



OWNERSHIP AGREEMENT ANNUAL REPORT

For

Cayman Islands Health Services Authority

For the 2007/8 Financial Year

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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 2008 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 2008 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	12 million	12.0 million
• 2006/7	2.5 million	14.2 million	16.7 million
• 2007/8	3.8 million	9.7 million	13.5 million
• 2008/9	2.9 million	6.4 million	9.3 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 on June 24, 2010 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 2007/8, there were three significant matters (2006/7: 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.

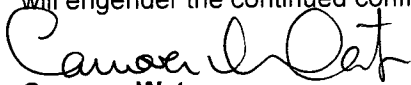
2. Incomplete records to value accounts receivable and reasonableness of bad debt expense

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 for the valuation 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.

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
November, 2010

2. Purpose

This annual report details the performance of the *Cayman Islands Health Services Authority* for the fiscal year ending 30 June 2008.

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 2007/8, 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* is responsible for the provision of health care services in the Cayman Islands.

Scope of Activities

The *Cayman Islands Health Services Authority* (HSA) 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 service, including four who are based in Cayman Brac. This number includes outpatient services staff i.e. general practice, emergency services. There are seven dentists currently practicing in the Authority service.

The Emergency Service is staffed with specially trained nurses, doctors, emergency medical technicians, and paramedics who provide seven-days-a-week, 24-hours-a-day 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. Faith Hospital provides general practice service and inpatient services which includes medical-surgical services, paediatrics, obstetric and gynaecology, 24-hour emergency service and Pre-hospital care. This service is being rendered through a purchase agreement with the Ministry of Health and Human 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 and Human Services. 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 hospitals, the Cayman Islands Hospital (in Grand Cayman) and Faith Hospital (in Cayman Brac), five district health centres, a general practice clinic, a dental clinic (including school dental services), and the Lions eye clinic (in Grand Cayman), and a first aid station (in Little Cayman).

Compliance during the Year

Throughout the year we were compliant with all our core business and activities as stipulated in our service agreement to the country.

4. Strategic Goals and Objectives

The key strategic goals and objectives (from an ownership perspective) for The Health Services Authority for the 2007/8 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. 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.
- D. 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, utilizing recommendations in audit reports (e.g. development of monthly operating statements to enable management to monitor the performance of each section).
 - 3. Upgrade the Hospital IT System, improving data collection and customer service.
 - 4. 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.
 - 5. Encourage staff to be actively involved in initiating innovative ways to eliminate inefficiencies with the introduction of the SMART program, which recognises employees for their contributions.
 - 6. Striving to become self-sustainable through yearly upgrading of our fees to reflect market prices and establish a better collection policy.
 - 7. Establish HSA foundation.
- E. 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 achievement of the key strategic goals and objectives of the Health Services Authority for the 2007/8 financial year are as follows:

- A. Increase collaboration with the private sector to provide seamless care and treatment options for all patients in the Cayman Islands
 - *Regular inter-disciplinary meetings held in conjunction with the Health Practice Commission and the Cayman Islands Medical and Dental Council to review quality of care issues and increase collaboration between the professional groups in the continuing efforts to improve our efforts at patient focussed care.*
- B. Ensure the provision of patient focused care that complies with internationally accepted standards.
 - *Measures to reduce patient complaints and liability claims were maintained and enhanced where necessary.*
 - *Continued efforts to establish a comprehensive quality improvement programme and ensuring that all sections and services work towards having documented policies and procedures to support quality improvement.*
 - *Redesign and distribute patient guide booklet that clearly outlines patient's rights and responsibilities.*
 - *Initiatives introduced 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 implemented for all employees with mechanism for ongoing evaluation and further training to ensure expectations and standards are met at all levels.*
 - *Enhanced clinical in-service education.*
 - *Introduction of a digital mammogram and enhanced radiology imaging services.*

C. Improve Financial/ Cost effectiveness of the Health Services Authority and the services it provides.

- *There was a continuous improvement in the financial performance of the Authority in the 2006/07 fiscal year with a significant reduction in operating losses over the previous year. The loss recorded this fiscal year is \$10M.*
- *A 10% fee increase, on current fees only, was implemented in the last four months of the fiscal year.*
- *A new charge master with a comprehensive listing of all procedures and associated fees, which were excluded from our current fee schedule, has been submitted to Cabinet for approval. This will provide an even better financial performance improvement for the upcoming fiscal year when it is implemented.*
- *The period had continued development in our internal reporting strategy which assisted unit managers to make more effective decisions.*
- *SMART Program provided rewards to employees to implement cost saving initiatives which yielded savings during the year. Further savings are expected during ensuing years from measures implemented.*
- *Delinquent patient accounts were referred to collection agency after 90 days of non-payment to improve collections and reduce liability on the HSA's books*

