      | 9,889,179     | 11,877,495   |
| <b>Current liabilities</b>            |      |               |              |
| Accounts payable and accrued expenses |      | (5,824,896)   | (8,613,111)  |
| Unfunded defined benefit obligation   | 9    | (729,000)     | (231,000)    |
|                                       |      | (6,553,896)   | (8,844,111)  |
| <b>Net current assets</b>             |      | 3,335,283     | 3,033,384    |
| <b>Non-current assets</b>             |      |               |              |
| Fixed assets                          |      |               |              |
| Land                                  | 7    | 2,303,750     | 2,303,750    |
| Buildings, net                        | 7    | 35,275,982    | 35,531,494   |
| Medical equipment, net                | 7    | 1,924,686     | 981,675      |
| Other fixed assets, net               | 7    | 4,574,524     | 2,959,284    |
|                                       |      | 44,078,942    | 41,776,203   |
| <b>Net assets</b>                     |      | \$ 47,414,225 | \$44,809,587 |
| <b>Represented by</b>                 |      |               |              |
| General reserve                       |      | \$ 47,414,225 | \$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, 2007  
(stated in Cayman Islands dollars)

|                                                        | Note | 2007                   | 2006                   |
|--------------------------------------------------------|------|------------------------|------------------------|
| <b>Operating income</b>                                |      |                        |                        |
| Gross patient services fees                            |      |                        |                        |
| Inpatient/outpatient                                   |      | \$49,557,088           | \$44,193,160           |
| Less: Contractual adjustments – Health Authority staff |      | 2,156,585              | 1,929,889              |
| Public health                                          |      | <u>275,670</u>         | <u>-</u>               |
|                                                        |      | 2,432,255              | 1,929,889              |
| Other                                                  |      | 47,124,833             | 42,263,271             |
|                                                        |      | <u>677,782</u>         | <u>324,162</u>         |
|                                                        |      | <u>47,802,615</u>      | <u>42,587,433</u>      |
| Government programme                                   | 8    | <u>9,983,000</u>       | <u>4,750,005</u>       |
| Other income                                           |      |                        |                        |
| Rental income                                          |      | 5,900                  | 4,500                  |
| Donations                                              |      | <u>69,831</u>          | <u>158,113</u>         |
|                                                        |      | <u>75,731</u>          | <u>162,613</u>         |
| <b>Operating expense</b>                               |      | 57,861,346             | 47,500,051             |
| Staff costs                                            |      |                        |                        |
| Supplies & materials                                   |      | 41,346,718             | 37,687,843             |
| Other operating expense                                |      | 8,920,723              | 5,297,772              |
| Utilities                                              |      | 5,842,739              | 6,241,107              |
| Insurance                                              |      | 2,995,135              | 3,057,460              |
| Legal & professional fees                              |      | 1,957,272              | 2,351,642              |
| Training                                               |      | 943,724                | 970,049                |
| Travel & subsistence                                   |      | 164,592                | 225,901                |
| Reference materials                                    |      | 141,489                | 350,356                |
|                                                        |      | <u>58,731</u>          | <u>35,474</u>          |
|                                                        |      | 62,371,123             | 56,217,604             |
| <b>Net operating loss</b>                              |      | <b>(4,509,777)</b>     | <b>(8,717,553)</b>     |
| <b>Other expenses</b>                                  |      |                        |                        |
| Depreciation                                           |      |                        |                        |
| Buildings                                              | 7    | 813,429                | 779,494                |
| Medical equipment                                      | 7    | 347,058                | 498,401                |
| Other fixed assets                                     | 7    | <u>870,621</u>         | <u>784,176</u>         |
|                                                        |      | 2,031,108              | 2,062,071              |
| Provision for bad debts                                |      | <u>7,604,477</u>       | <u>4,231,665</u>       |
|                                                        |      | 9,635,585              | 6,293,736              |
| <b>Net loss for the year</b>                           |      | <b>\$ (14,145,362)</b> | <b>\$ (15,011,289)</b> |

See accompanying notes to financial statements.

