



OWNERSHIP AGREEMENT ANNUAL REPORT

For

Cayman Islands Health Services Authority

For the 2008/9 Financial Year

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1. Chairman's Statement

The H.S.A was not immune to the adverse economic environment which prevailed in 2008/2009 which impacted our overall financial performance. However, due to our deliberate strategy to contain expenses, improve operational efficiencies and collections the Authority's financial exposure during the year were significant reduced and well within budgeted forecast.

I am delighted to report that we ended the year 2008/2009 financial year with a positive cash balance, which is a significant achievement for the Authority from consistent years of deficits. As of 30 June 2009, H.S.A's cash position was \$3.8 million due to well-managed operating activities when compared to 2007/8 when the cash balance was at deficit of \$1.2M and covered by overdraft facility.

It has been a very tough year indeed and despite our best efforts to improve operational performance we ended the financial year with an operating loss of \$6.7M. This however represents a significant improvement over the financial performance of the previous year with incurred operating losses of \$10.4M and is a continuation of our determined efforts to become a financially sustainable organization.

Indeed we recognise that the financial environment remains challenging, but we are confident that with our focused efforts to improve the Authority's financial operations the organization is well prepared to meet these challenges successfully and realize even better financial results in the ensuing years.

I wish to make reference to the disclaimers of the Auditor on the H.S.A's financial statements for 2008/9. The organization has worked diligently over the past year to ensure that our financial reporting is brought up to levels which would remove future disclaimers and is evidenced by the fact that such disclaimers are gradually being reduced - (2007/8: three significant matters, 2006/7: five significant matters; 2005/6: seven significant matters)

The Board remains vigilant in its oversight of the organization and is taking all necessary measures to ensure that going forward our financial reporting will be fully compliant with international accounting best practices. I am pleased to report that the Authority has already made significant strides in resolving the outstanding reporting 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) With the resolution of revenue recognition and completeness issues, accounts receivable would be impacted in a positive way and would no longer be considered as a weakness. (2) A bad debt policy outlining the methodology, rate and basis of bad debts determination 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 valuer and targeting the completion of this project for the 2010/11 fiscal year.

4. Incomplete records for the contributed capital and retained deficit of the Health Authority from its formation to 30 June 2009

Status to Date: The equity completeness will be resolved within 2010/11.

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.

There have been many outstanding achievements made by the organization during the financial year under review. Later on in this report, you will read more about these and the exceptional efforts made through concerted efforts of the Board, senior management and staff to deliver quality patient care and service and meet operational performance targets. These include:

- Expansion of our dental services to provide more accessible services to our patients through an operating lease of the Merren Dental Clinic offering a full range of dental services.
- Reflective of our continued thrust to expand services to meet patient demand whilst maintaining financial viability, a speech therapy clinic was established during the year providing a range of services for the treatment of speech communication disorders such as (articulation), language, voice, fluency (stuttering), cognition, hearing loss, swallowing, and the use of alternative/augmentative communication.
- A new state-of-the-art 64 slice CT Scan was installed during the year under review enhancing the level of medical imaging services provided through our Radiology Department. The new CT will provide faster diagnostic results, more accurate diagnoses and rapid treatment of patients. The new technology will also allow for addition of new patient care services such as virtual colonoscopy, cardiac CT, CT angiography and dentascans.
- Another technological innovation during the year was the installation of a Picture Archiving and Communications Systems (PACS). This advanced digital technology replaces the old x-ray films and creates images, such as those from X-Rays, Ultrasound, CT or MRI exams, directly on electronic plates (X-Rays).
- A significant milestone was achieved with notification of the accreditation of the DNA Lab during the last quarter of the 2009 financial year. This is a major achievement for the HSA as our Lab is the first in the English speaking Caribbean to be internationally accredited and certified. The accreditation greatly aids crime investigations and prosecutions, with the reliability of forensic evidence in criminal matters. This will also eliminate the police and judiciary's need for expensive overseas experts with our facilities now able to handle more intricate DNA analysis.
- Specific efforts to improve collaboration with both Chrissie Tomlinson Memorial Hospital (CTMH) and the private sector are ongoing through cross-utilization of visiting specialists which has decreased overseas referral costs and improved patient services.

Whilst we are pleased with our operational performance, we remain vigilant and continue to raise the bar on our primary focus which is giving patients the best quality of care. More than ever patients are making a conscious selection of the hospital where they choose to be treated and the H.S.A remains the dominant choice for all residents of the Cayman Islands, due to the caliber of our excellent clinical staff and service provided to all patients.

The key to our future success remains our dedicated staff who consistently, time after time, go above and beyond what is required to ensure that patients come first. I would like to take this opportunity to thank our staff formally for their efforts during the year.

I am grateful for the support I have had from the other members of the Board of Directors and the senior management team of the organization.

I believe that we have an excellent team which will provide clear leadership at the top of the organization to guide the H.S.A. into the future.


Canover Watson
Chairman of the Board of Directors
January, 2011

2. Purpose

This annual report details the performance of the *Cayman Islands Health Services Authority* for the year ending 30 June 2009.

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 2008/9, 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 **Health Services Authority** is to operate during the year.

Approved Nature and Scope of Activities

General Nature of Activities

The **Health Services Authority** is responsible for the provision and administration of health care services in the Cayman Islands.

Scope of Activities

The **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.

The **Health Services Authority** provides patient care through the 124-bed Cayman Islands Hospital, and the 18-bed Faith Hospital on Cayman Brac. Primary Health care is offered at district health centres in Grand Cayman and a health centre in Little Cayman. This care being supplemented with dental and eye care services on site at the Health Service Complex in Grand Cayman.

As the nation's principal health care facility, the Cayman Islands Hospital in George Town provides a full range of inpatient and outpatient medical and specialist services.

Specialist services are available in the fields of: surgery, gynaecology & obstetrics, paediatrics, internal medicine, dermatology, anaesthesiology, public health, orthopaedics, psychiatry, gastroenterology, radiology, ophthalmology, ear, nose and throat, periodontology, reconstructive surgery, faciomaxillary surgery, and urology.

In the Sister Islands, residents and visitors can turn for their health care needs to the Faith Hospital in Cayman Brac and the Little Cayman Clinic. The 18-bed hospital serves both islands and provides primary, secondary and emergency care. It features a modern inpatient unit, as well as an operating theatre, maternity, accident and emergency department, outpatient clinics and a public health department. This service being rendered through a purchase agreement with the Ministry of Health Services

The Little Cayman Clinic is a purpose-built facility, complete with waiting and triage areas, a treatment room, doctors' office and a dental office. A resident nurse is on call around-the-clock.

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

Public Health services include:

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

Customers and Location of Activities

The **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.

PROPERTY & LOCATION

Bodden Town Health Centre Block 43D Parcel 3

East End Health Centre Block 72B Parcel 66

North Side Health Centre Block 49C Parcel 20

West Bay Health Centre Block 4E Parcel 43

Little Cayman Health Centre Block 81A Parcels 21 & 22

Cayman Brac Dental Clinic Block 98D Parcel 129

Faith Hospital, Cayman Brac Block 98D Parcel 48

Cayman Islands Health Service Complex Block 14E Parcel 675

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 2008/9 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 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.
- 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.

Achievements during the Year

The following are the achievement of the key strategic goals and objectives of The Health Services Authority for 2008/9 financial year:

- 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.
 - a. Through an operating lease the HSA took over the management of the Merren Dental Clinic, effective January 2009 offering a full range of dental services.
 - b. A new state-of-the-art 64 slice CT Scan was installed in October enhancing the level of medical imaging services provided through our Radiology Department. The new CT will provide faster diagnostic results, more accurate diagnoses and rapid treatment of patients. The new technology will also allow for addition of new patient care services such as virtual colonoscopy, cardiac CT, CT angiography and dentascans.
 - c. Another technological innovation during the year was the installation of a Picture Archiving and Communications Systems (PACS). This advanced digital technology replaces the old x-ray films and creates images, such as those from X-Rays, Ultrasound, CT or MRI exams, directly on electronic plates (X-Rays).
 - d. Reflective of our continued thrust to expand services to meet patient demand, whilst maintaining financial viability. A speech therapy clinic was established during the year providing a range of services for the treatment of speech communication disorders such as (articulation), language, voice, fluency (stuttering), cognition, hearing loss, swallowing, and the use of alternative/augmentative communication.