D. Create a stable, motivated, and empowered workforce.

- *Staff Awards program implemented with monthly staff recognition given for exemplary performance.*
- *Comprehensive Job Evaluation exercise completed with 50% of salary adjustments implemented. Second phase of adjustments proposed for 2009.*
- *Efforts continue to upgrade the skills and knowledge base of employees with a variety of continuing education programs including the continued hosting of the International Nursing Conference, Medical Conference and other continuing medical education seminars by the HSA.*

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 2007/8 financial year are as follows.

Financial Performance

Financial Performance Measure	2007/8 Actual \$	2007/8 Budget \$	Annual Variance \$
Revenue from Cabinet	19,946,744	17,962,000	1,984,744
Revenue from ministries, portfolios, statutory authorities and government companies	24,086,760	21,065,909	3,020,851
Revenue from other persons or organisations	18,949,854	22,999,816	(4,049,962)
Surplus/deficit from outputs (FS Note 16)	(2,297,772)	(2,816,939)	519,167
Other expenses	(73,378,598)	(74,796,700)	(1,418,102)
Net Surplus/Deficit (See explanation 3)	(10,395,240)	(12,768,973)	2,373,733
Total Assets	60,021,254	67,182,659	(7,161,405)
Total Liabilities	9,511,175	10,220,332	(709,157)
Net Worth (See explanation 1)	50,510,079	56,962,327	(6,452,248)
Cash flows from operating activities	(11,858,758)	(17,736,831)	5,878,073
Cash flows from investing activities	(2,720,145)	(4,000,000)	1,279,855
Cash flows from financing activities (See explanation 2)	13,491,094	17,023,973	(3,532,879)
Change in cash balances	(1,087,809)	(4,712,858)	3,625,049

Financial Performance Ratio	2007/8 Actual	2007/8 Budget	Annual Variance
Current Assets: Current Liabilities (See explanation 4)	1.685	1.574	0.111
Total Assets: Total Liabilities (See explanation 4)	6.311	6.573	0.262

Explanation of Variances

1. The HSA Net worth is approximately 11% or \$6 million below the budget primarily due to: (1) the \$3 million decrease of equity injection as against the budget and (2) the \$2 million reduction of net deficit.
2. The \$3 million decrease of equity injection is explained as follows:
 - The amounts budgeted for loss and capital injections are \$ 13,023,973 and \$4,000,000, respectively, totalling to \$ 17,023,973 as expected subsidy from the government. However, the actual injection received amounts to \$13,491,094, which is materially lower because of the reduction of loss injection.
3. For the \$2 million reduction of deficit against the budget, various attributes were identified such as:
 - In 2007/8 budget, HSA had used 4% provision for bad debts on net patient revenue which equates to \$1.9 million while in the actual position of HSA as at 30 June 2008, 20% was used as bad debts provision at \$11 million which is considered as best estimate upon evaluation of collectability and prior bad debts experience. The huge increase of bad debts provision was compensated by material decrease of other operating expenses due to effective cost control implemented within the year resulting to \$1.4 million net reduction of expenses against the budget.
 - The budgeted revenues when compared to actual shows favourable variance with a net increase of \$955 thousand due to 10% increase in fees and charges effective March 1, 2008 coupled by a slight increase of patients' volume.
4. Financial Performance Ratio - The slight improvement in CIHSA liquidity was a result of the enhanced collection practices applied on various payer groups. In-house training led by major insurance payers and improved claims turn around time resulted to better payer payment practices. The joint efforts embarked on with the collection agency have created a slight improvement as public awareness spreads.

Maintenance of Capability

Human Capital Measures	2007/8 Actual	2007/8 Budget	Annual Variance
Total full time equivalent staff	749	713	36
Staff turnover (%)	11.5%	13%	1.5%
Average length of service (Number)			
Senior management	11.6 yrs	10.57 yrs	1.03 yrs
Professional staff	6.52 yrs	6.09 yrs	0.43 yrs
Administrative staff	7.21 yrs	6.86 yrs	0.35 yrs
Significant changes to personnel management system	None	None	None

Physical Capital Measures	2007/8 Actual \$	2007/8 Budget \$	Annual Variance \$
Value of total assets	60,428,169	63,318,946	(2,890,777)
Asset replacements: total assets	4.5%	6.3%	(1.8%)
Book value of depreciated assets: initial cost of those assets	72.81%	80.69%	(7.88%)
Depreciation: Cash flow on asset purchases	75.31%	71.17%	4.14%
Changes to asset management policies	None	None	None