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

## **Statement of changes in general reserve**

**For the year ended June 30, 2007**  
*(stated in Cayman Islands dollars)*

|                                       | Note | 2007                | 2006                |
|---------------------------------------|------|---------------------|---------------------|
| General reserve at beginning of year  |      | \$44,809,587        | \$47,827,266        |
| Net loss for the year                 |      | (14,145,362)        | (15,011,289)        |
| Capital contributed by Government     | 11   | 16,750,000          | 11,993,610          |
| <b>General reserve at end of year</b> |      | <b>\$47,414,225</b> | <b>\$44,809,587</b> |

*See accompanying notes to financial statements.*

# CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

## Statement of cash flows

For the year ended June 30, 2007  
(stated in Cayman Islands dollars)

|                                                            | Note | 2007           | 2006           |
|------------------------------------------------------------|------|----------------|----------------|
| <b>Cash provided by/(applied in):</b>                      |      |                |                |
| <b>Operating activities</b>                                |      |                |                |
| Net loss for the year                                      |      | \$(14,145,362) | \$(15,011,289) |
| Add item not affecting working capital:                    |      |                |                |
| Depreciation                                               |      | 2,031,108      | 2,062,071      |
| Net changes in non-cash working capital                    |      |                |                |
| balances relating to operations:                           |      |                |                |
| Accounts receivable, net, increase                         |      | (132,115)      | (2,170,945)    |
| Other receivables, decrease                                |      | 3,428,061      | 3,126,019      |
| Inventory, decrease (increase)                             |      | 1,272,177      | (1,514,441)    |
| Accounts payable and accrued expenses, (decrease) increase |      | (2,788,215)    | 2,662,601      |
| Unfunded defined benefit obligation, increase              |      | 498,000        | 373,000        |
|                                                            |      | (9,836,346)    | (10,472,984)   |
| <b>Investing activities</b>                                |      |                |                |
| Cost of fixed assets purchased                             | 7    | (4,333,847)    | (2,503,913)    |
| <b>Financing activities</b>                                |      |                |                |
| Capital contributed by Government                          | 11   | 16,750,000     | 11,993,610     |
| Increase (decrease) in cash during the year                |      | 2,579,807      | (983,287)      |
| Cash and cash equivalents at beginning of year             |      | (2,684,506)    | (1,701,219)    |
| Cash and cash equivalents at end of year                   |      | \$(104,699)    | \$(2,684,506)  |

See accompanying notes to financial statements.

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

## **Notes to financial statements**

**June 30, 2007**

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### **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.

### **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:

#### **(a) Basis of accounting**

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

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

## **Notes to financial statements**

**June 30, 2007**

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### **2. Significant accounting policies (continued)**

#### ***(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.

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

## **Notes to financial statements**

**June 30, 2007**

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### **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.

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

## **Notes to financial statements**

**June 30, 2007**

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### **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 Pensions Plan (the "Plan") are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit part of the plan, the cost of providing benefits is determined using the 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.



# CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

## Notes to financial statements

June 30, 2007

### 3. Cash and cash equivalents

|               | 2007               | 2006                 |
|---------------|--------------------|----------------------|
| Petty cash    | \$6,700            | \$6,700              |
| Bank accounts | (111,399)          | (2,691,206)          |
|               | <u>\$(104,699)</u> | <u>\$(2,684,506)</u> |

### 4. Other receivables

|                           | 2007             | 2006               |
|---------------------------|------------------|--------------------|
| Other accounts receivable | \$545,645        | \$3,980,666        |
| Salary advance            | 33,747           | 26,787             |
|                           | <u>\$579,392</u> | <u>\$4,007,453</u> |

### 5. Accounts receivable

|                         | 2007               | 2006               |
|-------------------------|--------------------|--------------------|
| Accounts receivable     | \$28,848,090       | \$47,357,093       |
| Allowance for bad debts | (20,973,162)       | (39,614,280)       |
|                         | <u>\$7,874,928</u> | <u>\$7,742,813</u> |