Medical diagnoses treated include, but are not limited to:

 - Stroke, Traumatic Brain Injury and other Neurogenic Disorders (e.g. early onset dementia, Parkinson's disease etc.)
 - Dysphagia (swallowing disorders)
 - Cancer of the brain, mouth, throat and neck.
 - e. A significant milestone was achieved with notification of the accreditation of the DNA Lab during the last quarter of the 2009 financial year. This is a major achievement for the HSA as our Lab is the first in the English speaking Caribbean to be internationally accredited and certified. The accreditation greatly aids crime investigations and prosecutions, with the reliability of forensic evidence in criminal matters. This will also eliminate the police and judiciary's need for expensive overseas experts with our facilities now able to handle more intricate DNA analysis.
- B. Increase collaboration with the private sector to provide seamless care and treatment options for all patients in the Cayman Islands.
 - a. Regular inter-disciplinary meetings were 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 focused care.

- b. Specific efforts to improve collaboration with both Chrissie Tomlinson Memorial Hospital (CTMH) and the private sector are ongoing through cross-utilization of visiting specialists which has decreased overseas referral costs and improved patient services.
 - c. Private Physicians have been granted privileges on remote access to Cerner and our digital Radiology PACS systems which will improve patient safety. With this improved service it is hoped that more will begin to use our ancillary services for their patients.
- C. Ensure the provision of patient focused care that complies with international accepted standards.
 - a. As part of our proactive approach in dealing with complex issues an Ethics Committee was formed to review and offer advice to the H.S.A and help clarify medical situations with uncertainty or conflict of social values and moral or legal issues. This may involve ethical concerns such as end of life care, consent for medical interventions when the patient is unable to participate in the discussion, or decisions to discontinue treatment. The Committee is made up of internal and external representatives.
 - b. A mandatory customer service training program was implemented for all employees. Measures have been put in place to ensure expectations and standards are met at all levels.
 - c. Regular Health and Safety meetings were held to monitor and review compliance with international safety and risk management workplace best practices.
 - d. Measures to reduce patient complaints and liability claims were maintained and enhanced where necessary.
- D. Improve Financial/Cost effectiveness of the Health Services Authority:
 - a. Completion of the second phase of the new fee structure for the Health Services Authority and a new charge master was implemented in January 2009.
 - b. Upgraded the Cerner System to 2007 version and implemented PROFIT & Application Management Services (AMS) applications to improve the financial reporting function of Cerner: (1) Sagicor was added to electronic claims submission, (2) patient insurance co-pay of 20% now appears on claims and (3) implemented the 30/60/90 day statement cycle for self pay accounts.
 - c. A "high availability system" to reduce downtime of our information systems and increase the reliability of the servers was implemented during the year. A major initiative to further enhance the reliability of the computer network through the implementation of the CITRIX software is currently underway
 - d. Implemented Work Quality Policy.

Achievements during the Year (continued)

- E. Create a stable, motivated and empowered workforce.
 - a. A comprehensive HR Policy Manual was implemented.
 - b. Employee orientation program reintroduced.
 - c. New Performance Management Program was developed for implementation in 2009.
 - d. Wage and Salary review process has been completed and partially implemented effective July 2008. HSA Pay Practice Policy Manual is currently being finalized.

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 half year of 2008/9 financial year are as follows.

Financial Performance

Financial Performance Measure	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Revenue from Cabinet <i>(See Explanation 1)</i>	26,117,665	21,229,675	4,887,990
Revenue from ministries, portfolios, statutory authorities and government companies <i>(See Explanation 2)</i>	26,588,149	29,410,919	(2,822,770)
Revenue from other persons or organisations <i>(See Explanation 2)</i>	22,770,806	25,216,617	(2,445,811)
Surplus/(deficit) from outputs <i>(See Explanation 1)</i>	(4,887,990)	Nil	(4,887,990)
Other expenses <i>(See Explanation 3)</i>	(82,220,872)	(82,270,838)	49,966
Net Surplus/(Deficit) <i>(See Explanation 4)</i>	(6,744,252)	(6,413,627)	(330,625)
Total Assets <i>(See Explanation 5)</i>	67,479,512	62,929,090	4,550,422
Total Liabilities <i>(See Explanation 5)</i>	(11,829,937)	(8,442,296)	(3,387,641)
Net Worth <i>(See Explanation 5)</i>	55,649,575	54,486,794	1,162,781
Cash flows from operating activities <i>(See Explanation 6)</i>	(141,880)	(6,357,194)	6,215,314
Cash flows from investing activities <i>(See Explanation 6)</i>	(4,222,732)	(4,393,000)	170,268
Cash flows from financing activities <i>(See Explanation 6)</i>	9,357,588	10,793,000	(1,435,412)
Change in cash balances <i>(See Explanation 6)</i>	4,992,976	42,806	4,950,170

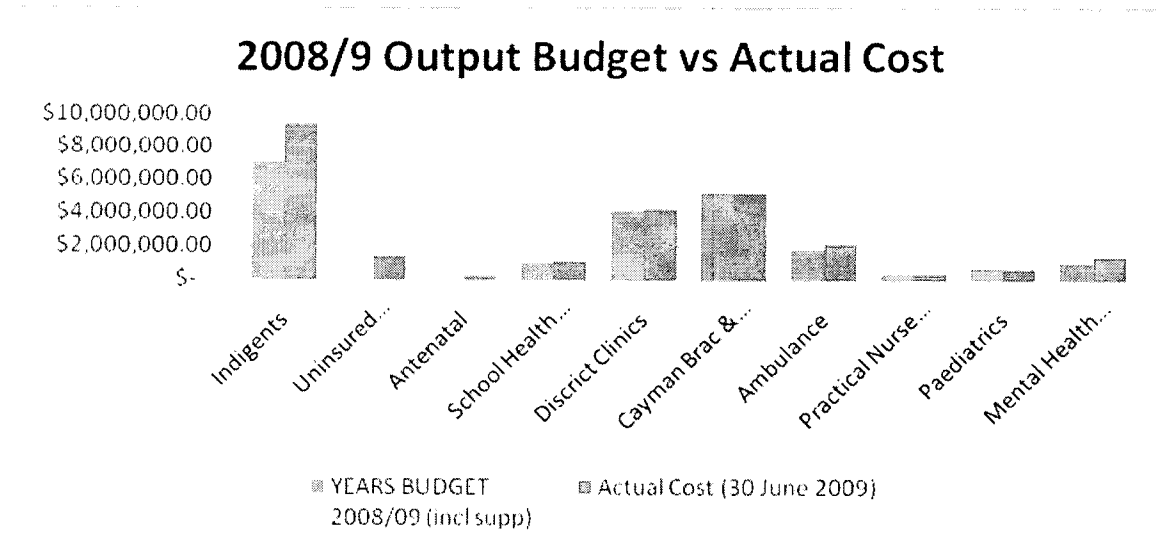
Financial Performance Ratio <i>(See Explanation 7)</i>	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Current Assets: Current Liabilities 1	169%	167%	2%
Total Assets: Total Liabilities 2	5.70	7.45	(1.75)

1A measure of short-term solvency or liquidity

2A measure of long-term debt and solvency

Variance Explanation:

Explanation 1:



The cost of the outputs that were delivered to the government during the year amounted to \$26M. Of these outputs \$21M were fully funded by the Government. The shortfall of \$4.9M is to be paid by the Government through agreed supplemental funding. However, only \$2.3M and the remaining unfunded shortfall had been provided for through bad debts.