Major Capital Expenditure Projects	2007/8 Actual \$	2007/8 Budget \$	Annual Variance \$
Computer Hardware upgrade – Phase 11	49,404	1,373,705	(1,324,301)
Medical Equipment	990,891	792,379	198,512
Other Equipment	841,027	705,015	136,012
Other Infrastructure Assets	838,823	1,128,901	(290,078)
TOTAL	2,720,145	4,000,000	(1,279,855)

Risk Management

Key Risks	Status of Risk	Actions taken during 2007/08 manage risk	Financial Value of Risk
Key Staff Vacancies			
Loss of key staff	Job evaluation and salary review completed.	Sign on bonus maintained. Leadership, Customer Service and other Training provided. Job evaluation and salary review completed.	150,000 1.2M
Loss of Vital Information due to prolonged power outage or natural disaster	Flood barriers in place for generator room.	Flood barriers in place for generator room.	650,000
Natural Disaster – Loss of Communication	Text messaging system in place	Radios and satellite phones maintained Text messaging and office wireless messaging system in place	20,000
Security Risk	Alarms on emergency exits maintained	Alarms on emergency exits maintained External lighting in place	85,000
Inadequate Accounting Skills	Completed		40,000
Inadequate financial information reporting system (CERNER)	Computer system is being upgraded to expand the reporting capabilities	Computer system was upgraded but it was a code stabilization upgrade that was done.	200,000
Financial Sustainability	10% rate increase implemented in Mar 08	10% rate increase implemented in Mar 08	
Business Interruption	BI insurance secured	BI insurance secured	

Explanation of Variances

1. Some clinical posts remained vacant as recruitment remains difficult. Others remained vacant as the Authority's capacity did not expand throughout the period. We experienced sporadic capacity increase that was not permanent throughout the period and when assessed did not require permanent filling of these positions.

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.

A summary of those is as follows.

Operating Statement	2007/8 Actual \$	2007/8 Budget \$	Annual Variance \$
Revenue	62,983,358	62,027,725	955,633
Operating Expenses	(73,378,598)	(74,796,700)	1,418,102
<i>Net Surplus/Deficit</i>	<i>(10,395,240)</i>	<i>(12,768,973)</i>	<i>2,373,733</i>

Balance Sheet	2007/8 Actual \$	2007/8 Budget \$	Annual Variance \$
Assets	60,021,254	67,182,659	7,161,405
Liabilities	9,511,175	10,220,332	(709,157)
<i>Net Worth</i>	<i>50,510,079</i>	<i>56,962,327</i>	<i>(6,452,248)</i>

Statement of Cash Flows	2007/8 Actual \$	2007/8 Budget \$	Annual Variance \$
Net cash flows from operating activities	(11,858,758)	(17,736,831)	5,878,073
Net cash flows from investing activities	(2,720,145)	(4,000,000)	1,279,855
Net cash flows from financing activities	13,491,094	17,023,973	(3,532,879)

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	2007/8 Actual \$	2007/8 Budget \$	Annual Variance \$
Equity Investments into <i>Cayman Islands Health Services Authority</i>	13,491,094	17,023,973	3,532,879
Capital Withdrawals from <i>Cayman Islands Health Services Authority</i> .	0	0	0
Dividend or Profit Distributions to be made by <i>Cayman Islands Health Services Authority</i> .	0	0	0
Government Loans to be made to <i>Cayman Islands Health Services Authority</i> .	0	0	0
Government Guarantees to be issued in relation to <i>Cayman Islands Health Services Authority</i> .	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	1,229,235	1,325,825	96,590
Remuneration Payments made to Senior Management	1,217,885	1,269,385	51,500

	2007/8 Actual	2007/8 Budget
No of Key Management Personnel	31	21
No of Senior Management	9	11

Explanation of Variances

1. Cabinet equity allocation was reduced throughout the fiscal period due to the reduction in our operating loss.
2. At the end of the fiscal year we had two vacant senior management positions, while throughout the year several of the positions were vacant and full salary payment were not made against these positions.

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

² Remuneration as defined by International Public 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 2007/8 financial year.

Ministry of Health

on behalf of the Cabinet

A handwritten signature in black ink, appearing to read "Camore de la Rosa".

Chairman of the Board

Cayman Islands Health Services Authority

November, 2010



Financial Statements of

**CAYMAN ISLANDS HEALTH
SERVICES AUTHORITY**

30 June 2008

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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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 2008, and the statement of revenue and expenses, statement of changes in net worth 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. 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

My responsibility is to express an opinion on these financial statements based on conducting my audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs below, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

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

1. Insufficient 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

These significant matters are further described in the following paragraphs.