### 6. Inventory

|                         | 2007               | 2006               |
|-------------------------|--------------------|--------------------|
| Medical supplies *      | \$686,641          | \$1,447,634        |
| Pharmaceutical supplies | 757,639            | 1,364,101          |
| Other supplies          | 95,278             | -                  |
|                         | <u>\$1,539,558</u> | <u>\$2,811,735</u> |

(\*Prior to July 1, 2006, Medical supplies inventory includes other supplies)

# CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

## Notes to financial statements

June 30, 2007

### 7. Fixed assets

| For the year ended<br>June 30, 2007 | Land        | Buildings    | Medical<br>equipment | Other<br>fixed assets | Total        |
|-------------------------------------|-------------|--------------|----------------------|-----------------------|--------------|
| Cost:                               |             |              |                      |                       |              |
| At beginning of year                | \$2,303,750 | \$39,708,769 | \$6,025,671          | \$6,087,482           | \$54,125,672 |
| Additions during year               | -           | 557,917      | 1,290,069            | 2,485,861             | 4,333,847    |
| Disposals during year               | -           | -            | -                    | -                     | -            |
| At end of year                      | 2,303,750   | 40,266,686   | 7,315,740            | 8,573,343             | 58,459,519   |
| Accumulated depreciation:           |             |              |                      |                       |              |
| At beginning of year                | -           | 4,177,275    | 5,043,996            | 3,128,198             | 12,349,469   |
| Disposals during year               | -           | -            | -                    | -                     | -            |
| Charge for year                     | -           | 813,429      | 347,058              | 870,621               | 2,031,108    |
| At end of year                      | -           | 4,990,704    | 5,391,054            | 3,998,819             | 14,380,577   |
| Net book value:                     |             |              |                      |                       |              |
| At June 30, 2007                    | \$2,303,750 | \$35,275,982 | \$1,924,686          | \$4,574,524           | \$44,078,942 |

| For the year ended<br>June 30, 2006 | Land        | Buildings    | Medical<br>equipment | Other<br>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 |

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.

# CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

## Notes to financial statements

June 30, 2007

### 8. Government programmes

|                       | 2007               | 2006               |
|-----------------------|--------------------|--------------------|
| Public health         |                    |                    |
| Faith Hospital        | \$2,963,000        | \$2,750,005        |
| Ambulance             | 2,160,000          | 2,000,000          |
| District Clinics      | 1,700,000          | -                  |
| Paediatric            | 910,000            | -                  |
| Mental Health         | 570,000            | -                  |
| Practical Nurse (LPN) | 850,000            | -                  |
| Forensic Science      | 360,000            | -                  |
|                       | 470,000            | -                  |
|                       | <b>\$9,983,000</b> | <b>\$4,750,005</b> |

### 9. Pension

#### (a) Defined Benefit Part

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 dated 21 November 2008 (2006: 14 March 2008) of the independent professional actuary was completed as at 30 June 2007 (2006: 30 June 2006) 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.

# CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

## Notes to financial statements

June 30, 2007

### 9. Pension (continued)

The net liability arising from defined benefit obligation as at 30 June 2007 is as follows:

|                                                       | 30 June 2007 | 30 June 2006 |
|-------------------------------------------------------|--------------|--------------|
|                                                       | \$000        | \$000        |
| Net present value of funded obligation                | (6,323)      | (4,798)      |
| Fair value of Plan assets                             | 5,202        | 4,621        |
| Unrecognised actuarial net losses (gains)             | (1,121)      | (177)        |
| Net liability arising from defined benefit obligation | 392          | (54)         |
|                                                       | (729)        | (231)        |

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

|                                                | 30 June 2007 | 30 June 2006 |
|------------------------------------------------|--------------|--------------|
|                                                | \$000        | \$000        |
| Defined benefit obligation, beginning of year  | 4,798        | 4,253        |
| Current service cost                           | 1,014        | 1,009        |
| Interest cost                                  | 300          | 221          |
| Plan participant contributions                 | 388          | 370          |
| Net actuarial loss (gain) on obligations       | 406          | (830)        |
| Transfers between other participating entities | (583)        | (225)        |
| Defined benefit obligation, end of year        | 6,323        | 4,798        |