The **indigent** cost increased during the financial year due to growth in the indigent population and increase in visits. Of the \$9.4M patient charges, \$8.2M was adjudicated by CINICO for payment by Ministry and only \$7M was paid with \$1.2M outstanding per 08/09 billing. The other \$1.2M (\$9.4M less \$8.2M) worth of denied claims was reworked and a portion was received under the 09/10 budget allocation.

Two other outputs are delivered by HSA to the government which are services to **uninsured children and antenatal** worth \$1.6M, both of these were not budgeted in 2008/9 due to a proposed Primary Health Care Initiative (PHCI) which would have absorbed these services. PHCI was not implemented leaving this program unfunded at the end of the period. In 2007/8, there was an output for uninsured children. However, in anticipation of the proposed PHCI, this output was eliminated but the inpatient portion was covered by HSA 27 (Paediatrics), leaving a budgetary shortfall which had to be covered by the HSA. Many of the privately insured children do not have their entire outpatient services covered and care for children is presumable free as per Health Services Fees Law.

There is also a shortfall of \$300,000 each for **ambulance and mental health**. The ambulance maintenance cost increased due to delayed vehicle replacement while mental health cost increased due to longer in-patient days (one patient was resident with HSA for 21 days at average), increase in usage of expensive drugs and extension of new prescribed drugs.

Variance Explanation:

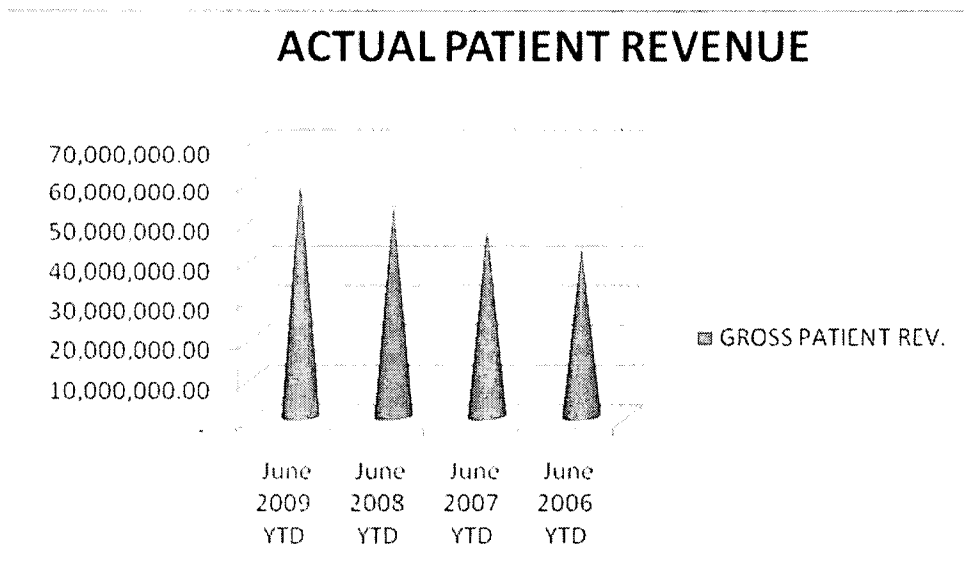
Explanation 2:

	June 2009	June 2008	June 2007	June 2006
Statistics:	YTD-Actual	YTD-Actual	YTD-Actual	YTD-Actual
Total Admissions	5,071	4,889	4,766	4,410
% of Change	4%	3%	8%	
Total Discharges	5,051	4,861	4,646	4,296
% of Change	4%	5%	8%	
Total Patient Days	21,775	20,410	20,271	19,104
% of Change	7%	1%	6%	
Bed Occupancy Rate (%)	73.5%	68.8%	68.6%	64.6%
% of Change	7%	0%	6%	

The budgeted volume increase for admissions and discharge was projected at 7%, however the actual increase in admissions and discharges increased to 4% causing a 3% unfavourable volume variance. The new charge master was budgeted for October 2008 implementation but it was finally approved for January 2009. The delay in implementation coupled with unmet volume expectation resulted in a per month gap of \$500,000 to \$600,000 between actual and targeted revenues between July 2008 and December 2008. The overall reduction in volume also translated in a \$2.8M and \$2.4M shortfall in projected revenues from Ministries & Other Agencies (CINICO) and Revenue from Other Persons (Commercial Insurance & Self pay), respectively.

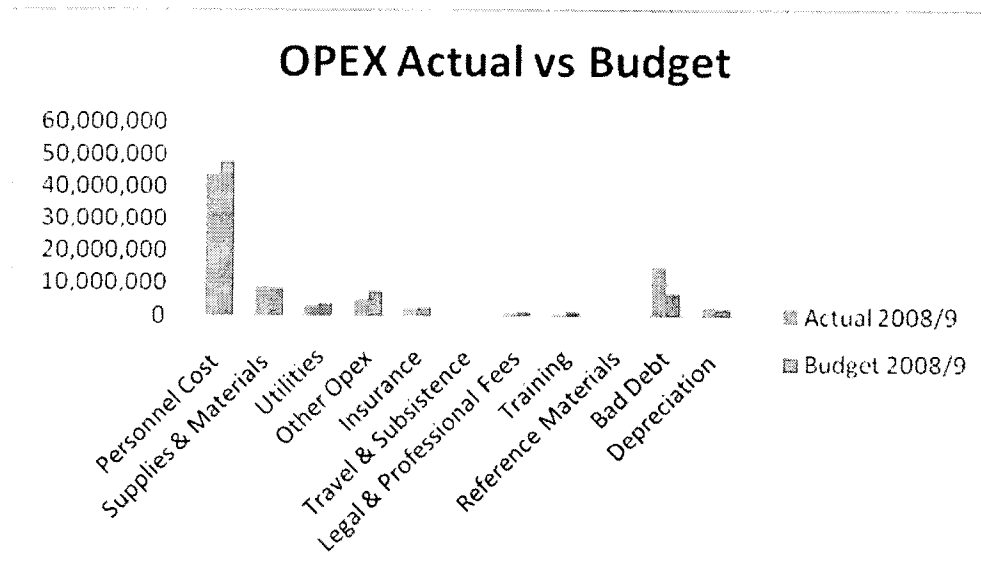
Detailed analysis of shortfall could not be easily identified due to the diversity of variables.

Nevertheless, there was a trend of an increase in overall patient revenue from \$5M-\$7M compared to prior years as shown below due to revenue enhancement measures such as a 10% fee increase in March 2008, new charge master in January 2009, introduction of new patient services and the expansion of procedural codes.



Variance Explanation:

Explanation 3:



Despite financial challenges, the HSA has taken extraordinary steps to close the gap between revenue and expenditures through a series of measures:

(1) Certain clinical positions were left vacant longer than they ordinarily would be, most of the non-clinical vacant post were not filled and deferred implementation of the 50% salary adjustment which equates to total **cost savings of \$3.6 million**;

(2) **\$1.1 million savings** on utilities due to dramatic decline of fuel cost impacting electricity, vigilant monitoring of telephones usage and re-alignment of switchboard;

(3) Due to reprioritization of our structural capital improvements, including renovations of Faith Hospital, West Bay Clinic, General Practice Clinics, building upkeep maintenance cost were reduced to minimum repairs necessary for safe patient care or deferred resulting to a **savings of \$2.6 million**;

(4) **\$1.5 million savings** realized from reduction in staff education, training costs, insurance premiums and other budget cuts on legal/professional fees.