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. My review and tests of the controls to ensure that all patient service fees are recorded in the revenue accounting system identified significant deficiencies. Because I have not been provided with records necessary for my audit of revenues, I therefore was unable to determine that the reported amount for gross patient services fees of \$52 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 \$46 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.

In addition to the three 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:

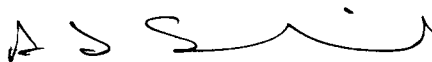
1. I have disclaimed an audit opinion on the Authority's financial statements at 30 June 2007, comprising the beginning balances for the current year. Due to matters that I have raised in my disclaimer of opinion on the 2007 financial statements, I was not able to determine the effects of those matters in the results of operations and financial condition of the Authority as at 30 June 2008.
2. I have not been provided with records to sufficiently substantiate the total contributed capital and I have therefore been unable to assess the accuracy of the split in the Health Authority's net worth into contributed capital and retained deficit as of June 30, 2008.
3. 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.
4. There were not sufficient documentation to review revenue-related transactions such as adjustments to patient revenues, and write-offs processed in the Authority's revenue accounting system.

5. Lands and Surveys documentation to determine the value of the Authority's land and buildings was not available for my audit.
6. 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.
7. Inappropriate accounting practice 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 during the year.
8. Appropriate records were not provided for overseas medical benefits provided to employees amounting to \$1.1 million, and included in staff cost.

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.

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.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

Cayman Islands
24 September 2010

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Balance sheet

As at June 30, 2008

(stated in Cayman Islands dollars)

	Note	2008	Budget	2007
Current assets				
Cash and cash equivalents	4	(\$1,192,508)	\$52,739	(\$104,699)
Other receivables	5	3,473,896	64,270	579,392
Accounts receivable, net	6	10,278,555	13,400,539	7,874,928
Inventory	7	1,892,191	1,628,362	1,539,558
Advances to suppliers	19	1,550,456	-	751,495
Prepaid expenses		19,500	944,871	-
		16,022,090	16,090,781	10,640,674
Current liabilities				
Accounts payable and accrued expenses	19	(6,439,065)	(10,220,332)	(4,229,446)
Unfunded defined benefit obligation	12	(1,083,000)	-	(729,000)
Provision	14, 19	(1,989,110)	-	(1,595,450)
		(9,511,175)	(10,220,332)	(6,553,896)
Net current assets		6,510,915	5,870,449	4,086,778
Non-current assets				
Fixed assets	8, 19	43,999,164	51,091,878	43,327,447
Net assets		\$50,510,079	\$56,962,327	\$47,414,225
Represented by:				
Contributed capital		123,505,845	120,270,602	110,014,751
Deficit		(72,995,766)	(63,308,275)	(62,600,526)
Net worth		\$50,510,079	\$56,962,327	\$47,414,225

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of revenue and expenses

For the year ended June 30, 2008

(stated in Cayman Islands dollars)

	Note	2008	Budget	2007
Operating income				
Patient services fees, net				
Inpatient/outpatient	9, 19	\$51,856,905	\$51,280,825	\$47,124,833
Government programme	10	10,617,000	10,617,000	9,983,000
Other income				
Rental income		70,500	4,500	5,900
Donations		72,899	50,000	69,831
Miscellaneous		<u>366,054</u>	<u>75,400</u>	<u>677,782</u>
		509,453	129,900	753,513
		62,983,358	62,027,725	57,861,346
Operating expenses				
Staff costs	12, 16	41,763,715	45,637,225	41,346,718
Provision for bad debts	19	11,429,669	1,986,608	7,604,477
Supplies & materials		7,887,712	9,124,926	8,920,723
Other operating expense	11	4,326,018	6,935,921	5,842,739
Utilities		2,554,675	3,496,653	2,995,135
Insurance		2,240,822	2,297,554	1,957,272
Depreciation	8, 19	2,048,428	2,846,897	2,031,108
Legal & professional fees		677,169	700,000	943,724
Training		315,904	1,200,750	164,592
Travel & subsistence		130,174	501,667	141,489
Reference materials		4,312	68,499	58,731
		73,378,598	74,796,700	72,006,708
Net loss for the year		(\$10,395,240)	(\$12,768,975)	(\$14,145,362)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of changes in net worth

For the year ended June 30, 2008

(stated in Cayman Islands dollars)