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

|                                                    | 30 June 2007 | 30 June 2006 |
|----------------------------------------------------|--------------|--------------|
|                                                    | \$000        | \$000        |
| At the beginning of year                           | 4,621        | 3,570        |
| Employer & participant contributions               | 845          | 975          |
| Expected return on assets net of expense           | 359          | 278          |
| Actuarial gain(loss) on Plan assets                | 227          | 23           |
| Transfers between other participating Entities     | (583)        | (225)        |
| Impact of re-statement of beginning of year assets | (267)        | -            |
| At the end of year                                 | 5,202        | 4,621        |

# CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

## Notes to financial statements

June 30, 2007

### 9. Pension (continued)

The amount recognized in the statement of revenue and expenses under staff costs in respect of the defined benefit plan are as follows:

|                                                     | 30 June 2007<br>\$000 | 30 June 2006<br>\$000 |
|-----------------------------------------------------|-----------------------|-----------------------|
| Current service cost, net of employee contributions | 1,014                 | 1,009                 |
| Interest cost                                       | 300                   | 221                   |
| Expected return on assets                           | (359)                 | (278)                 |
| Recognition of net loss                             | -                     | 26                    |
|                                                     | <u>955</u>            | <u>978</u>            |

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

|                    | 30 June 2007<br>\$000 | 30 June 2006<br>\$000 |
|--------------------|-----------------------|-----------------------|
| Global equities    | \$136,082             | \$106,371             |
| US equities        | Nil                   | Nil                   |
| Bonds              | 77,897                | 66,967                |
| Other              | 14,051                | 6,742                 |
| Cash               | 1,927                 | 1,041                 |
| Cash term deposits | Nil                   | 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 (2006: projected unit credit)

B. Economic assumptions used to determine the net benefit obligations as at:

|                                                    | 30 June 2007 | 30 June 2006 |
|----------------------------------------------------|--------------|--------------|
| Discount rate                                      | 6.25%        | 6.25%        |
| Expected long-term rate of return (net of expense) | 7.00%        | 7.00%        |
| Salary increase                                    | 4.00%        | 4.00%        |
| Future pension increases                           | 2.50%        | 2.50%        |
| Inflation rate                                     | 2.50%        | 2.50%        |
| Expected remaining working lives (years)           | 14.09        | 10.92        |

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

## **Notes to financial statements**

**June 30, 2007**

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### **9. Pension (continued)**

#### **C. Other assumptions –**

1. Mortality – Standard U.S. mortality rates (2006: Standard U.S. mortality rates)
2. Retirement age – completion of age 57 and 10 years of service (2006: completion of age 57 and 10 years of service)

#### **D. Asset valuation –fair (market) value (2006: fair (market) value)**

The Health Authority expects to make a contribution of \$824,000 to the fund during the next financial year. The current number of Health Authority employees enrolled under the defined benefit part of the Plan is 143 (2006: 176).

#### **b) Defined Contribution Part**

Employees who are not participants in the defined benefit part of the Plan are enrolled in defined contribution pension part of the Plan. The total employees enrolled in the defined contribution part with the local defined contribution pension plan at 30 June 2007 is 543 (2006: 471).

During the year ended 30 June 2007, the Authority and its employees contributed to the fund 7% and 6%, respectively (2006: 7% and 6%, respectively).

The total amount recognised as a pension expense for the year ended 30 June 2007, inclusive of both defined benefit and defined contribution parts, was \$ 2,265,356 (2006: \$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.

# **CAYMAN ISLANDS HEALTH SERVICES AUTHORITY**

## **Notes to financial statements**

**June 30, 2007**

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### **11. Related party transactions**

The Health Authority received subsidies during the year of \$16,750,000 (2006:\$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. (2007:\$ 2,550,000 Capital drawdown & \$ 14,200,000 Equity drawdown; 2006: nil Capital drawdown & \$11,993,610 Equity drawdown)

The Health Authority received \$2,963,000 (2006:\$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 \$2,160,000 (2006:\$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.