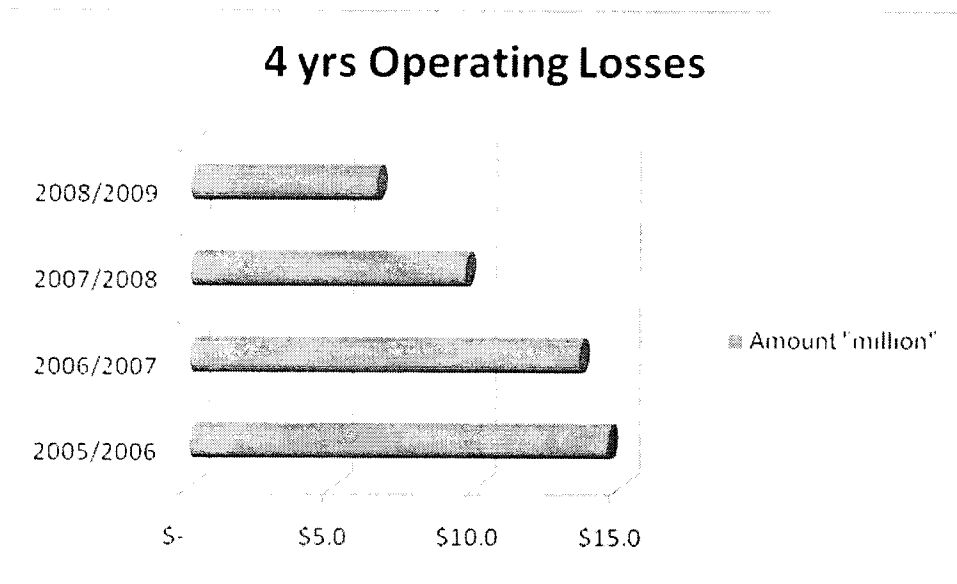
However, these **cost savings of \$8.8 million** as stated above was eroded by the **additional expenditure of \$8.7 million**: (1) \$295,000 on supplies and materials relating mostly to drugs due to higher patient volume and longer patient stays for Dialysis and Mental Health and (2) \$8.4 million additional provision for bad debts based on new Bad Debts Policy, 20%-100% as reserve estimates was factored on each type of health plan receivable balance as of 30 June 2009 which is a better reflection of bad debts compared to the 10% of the net patient revenue used in the budget.

Variance Explanation:

Explanation 4:

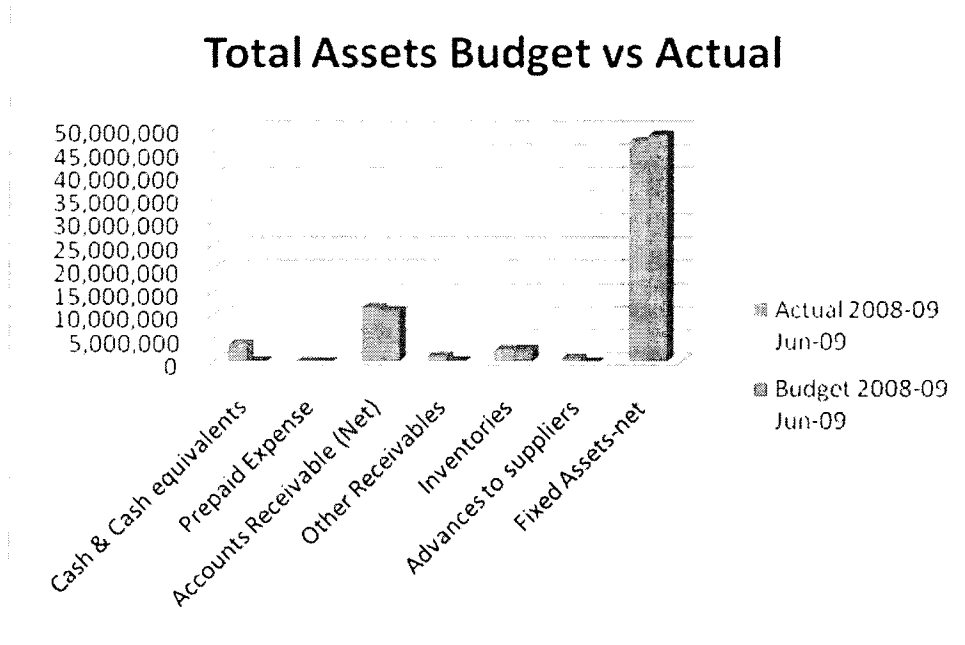
The operating loss of \$6.7 million or \$330,000 over the budget is a remarkable achievement and was realized through a combined effort of effective financial controls and revenue enhancement measures.

Over the last 4 years, there have been significant improvements in HSA's overall financial performance from \$15M operating loss in 2005/6 to \$6.7M in 2008/9, as evidenced by the considerable reduction in our operational loss as follows:



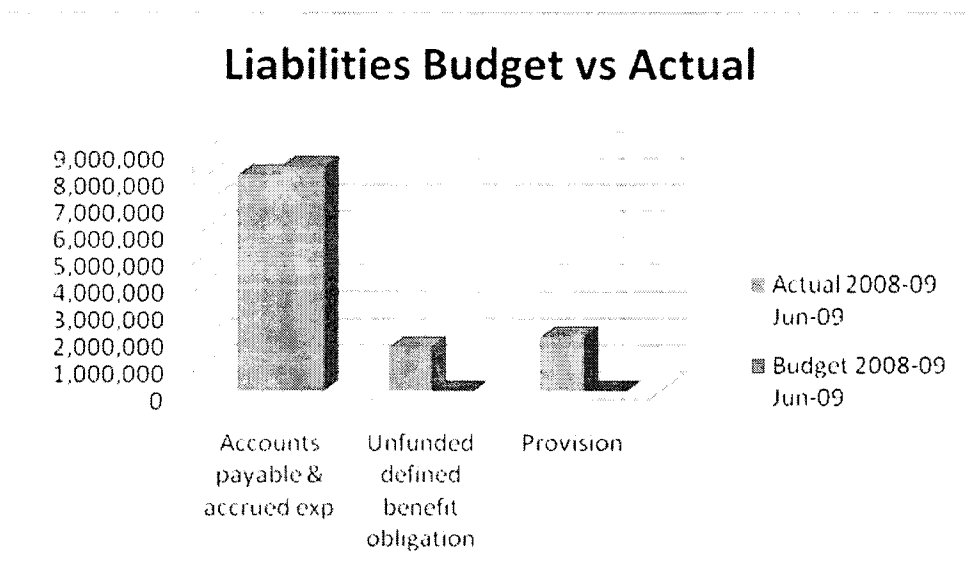
Variance Explanation:

Explanation 5:



Of the total assets, 70% pertains to fixed assets, 17% on accounts receivable and 6% of cash.

The year-end cash position of \$3.8 million as compared to the forecast of \$208,000 constitutes the increase in total assets even though the target collection was not met as explained in the downside of revenue. Nevertheless, HSA was able to manage in reducing net cash flow from operating activities by \$6.2 million thus causing positive cash position of \$3.8 million.



Of the total liabilities, 36% (\$4.3M) of which pertains to accounts payable and 32% (\$3.8M) to accrued expenses:

Accounts payable - \$2.4 million is the amount owed to government for insurance premium, customs duties, legal et al; (2) \$935,000 for overseas vendors and (3) \$924,000 for local vendors. Despite delayed payment to government, there has been an agreed monthly payment scheme to pay customs duties and legal fees until accounts are fully settled. In addition, a settlement of obligations that are over 60 days of age took place in July 2009.

The \$3.8M accrued expenses are the expenses incurred for invoices that were not received on or before cut-off date: (1) \$2 million is for insurance premium and the reminder for various overseas and local vendors.