	Note	Contributed capital	Deficit	Total
Balance, 1 July 2006		\$93,264,751	(\$48,455,164)	\$44,809,587
Net loss for the year		-	(14,145,362)	(\$14,145,362)
Capital contribution during the year	16	16,750,000	-	\$16,750,000
Balance, 30 June 2007		\$110,014,751	(\$62,600,526)	\$47,414,225
Net loss for the year		-	(10,395,240)	(\$10,395,240)
Capital contribution during the year	16	13,491,094	-	\$13,491,094
Balance, 30 June 2008		\$123,505,845	(\$72,995,766)	\$50,510,079

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of cash flows

For the year ended June 30, 2008
(stated in Cayman Islands dollars)

	Note	2008	Budget	2007
Cash provided by/(applied in):				
Operating activities				
Net loss for the year		(\$10,395,240)	(\$12,768,975)	(\$14,145,362)
Add item not affecting working capital:				
Depreciation	8	2,048,428	2,846,897	2,031,108
Net changes in non-cash working capital balances relating to operations:				
Other receivables, (increase) decrease		(2,894,504)	(6,573,345)	3,428,061
Accounts receivable, net, increase		(2,403,627)	(5,458,576)	(132,115)
Inventory, (increase) decrease		(352,633)	(800,821)	1,272,177
Advances to suppliers, increase	19	(798,961)	-	(751,495)
Prepaid expenses, increase		(19,500)	-	-
Accounts payable and accrued expenses, increase (decrease)		2,209,619	5,017,989	(2,788,215)
Unfunded defined benefit obligation, increase	12	354,000	-	498,000
Provision, increase	14	393,660	-	-
		(11,858,758)	(17,736,831)	(10,587,841)
Investing activities				
Cost of fixed assets purchased	8, 19	(2,720,145)	(4,000,000)	(3,582,352)
Financing activities				
Capital contribution from Government	16	13,491,094	17,023,973	16,750,000
(Decrease) increase in cash during the year		(1,087,809)	(4,712,858)	2,579,807
Cash and cash equivalents at beginning of year		(104,699)	50,956	(2,684,506)
Cash and cash equivalents at end of year		(\$1,192,508)	(\$4,661,902)	(\$104,699)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

1. Background information

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

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

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

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

2. Adoption of new and revised Standards

In the current year, the Health Authority had adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2007. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Health Authority's accounting policies that have affected the financial statements reported for the current year. The impact of these changes has affected the amount of reported provisions as discussed in note 14 and the additional disclosures reported for the current period such as joint venture in note 13.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

2. Adoption of new and revised Standards (continued)

In addition, the Health Authority has elected to adopt amendments to IAS 24 Related Party Disclosures in advance of its effective date on or after 1 January 2011. The impact of the amendment has been to provide a partial exemption from certain disclosure requirements for government-related entities (see Note 16).

3. Significant accounting policies

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

(a) Basis of accounting

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

(b) Use of estimates

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

(c) Financial instruments

(i) Classification

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

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

(ii) Recognition

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement

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

(iv) Specific instruments

Cash and cash equivalents

For the purposes of the statement of cash flows, the Health Authority considers cash on hand and in banks to be cash and cash equivalents, as well as fixed deposits with original maturities of six months or less.

Accounts receivables

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

Accounts payable

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

(v) Derecognition

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

(d) Fixed assets and depreciation

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(d) Fixed assets/depreciation (continued)

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

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

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

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

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

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

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(d) Fixed assets/depreciation (continued)

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

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

(e) Impairment

The carrying amount of the Health Authority's assets other than inventory (see note 3(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 to Cayman Islands dollars at the foreign currency exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the Cayman Islands dollars at the foreign exchange rates ruling at the dates that the values were determined.

(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 expired. Any change in the allowance for obsolescence is reflected in the statement of revenue and expenses in the year of change.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(i) Revenue recognition

Patient revenue is recognized on the day services are provided.

Revenue from sale of goods and services as Government programmes is recognized when invoiced.

(j) Employee benefits

The Health Authority employees and their dependants receive free medical benefits of which a portion is provided by the Health Authority. The portion provided by the Health Authority is valued at \$2,731,773 (2007: \$2,432,255) and excluded from both revenues and expenses.

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.

(j) Provisions and contingent liabilities

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

stated in Cayman Islands dollars)

4. Cash and cash equivalents

	2008	2007
Petty cash	\$6,900	\$6,700
Bank accounts	(1,199,408)	(111,399)
	\$(1,192,508)	\$(104,699)

At 30 June 2008, out of the \$4 million unsecured bank overdraft facility which is reviewed annually, \$2,219,750(2007: \$1,035,385).was used.

5. Other receivables

	2008	2007
Other accounts receivable	\$129,929	\$545,645
Salary advance	18,123	33,747
Cabinet receivable	3,325,844	-
	\$3,473,896	\$579,392

6. Accounts receivable, net

	2008	2007
Gross accounts receivable	\$38,050,088	\$28,848,090
Allowance for bad debts	(27,771,533)	(20,973,162)
	\$10,278,555	\$7,874,928

7. Inventory

	2008	2007
Pharmaceutical supplies	\$1,188,240	\$757,639
Medical supplies	639,554	686,641
Other supplies	64,397	95,278
	\$1,892,191	\$1,539,558

The cost of inventories recognized as operating expenses during the period was \$ 7,887,712 (2007: \$8,920,723).

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

8. Fixed assets

For the year ended June 30, 2008	Land	Buildings	Medical equipment	Other fixed assets	Total
Cost:					
At beginning of year	\$2,303,750	\$40,266,686	\$7,315,740	\$7,821,848	\$57,708,024
Additions during year	-	-	990,891	1,729,254	2,720,145
Derecognition during year	-	-	-	-	-
At end of year	2,303,750	40,266,686	8,306,631	9,551,102	60,428,169
Accumulated depreciation:					
At beginning of year	-	4,990,704	5,391,054	3,998,819	14,380,577
Derecognition during year	-	-	-	-	-
Charge for year	-	817,610	380,934	849,884	2,048,428
At end of year	-	5,808,314	5,771,988	4,848,703	16,429,005
Carrying value:					
At June 30, 2008	\$2,303,750	\$34,458,372	\$2,534,643	\$4,702,399	\$43,999,164

For the year ended June 30, 2007	Land	Buildings	Medical equipment	Other 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	1,734,366	3,582,252
Derecognition during year	-	-	-	-	-
At end of year	2,303,750	40,266,686	7,315,740	7,821,848	57,708,024
Accumulated depreciation:					
At beginning of year	-	4,177,275	5,043,996	3,128,198	12,349,469
Derecognition 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
Carrying value:					
At June 30, 2007	\$2,303,750	\$35,275,982	\$1,924,686	\$3,823,029	\$43,327,447

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

30, 2008

(in Cayman Islands dollars)

Fixed assets (continued)

Included in other fixed assets: cost of buildings under construction, implementation of new computer system, furniture & fittings, motor vehicles and office equipment. The cost of buildings under construction as at 30 June 2008 amounts to \$2,928,592 (2007: \$1,579,748).

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.

Patient services fees, net

	2008	2007
Fees from the rendering of services	\$42,985,257	\$38,871,977
Fees from sale of goods	8,871,648	8,252,856
	\$51,856,905	\$47,124,833

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

10. Government programmes

	2008	2007
Public health	\$3,067,000	\$2,963,000
Faith Hospital	2,244,000	2,160,000
Ambulance	1,760,000	1,700,000
District Clinics	942,000	910,000
Paediatric	590,000	570,000
Mental Health	900,000	850,000
Mental Day Care	255,000	-
Practical Nurse (LPN)	373,000	360,000
Forensic Science	486,000	470,000
	\$10,617,000	\$9,983,000

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

30 June 2008

(Expressed in Cayman Islands dollars)

Other operating expenses

	2008	2007
Repairs and maintenance	\$754,278	\$1,255,001
Computer maintenance	798,070	1,412,775
Software licensing fees	510,518	602,129
Bank charges	239,924	191,262
Freight and shipping	778,464	771,392
Overseas laboratory tests	346,137	369,150
Mail courier service	194,074	182,450
Public relations and publicity	245,916	153,386
Advertising	65,038	64,155
Miscellaneous	393,599	841,039
	\$4,326,018	\$5,842,739

12. Pension

(a) Defined Benefit Part

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

To determine the defined benefit obligation of the Health Authority under the Plan, a professional actuary of PSPB was engaged to conduct annual studies. The most recent report dated 17 July 2009 (2007: 21 November 2008) of the independent professional actuary was completed as at 30 June 2008 (2007: 30 June 2007) which identified the Health 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, 2008

(stated in Cayman Islands dollars)

12. Pension (continued)

The net liability arising from defined benefit obligation as at 30 June 2008 is as follows:

	30 June 2008	30 June 2007
	\$000	\$000
Net present value of funded obligation	6,562	6,323
Less: Fair value of Plan assets	5,076	5,202
	1,486	1,121
Less: Unrecognised actuarial net losses	403	392
Net liability arising from defined benefit obligation	1,083	729