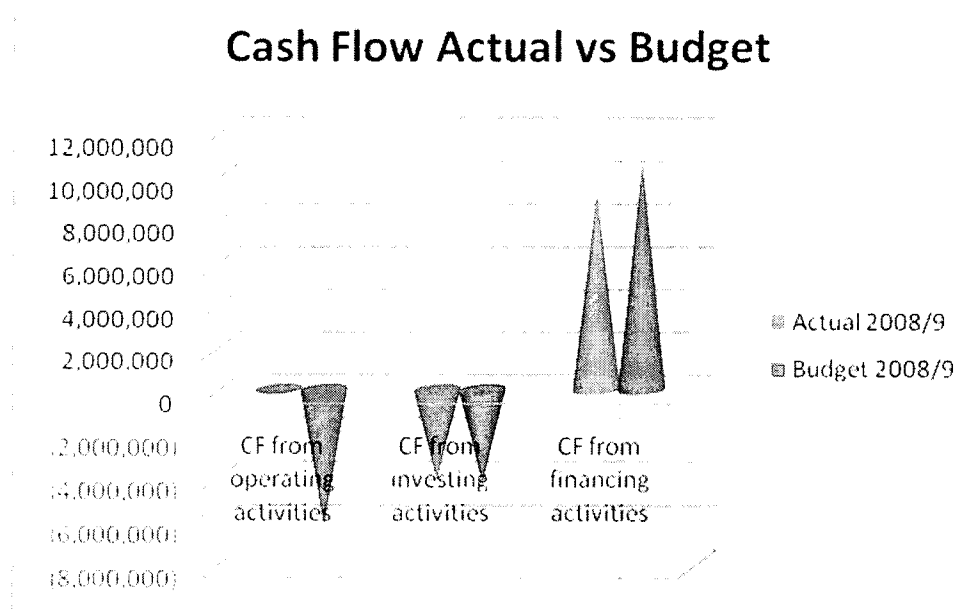
Additional obligation is also recognized for the unfunded defined benefit obligation and legal provisions amounting to \$3.6 million and these were not budgeted in 2008/9.

Due to expected cash shortfall attributed to the economic downturn, payment to vendors particularly to government accounts were deferred and monthly payment scheme negotiated to manage the cashflow.

Overall, the net worth of the entity had increased by \$1.2 million compared to the forecast due to tight financial controls, revenue enhancement and collection efficiency measures as explained in previous paragraphs.

Variance Explanation:

Explanation 6:



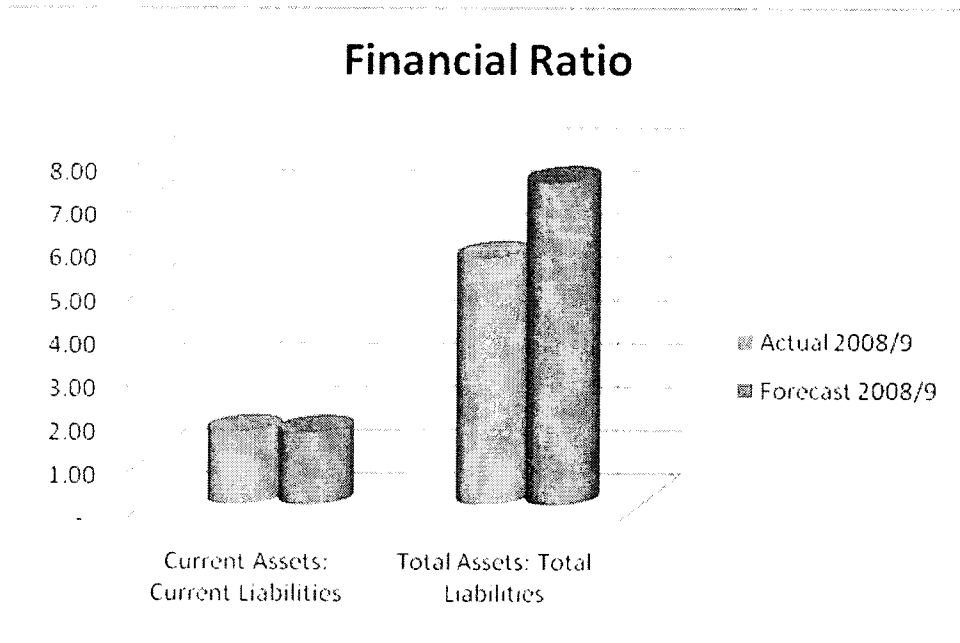
As shown in the cash flow statements, despite the downside of revenue generated, HSA was able to balance the collections and payments by prudent spending and by cutting expenditures on personnel cost and operating expenses by \$8 million. With proper cash management, the overdraft facility of \$4 million with FCIB was unutilized at year end 30 June 2009.

There was a notable achievement by HSA in collections during the financial year under review when compared to 2007/8. Total collections for 2008/9 was \$8.5 million higher compared to previous year primarily due to increase in fee by 10%, implementation of the new charge master and various business process improvements such as more focused recovery of old accounts, collaboration with CINICO & CBCA to improve adjudication or re-work of denials.

As of 30 June 2009, HSA has a cash position of \$3.8 million due to well-managed operating activities unlike in 2007/8 the cash balance of HSA which was at deficit of \$1.2M and covered by overdraft facility.

Variance Explanation:

Explanation 6:



Current assets: current liabilities has no significant change.

Due to the negative impact of the unmet revenue target and escalation of obligation for the unfunded defined benefit when compared to what was budgeted, the position to pay each dollar of debt is affected. However, this was balanced by HSA by reducing its expenses. Thus, HSA has capacity to pay 5 times for each dollar debt which is 1.75 lower than what was budgeted which is an insignificant variance.

Maintenance of Capability

Human Capital Measures	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Total full time equivalent staff	695	814	119
Staff turnover (%)	13.63%	13%	.63%
Average length of service (Number)			
Senior management	11.88	12.8	(.92)*
Professional staff	7.36	6	1.36
Administrative staff	7.44	6	1.44
Significant changes to personnel management system	HR Manager Application is being tested not yet implemented	None	-

Variance Explanation:

The actual full time staff of 695 is the average for year to date excluding locum, temporary & part-time staff and the variance of 119 as compared to budget is contributed by the vacant positions that were not filled due to moratorium on recruitment, except for essential patient care and cost cutting measures by HSA.

The staff turnover likewise has been minimized by a more focused process of ensuring competitive salaries, new recruitment and retention strategies as proven by the 1-2 years increase on length of service of HSA staff.

In July 2008, 80% of the employees received a salary adjustment in compliance with the 50% implementation of a third party Salary Evaluation Report. However, the remaining 50% adjustment has been deferred which has been communicated to all HSA employees due to 6% budget cut back directive of the Government.

*The reduction of the average length of service for senior managers reflects not using C.G.'s numbers in the calculations.

Maintenance of Capability (continued)

Physical Capital Measures	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Value of total assets	67,479,512	62,929,090	4,550,422
Asset replacements: total assets	6.26%	6.98%	(.72%)
Book value of depreciated assets: initial cost of those assets	70.32%	77.60%	(7.28%)
Depreciation: Cash flow on asset purchases	60%	52%	(8%)
Changes to asset management policies	Non-currents assets manual	None	

Variance Explanation:

Variance in total assets has been explained in preceding paragraphs. There was an insignificant variance on asset replacement, which means that HSA has complied in replacing the assets based on what has been injected by the Government. However, it does not necessarily mean that HSA has replaced all those assets that are due for retirement or passed their retirement lifetime as there are still various medical equipment that are due for replacement.

Variance of 8% asset replacement is explained in next paragraphs.

Major Capital Expenditure Projects	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Land –East End &	37,190	45,000	(7,830)
Building additions	9,164	-	9,164
Medical Equipments and other assets			
Medical Equipments	1,395,009		
Other assets	333,076		
	1,728,085	1,750,000**	(21,915)
Medical Equipments – x-ray & CT Scan	633,957*	-	633,957
CT Scan Computer Hardware	499,422*	-	499,422
Faith Hospital, GP & OR/CSR major repairs	1,314,934	1,200,000	114,934
Major renovations- Materials Management & Laboratory	-	1,200,000	(1,200,000)
Advances to supplier for Ambulance	246,325	298,000	(51,675)
Total	4,469,057	4,393,000	(23,943)

Variance Explanation:

*The medical equipment and other assets that were acquired for CT Scan & X-ray were part of the \$4 million approved budget in 2007/8, procurement process resulted in pay-out staggering 2 fiscal periods.

**Out of \$1.75 million in 2008/9 approved budget for medical equipment which was all drawn from the Ministry, only few amounts was not expended as such the asset replacement ratio has deviated by insignificant variance as shown in preceding paragraphs.

Supplements & Request:

Supplemental budget of \$1.2 million was requested to support the infrastructure improvements for Faith Hospital and approved in October 2008. In June 2009, out of the \$1.2 million funds, \$538,000 was not collected from the Ministry and this fund is reserved for completion of the project. It is expected that the Faith Hospital renovation will be completed by the end of November.

HSA had a time deposit placement of \$1.8 million renewable every 12th of the month, \$900 thousand remains in the bank as at 30 June 2009. This pertains to (1) \$1.2 million budgeted MRI in 2007/8 and (2) \$600,000 for other medical equipment. This \$1.8 million was requested by HSA to be re-directed to major repairs at General Practice (GP) Clinic and Operating Room/Central Sterile at budgeted cost of \$700 thousand and \$1.2 million, respectively. The construction work of both GP and the Operating Room was in progress as at 30 June 2009. To date, the GP facility was completed in October 2009 while the Operating Room/Central Sterile is still in progress. In addition, supplement of \$1.2 million has been requested in 3rd quarter of 2008/9 for the (1) fire suppression system; (2) lab ventilation and (3) IT Roof but issuance of funds is currently deferred by Government as such no tenders were disbursed for these

HSA also received an additional funding of \$45,000 from the Ministry for the purchase of parcel of land at East End and \$298 thousand for the 3 ambulances with staggering pay-out.

Risk Management

Key Risks	Change in status from previous year	Actions to manage risk	Financial Value of Risk
Key Staff Vacancies	Key Staff Recruited		0
Loss of key staff	Clinical staff: Nurses, Physicians and Technicians	Completion & implementation of job evaluation and revised salary structure Provision of training	0 \$2M
Loss of Vital Information due to prolonged power outage or natural disaster	N/A	Reliable paper and electronic back up for records Maintenance, servicing and protection of generator from flood waters Adequate document storage	\$300,000
Natural Disaster – Loss of Communication	Health & Safety Officer	Maintenance of radios and satellite phones Ensure maintenance of text messaging system via Cable and Wireless	\$60,000
Security Risk	Security Officers	Improve security of facilities by restricting access and maintaining alarms on exits Improve monitoring system by the installation of close circuit monitoring in certain areas	\$150,000
Inadequate financial information system	IT Project Manager	Upgrade of the computer system Retraining of all staff	\$80,000
Financial Sustainability	Charge Master Analyst	Implementation of charge master to include additional and existing chargeable items at current market rate Monitoring of expenditure and revenue collections on a monthly basis at departmental levels	Charge master was implemented in January 2009. Loss of revenue from July- Dec 08. Increase of bad debts.
Business Interruption	N/A	Formulation of contingency plans to maintain operations. Securing adequate insurance to compensate for unavoidable interruptions in business. Secure funding for installation of fire suppression at Materials Management	\$1,000,000

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 financial statements is as follows.

Operating Statement	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Revenue	75,476,620	75,857,211	(380,591)
Operating Expenses	82,220,872	82,270,838	49,966
<i>Net Surplus/Deficit</i>	<i>(6,744,252)</i>	<i>(6,413,627)</i>	<i>(330,625)</i>

Balance Sheet	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Assets	67,479,512	62,929,090	4,550,422
Liabilities	(11,829,937)	(8,442,296)	(3,387,641)
<i>Net Worth</i>	<i>55,649,575</i>	<i>54,486,794</i>	<i>1,162,781</i>

Statement of Cash Flows	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Net cash flows from operating activities	(141,880)	(6,357,194)	6,215,314
Net cash flows from investing activities	(4,222,732)	(4,393,000)	170,268
Net cash flows from financing activities	9,357,588	10,793,000	(1,435,412)

Refer to the explanation provided on the Financial Performance.

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	2008/9 Actual \$	2008/9 Budget \$	Variance \$
Equity Investments into Health Services Authority	9,357,587	8,413,627	943,960
Capital Withdrawals from Health Services Authority]	0	0	0
Dividend or Profit Distributions to be made Health Services Authority	0	0	0
Government Loans to be made to Health Services Authority	0	0	0
Government Guarantees to be issued in relation Health Services Authority	0	0	0
Related Party Payments (Non Remuneration) made to Key Management Personnel ¹	0	0	0
Remuneration ² Payments made to Key Management Personnel	1,302,086	1,302,086	-
Remuneration Payments made to Senior Management	1,294,436	1,294,436	-

Variance Explanation:

The approved budget for the equity injection in 2008/9 for the operating loss in the amount of \$6,413,627 or \$1,603,407 per quarter \$ is insufficient to cover the actual losses of HSA. The YTD loss amounts to \$6.7 million and had exhausted the budget, therefore request for supplemental budget is imminent which is explained in the above paragraphs.

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)

Key Employees	2008/9 Actual \$	2008/9 Budget \$	Variance \$
No of Key Management Personnel	20	22	(2)
No of Senior Management	8	10	(2)

Variance Explanation:

Mrs. Lizzette Yearwood was appointed as Chief Executive Officer effective February 1, 2009.

The vacant position in senior management pertains to the post of Director of Support Services and Chief Information Officer.

The appointed seven-member of Board and ex-officio 5-member of HSA effective 1st September 2008 chaired by Pastor Al Ebanks as listed below including senior management team are key management personnel for financial year 2008/9.

New Board Appointments:

The Ministry of Health, Hon. Mark Scotland announced the appointment of new members of the Board of the HSA effective July 23, 2009. The seven-member Board is headed by a newly appointed Chairman, Mr. Canover Watson, who is joined by the following members (1) Ms. Wanda Ebanks; (2) Mr. Tommy Ebanks; (3) Mr. Peter Young; (4) Ms. Racquel Solomon; (5) Ms. Nina Ebanks and (6) Mr. Ryan Walrond.

Senior Management Team	BOD for 2008/9 Term
1. Chief Executive Officer 2. Medical Director 3. Chief Nursing Officer 4. Director of Primary Healthcare Services 5. Director of Corporate Services 6. Chief Financial Officer 7. Director of Human Resources 8. Director of Sister Islands Health Services 9. Director of Support Services 10. Chief Information Officer (new)	1. Pastor Al Ebanks (Chair) 2. Mr. Krishan Welcome 3. Mr. Canover Watson 4. Mr. David Shibli 5. Mr. Eddie Ebanks 6. Mrs. Patricia Muschette 7. Ms. Nola Bodden 8. Chief Officer Ministry of Health (ex-officio) 9. Chief Financial Secretary nominee (ex-officio) 10. Mrs. Lizzette Yearwood (ex-officio) 11. Dr. Kiran Kumar (ex-officio) 12. Dr. Greg Hoeksema (ex-officio)

8. Agreement

Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that **Health Services Authority** achieved for the 2008/9 financial year.

A handwritten signature in black ink, appearing to read 'Canover Watson', written in a cursive style.

Mr. Canover Watson

Chairman of the Board

Health Services Authority

January 2011



Financial Statements of

**CAYMAN ISLANDS HEALTH
SERVICES AUTHORITY**

30 June 2009

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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Cayman Islands

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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 "Health Authority"), which comprise the balance sheet as at 30 June 2009, 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 (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

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 four significant matters that prevented me from completing my audit:

1. Insufficient records over patient revenues,
2. Incomplete records to value accounts receivable and reasonableness of bad debt expense,
3. Incomplete records to value certain components of fixed assets,
4. Incomplete records to reconcile the contributed capital and retained deficit of the Health Authority from its formation to 30 June 2009.