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

	30 June 2008	30 June 2007
	\$000	\$000
Defined benefit obligation, beginning of year	6,323	4,798
Current service cost	804	1,014
Interest cost	393	300
Plan participant contributions	387	388
Net actuarial (gain) loss on obligations	(936)	406
Transfers between other participating entities	(409)	(583)
Defined benefit obligation, end of year	6,562	6,323

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

	30 June 2008	30 June 2007
	\$000	\$000
Fair value of Plan assets, at the beginning of year	5,202	4,621
Employer and participant contributions	839	845
Expected return on assets, net of expense	391	359
Actuarial (loss) gain on Plan assets	(947)	227
Transfers between other participating entities	(409)	(583)
Impact of re-statement of beginning of year assets	-	(267)
Fair value of Plan assets, at the end of year	5,076	5,202

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

2. 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 2008	30 June 2007
	\$000	\$000
Current service cost, net of employee contributions	804	1,014
Interest cost	393	300
Expected return on assets	(391)	(359)
	<u>806</u>	<u>955</u>

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

	30 June 2008	30 June 2007
	\$000	\$000
Global equities	112,612	136,082
US equities	Nil	Nil
Bonds	104,327	77,897
Other	14,430	14,051
Cash	Nil	1,927
Cash term deposits	Nil	Nil
Property	11,016	Nil

The share of Plan assets at 30 June 2008 allocated to the Health Authority's participation in the defined benefit part of the plan is \$5,075,607 (2007: \$5,201,735).

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 (2007: *projected unit credit*)

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

	30 June 2008	30 June 2007
Discount rate	6.75%	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	14.09

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

2. Pension (continued)

C. Other assumptions –

1. Mortality – Standard U.S. mortality rates (2007: *Standard U.S. mortality rates*)
2. Retirement age – completion of age 57 and 10 years of service (2007: *completion of age 57 and 10 years of service*)

D. Asset valuation –fair (market) value [2007: fair (market) value]

The Health Authority expects to make a contribution of \$472,000 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 (2007: 143) at 1 January 2008.

b) *Defined contribution part*

Employees who are not participants in the defined benefit part of the Plan are enrolled in defined contribution part of the Plan. The total employees enrolled in the defined contribution part with the PSPB at 30 June 2008 is 552 (2007: 543).

During the year ended 30 June 2008, the Authority and its employees contributed to the fund 7% and 6%, respectively (2007: 7% and 6%, respectively).

The total amount recognised as a pension expense for the year ended 30 June 2008, inclusive of both defined benefit and defined contribution parts, was \$ 2,117,565 (2007: \$2,265,356).

13. Joint venture

The Health Authority has the following significant interest in joint ventures:

- (a) The Health Authority as owner of digital mammography machine and related equipments, which were donated by Cayman Islands Cancer Society (“Society”), has agreed to make a monthly contribution to the “Women Helping Women Memorial Fund”.
- (b) Each contribution of the Authority is deposited to the account established as joint savings and chequing accounts in both United States and Cayman Islands currency at Fidelity Bank (Cayman) Limited in the names of the Society and the Health Authority. The share of Health Authority in this joint savings and chequing is not recognized in the balance sheet as it is not material.
- (c) The purpose of the fund is to provide sufficient funding for the purchase of other equipment used for the diagnosis and treatment of cancer patients using the money in the account.

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Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

4. Provision

	30 June 2008	30 June 2007
Employee benefits (a)	\$1,895,864	\$1,595,450
Provision for legal claims (b)	93,246	(c)
	<u>\$1,989,110</u>	<u>\$1,595,450</u>

(a) Employee benefits

The provision for employee benefits represents annual leave entitlements accrued.

(b) Legal Claims

The Health Authority is a defendant to several claims that have been brought against by patients and employees over the year as a result of its medical operations. Anticipated expenditure for the lawsuit arising from the year ended 30 June 2008 is \$93,246 and this amount has been reported in the statement of revenue and expenses. As of 31 March 2010, \$218,233 and \$66,564 was paid out for medical malpractice claims and employee claim, respectively.

(c) Prior year legal claims

Prior year provisions for legal claims were not established (see Note 2) and as a result the full charge was made this year.

15. Contingencies and commitments

(a) Contingent legal claims

The Health Authority believes that the outflow of funds for the malpractice and employee related legal claims amounting to \$594,750 and \$225,000, respectively, are less than probable and are covered by insurance in excess of deductible; accordingly, no provisions were recognized for losses.

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

(b) Scholarships and education funding

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

15. Contingencies and commitments (continued)

(c) Capital and operating commitments

Commitments for the construction of building such as major renovation of Faith Hospital, completion of dietary building, computer room and chiller amounts to \$1,924,750 and also for a kitchen equipment for dietary amounting to \$73,715.