These 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. In addition, I have not been provided with adequate explanations on discrepancies noted in analyzing selected component of patient revenues, which indicate understated/unrecorded revenues. 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 \$59 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 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. Until 1 July 2009, management did 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.

In addition, 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 the resulting deficit for the year in the statement of revenue and expenses are possibly overstated.

Incomplete records to value certain components of fixed assets

Management has not provided to me the following documentation:

- Valuation documents providing reliable, independent assessment of its land and buildings.
- Its assessment of the adverse effects of Hurricane Paloma on the carrying value of affected fixed assets, and the related insurance recoveries, at 30 June 2009.

Incomplete records to reconcile the contributed capital and retained deficit of the Health Authority from its formation to 30 June 2009.

No sufficient support has been produced to substantiate the capital contributed by the Cayman Islands Government to the Health Authority during the years ended 30 June 2002 and 2003. As a result, the Health Authority's net worth as of 30 June 2009 is misstated by \$7.7 million being the unreconciled variance between the records availed for my review and the balance reported in the financial statements.

In addition to the four 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 Health Authority's financial statements at 30 June 2008, comprising the beginning balances for the current year. Due to matters that I

have raised in my disclaimer of opinion on the 2008 financial statements, I was not able to determine the accuracy of the beginning balances of the contributed capital, inventory, fixed assets and accounts receivables.

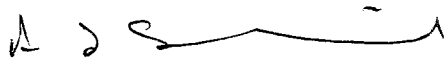
2. Subsequent to 30 June 2009, the Health Authority has paid for medical bills of its retirees whose coverage was dropped by the Portfolio of the Civil Service in circumstances that have not been fully explained to me. The continued payments of these medical bills constitutes a constructive obligation on the Health Authority to be liable for future medical bills of all such retirees yet no such liability has been estimated or recognized in these financial statements.
3. Management could not provide me with the value of inventory in stock in the pharmacy outlets as of 30 June 2009. In addition, the Health Authority applies an inappropriate accounting practice for ancillary cost elements of inventory by expensing such costs, however International Accounting Standards require that such costs be capitalized.
4. Appropriate records were not provided for overseas medical benefits provided to employees amounting to \$1.5 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.

I noted instances where the financial statements are not prepared in accordance with the IFRS, including omissions of material disclosures required by the IFRS.

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
9 December 2010

ANDS HEALTH SERVICES AUTHORITY

2009
(in Man Islands dollars)

	Note	2009	Budget	2008
Assets				
Cash and cash equivalents	4	\$3,800,468	\$208,807	(\$1,192,508)
Other receivables	5	1,206,742	241,440	3,473,896
Accounts receivable, net	6	11,665,669	11,063,614	10,278,555
Inventory	7	2,604,233	2,579,534	1,892,191
Advances to suppliers		714,006	-	1,550,456
Prepaid expenses		40,143	-	19,500
		20,031,261	14,093,395	16,022,090
Current liabilities				
Accounts payable and accrued expenses	9	(8,116,282)	(8,442,296)	(6,439,065)
Unfunded defined benefit obligation	15	(1,669,000)	-	(1,083,000)
Provision	17	(2,044,655)	-	(1,989,110)
		(11,829,937)	(8,442,296)	(9,511,175)
Net current assets		8,201,324	5,651,099	6,510,915
Non-current assets				
Fixed assets	8	47,448,251	48,835,695	43,999,164
Net assets		\$55,649,575	\$54,486,794	\$50,510,079
Represented by:				
Contributed capital		132,863,432	142,618,613	123,505,845
Deficit		(77,213,857)	(88,131,819)	(72,995,766)
Net worth		\$55,649,575	\$54,486,794	\$50,510,079

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of revenue and expenses

For the year ended June 30, 2009
(stated in Cayman Islands dollars)

	Note	2009	Budget	2008
Operating income				
Patient services fees, net				
Inpatient/outpatient	10	\$59,023,424	\$61,359,802	\$51,856,905
Government programme	11	15,069,071	14,219,409	10,617,000
Other income				
Rental income		129,667	18,000	70,500
Donations		81,360	50,000	72,899
Miscellaneous	12	<u>1,173,098</u>	<u>210,000</u>	<u>366,054</u>
		1,384,125	278,000	509,453
		75,476,620	75,857,211	62,983,358
Operating expenses				
Staff costs	13,15,17	44,373,128	47,990,787	41,763,715
Provision for bad debts		15,242,782	6,868,226	11,429,669
Supplies & materials		8,938,827	8,643,345	7,887,712
Other operating expense	14	4,923,251	7,547,721	4,326,018
Utilities		2,739,959	3,886,908	2,554,675
Insurance		2,076,948	2,424,600	2,240,822
Depreciation	8	2,528,943	2,300,000	2,048,428
Legal & professional fees		985,609	1,245,000	677,169
Training		248,598	1,127,181	315,904
Travel & subsistence		155,787	128,700	130,174
Reference materials		7,040	108,370	4,312
		82,220,872	82,270,838	73,378,598
Net loss for the year		(\$6,744,252)	(\$6,413,627)	(\$10,395,240)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of changes in net worth

For the year ended June 30, 2009
(stated in Cayman Islands dollars)

	Note	Contributed capital	Deficit	Total
Balance, 30 June 2008		\$123,505,845	(\$72,995,766)	\$50,510,079
Net loss for the year		-	(6,744,252)	(\$6,744,252)
Prior period adjustments		-	2,526,161	\$2,526,161
Capital contribution during the year	19	9,357,587	-	\$9,357,587
Balance, 30 June 2009		\$132,863,432	(\$77,213,857)	\$55,649,575

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of cash flows

for the year ended June 30, 2009
 stated in Cayman Islands dollars)

	Note	2009	Budget	2008
Cash provided by/(applied in):				
Operating activities				
Net loss for the year		(\$6,744,252)	(\$6,413,627)	(\$10,395,240)
Add item not affecting working capital:				
Depreciation	8	2,528,943	2,300,000	2,048,428
Prior period adjustments		770,862		
Net changes in non-cash working capital balances relating to operations:				
Other receivables, (increase) decrease		2,267,154	(1,911,488)	(2,894,504)
Accounts receivable, net, increase		(1,387,114)	1,169,507	(2,403,627)
Inventory, (increase) decrease		(712,042)	600,338	(352,633)
Advances to suppliers, increase		836,450	(705,230)	(798,961)
Prepaid expenses, increase		(20,643)	17,405	(19,500)
Accounts payable and accrued expenses, increase (decrease)		1,677,217	(1,414,099)	2,209,619
Unfunded defined benefit obligation, increase	15	586,000	-	354,000
Provision, increase	17	55,545	-	393,660
		(141,880)	(6,357,194)	(11,858,758)
Investing activities				
Cost of fixed assets purchased	8	(4,222,732)	(4,393,000)	(2,720,145)
Financing activities				
Capital contribution from Government	19	9,357,588	10,793,000	13,491,094
(Decrease) increase in cash during the year		4,992,976	42,806	(1,087,809)
Cash and cash equivalents at beginning of year		(1,192,508)	166,001	(104,699)
Cash and cash equivalents at end of year		\$3,800,468	\$208,807	(\$1,192,508)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

financial statements

2009

(in Cayman Islands dollars)

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. Changes in Accounting Standards/ IFRS

Relevant standards and amendments issued prior to June 30, 2009 but not effective until future periods and are predicted to have an impact on Health Authority:

IAS 1 – Presentation of Financial Statements (revised and effective January 1, 2009)

IFRS 7 – Financial Instruments: Disclosures (amended and effective from July 1, 2009)

The impact of these changes shall be additional disclosures in the financial statements in succeeding years.

CAJMAN ISLANDS HEALTH SERVICES AUTHORITY

to financial statements

30, 2009

(in Cayman Islands dollars)

3. Significant accounting policies

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

(a) Basis of accounting

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

(b) Use of estimates

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

(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.