In addition, the Health Authority has entered into various operating commitments ranging from one year to over five years term amounting to \$4,573,422. Substantial amount of which pertains contract with Cerner Corporation for the off-site storage of clinical and financial electronic data and management thereof in the next five years at an annual charge of \$846,018.

16. Related party transactions

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

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

For the year ended 30 June 2008, management estimates that the aggregate amount of Health Authority's transactions with government-related entities are at least 70% (2007:68%) of its operating income and between 5-10% (2007:5-10%) of its operating expenditures. Significant transactions with the government-related entities are discussed as follows:

- The Health Authority received equity injection during the year of \$13,491,094 (2007:\$16,750,000) from the Government's Cabinet. These payments do not have to be repaid and are composed as follows:

	30 June 2008	30 June 2007
Equity drawdown	\$9,657,974	\$14,200,000
Capital drawdown	3,833,120	2,550,000
	<u>\$13,491,094</u>	<u>\$16,750,000</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2008

(stated in Cayman Islands dollars)

16. Related party transactions (continued)

- Pursuant to the general and supplemental appropriation for the year ended 30 June 2008, the Health Authority billed the Government's Cabinet \$19,946,744 (2007: \$18,585,822) during the year for the outputs that have been purchased by the Government to provide medical care for indigent persons and under/un-insured children (included in patient services fees - net) and other government programmes totalling \$10,617,000 (2007: \$9,983,000) which includes the maintenance of Faith Hospital in the amount of \$2,244,000 (2007: \$2,160,000). Below is the cost incurred by Health Authority for the other government programmes delivered to the Government:

	Billed	Cost
Public health	\$3,067,000	\$5,016,558
Faith Hospital	2,244,000	3,095,087
Ambulance	1,760,000	1,658,718
District Clinics	942,000	874,234
Paediatric	590,000	447,856
Mental Health	900,000	1,181,689
Mental Day Care	255,000	222,616
Practical Nurse (LPN)	373,000	281,297
Forensic Science	486,000	136,718
	\$10,617,000	\$12,914,772

- The Health Authority provides health care for a large portion of the employees of the Government and their dependants including other ancillary services to other government related-entities and reported this as revenue in the amount of \$24,086,760 (2007: \$20,662,440). The Health Authority is reimbursed by Cayman Islands National Insurance Company for the services provided to the employees of the Government and their dependants.

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

	30 June 2008	30 June 2007
Short-term benefits	\$1,217,885	\$1,172,930
	<u>\$1,217,885</u>	<u>\$1,172,930</u>

The remuneration of directors and key executives is determined by the Government and job evaluation committee, respectively, having regard to the performance of individuals and market trends.

CAAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

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17. Financial instruments and associated risks

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

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

Interest rate risk – The Health Authority is exposed to interest rate risk for the \$4 million credit facility with First Caribbean International Bank (Cayman) Ltd at a prime rate plus 0.25% per annum. This interest rate will fluctuate from time to time in line with the general level of interest rates. The risk is managed by the Health Authority by maintaining a short-term credit agreement that is renewable every year to have a negotiable and preferred rate. In addition, the Health Authority is limiting the usage of the credit facility by continuously monitoring the daily cash position which management views as likely to result into a bank preferred interest rate on the renewal of the agreement.

Liquidity risk – Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Authority's funding and liquidity management requirements. The Authority manages liquidity risk by maintaining the \$4 million credit facility, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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

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Notes to financial statements

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18. Events after the reporting period

On 1 January 2009, the Health Authority has adopted a new charge master for services historically provided but not charged, in order to improve its financial independence.

The premises of Faith Hospital, Cayman Brac were seriously damaged by hurricane Paloma in November 2008 while there was an on-going major renovation projects and insurance claims were processed to refurbish the damage. The estimated amount of damage that was reimbursed by the insurer amounts to \$819,551.

With growing demand for dental hygiene services and an increase in patients' willingness to pay out of pocket for dental treatment, the Health Authority has signed an agreement with Dr. Edlin Merren for the management and operation of his dental clinic located on Hospital Road in September 2008.

Controllers were appointed by Cayman Islands Monetary Authority ("CIMA") over the affairs of Colonial Life Insure Company Limited ("CLICO") on 15 May 2009 whose operation subsequently ceased in 1 December 2009. An affiliate of CLICO, British American Insurance Company Limited ("BAICO"), also refrained from issuing new insurance policies in 29 June 2009 by CIMA.

19. Reclassification

Certain prior year amounts have been reclassified in order to conform to the current-year presentation.