(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.

MAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2009

(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

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.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2009

(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(d) Fixed assets/depreciation (continued)

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

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.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2009

(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(e) Impairment

The carrying amount of the Health Authority's assets other than inventory (see note 3(h)) is 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 obsolete and expired.

(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.

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(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(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 \$3,395,874 (2008: \$2,731,773) 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.

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

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(stated in Cayman Islands dollars)

4. Cash and cash equivalents

	2009	2008
Petty cash	\$6,100	\$6,900
Bank accounts	3,794,368	(1,199,408)
	<u>\$3,800,468</u>	<u>\$(1,192,508)</u>

At 30 June 2009, out of the \$4 million unsecured bank overdraft facility which is reviewed annually, \$1,451,112 (2007: \$2,219,750) was used.

5. Other receivables

	2009	2008
Other accounts receivable	\$630,928	\$129,929
Salary advance	41,569	18,123
Cabinet receivable	3,111,549	3,325,844
Allowance for bad debts	(2,577,304)	-
	<u>\$1,206,742</u>	<u>\$3,473,896</u>

6. Accounts receivable, net

	2009	2008
Gross accounts receivable	\$49,603,513	\$38,050,088
Allowance for bad debts	(37,937,844)	(27,771,533)
	<u>\$11,665,669</u>	<u>\$10,278,555</u>

Allowance for bad debts movement:

	2009
Balance at 1 July 2008	\$27,771,533
Additional provisions	12,665,478
Provisions (contractual adjustments)	3,341,296
Write-offs	(3,791,774)
Adjustment due to change in estimates	(2,048,689)
	<u>\$ 37,937,844</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2009

(stated in Cayman Islands dollars)

7. Inventory

	2009	2008
Pharmaceutical supplies	\$1,838,011	\$1,188,240
Medical supplies	682,005	639,554
Other supplies	84,217	64,397
	<u>\$2,604,233</u>	<u>\$1,892,191</u>

The cost of inventories recognized as operating expenses during the period was \$8,938,827 (2008: \$7,887,712).

8. Fixed assets

For the year ended June 30, 2009	Land	Buildings	Medical equipment	Other assets	Total
Cost:					
At beginning of year	2,303,750	40,266,687	8,306,631	9,551,101	60,428,169
Additions during year	37,170	9,164	2,028,966	2,147,432	4,222,732
Transfers during the year	-	2,961,311	-	(2,961,311)	-
Adjustments	-	24,939	1,688,717	2,320,691	4,034,347
Derecognition during year	-	-	(946,259)	(197,337)	(1,143,596)
At end of year	2,340,920	43,262,101	11,078,055	10,860,576	67,541,652
Accumulated depreciation:					
At beginning of year	-	5,808,315	5,771,988	4,848,702	16,429,005
Derecognition during year	-	-	(944,801)	(195,736)	(1,140,537)
Adjustments	-	(1,985)	1,366,345	911,630	2,275,990
Charge for year	-	857,137	681,045	990,761	2,528,943
At end of year	-	6,663,467	6,874,577	6,555,357	20,093,401
Carrying value:					
At June 30, 2008	\$2,340,920	\$36,598,634	\$4,203,478	\$4,305,219	<u>\$47,448,251</u>

The adjustments in the fixed assets was a result of corrections made in the general ledger to agree with the revised fixed assets register, these adjustments pertains to assets that were not capitalized net of items destroyed during hurricane Ivan.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

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8. Fixed assets (continued)

For the year ended June 30, 2008	Land	Buildings	Medical equipment	Other assets	Total
Cost:					
At beginning of year	\$2,303,750	\$40,266,687	\$7,315,740	\$7,821,847	\$57,708,024
Additions during year	-	-	990,891	1,729,254	2,720,145
Derecognition during year	-	-	-	-	-
At end of year	2,303,750	40,266,687	8,306,631	9,551,101	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	\$34,458,373	\$2,534,643	\$4,702,398	\$43,999,164

Included in other fixed assets are: 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 2009 amounts to \$1,314,934 (2008: \$2,928,592).

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.

9. Accounts payable and accrued expenses

	2009	2008
Accounts payable	\$4,270,900	\$2,456,216
Accrued expenses	3,845,382	3,982,849
	\$8,116,282	\$6,439,065

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

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10. Patient services fees, net

	2009	2008
Fees from the rendering of services	\$52,110,203	\$42,985,257
Fees from sale of goods	6,913,221	8,871,648
	<u>\$59,023,424</u>	<u>\$51,856,905</u>

The amounts disclosed above for fees from sale of goods are 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.

11. Government programmes

	2009	2008
School Health Center	\$1,141,055	\$3,067,000
Cayman Brac and Little Cayman	5,162,667	2,244,000
Ambulance	2,125,903	1,760,000
District Clinics	4,241,130	942,000
Paediatric	656,308	590,000
Mental Health (in-patient and day care)	1,389,189	1,155,000
Practical Nurse (LPN)	379,189	373,000
Forensic Science	-	486,000
	<u>\$15,069,071</u>	<u>\$10,617,000</u>

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.

12. Miscellaneous income

	2009	2008
Misc Sales & Receipts	\$338,266	\$366,054
Public Health	834,832	-
	<u>\$1,173,098</u>	<u>\$366,054</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

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13. Staff costs

	2009	2008
Salaries & Wages (including overtime)	\$37,172,792	\$35,270,383
Allowances	1,346,406	1,532,224
Pension Contribution	2,304,807	2,117,566
Unfunded Defined Benefit	586,000	354,000
Health Care – Overseas/Local	1,826,432	1,246,454
Other Staff Cost	1,136,691	1,243,088
	<u>\$44,373,128</u>	<u>\$41,763,715</u>

14. Other operating expenses

	2009	2008
Repairs and maintenance	\$975,730	\$754,278
Computer maintenance	460,504	798,070
Software licensing fees	1,114,243	510,518
Bank charges	208,827	239,924
Freight and shipping	831,393	778,464
Overseas laboratory tests	515,164	346,137
Mail courier service	168,146	194,074
Public relations and publicity	165,644	245,916
Advertising	596,434	65,038
Miscellaneous	423,595	393,599
	<u>\$4,923,251</u>	<u>\$4,326,018</u>

15. 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.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2009

(stated in Cayman Islands dollars)

15. Pension (continued)

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 20 July 2010 (2007: 17 July 2009) of the independent professional actuary was completed as at 30 June 2009 (2007: 30 June 2008) 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.

The net liability arising from defined benefit obligation as at 30 June 2009 is as follows:

	30 June 2009	30 June 2008
	\$000	\$000
Net present value of funded obligation	9,974	6,562
Less: Fair value of Plan assets	4,736	5,076
	5,238	1,486
Less: Unrecognised actuarial net losses	3,569	403
Net liability arising from defined benefit obligation	1,669	1,083

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

	30 June 2009	30 June 2008
	\$000	\$000
Defined benefit obligation, beginning of year	6,562	6,323
Current service cost	752	804
Interest cost	441	393
Plan participant contributions	351	387
Net actuarial loss (gain) on obligations	2,461	(936)
Transfers between other participating entities	(593)	(409)
Defined benefit obligation, end of year	9,974	6,562

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Notes to financial statements

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(stated in Cayman Islands dollars)

15. Pension (continued)

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

	30 June 2009	30 June 2008
	\$000	\$000
Fair value of Plan assets, at the beginning of year	5,076	5,202
Employer and participant contributions	760	839
Expected return on assets, net of expense	351	391
Actuarial (loss) gain on Plan assets	(850)	(947)
Transfers between other participating entities	(593)	(409)
Impact of re-statement of beginning of year assets	(39)	-
Fair value of Plan assets, at the end of year	<u>4,736</u>	<u>5,076</u>

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 2009	30 June 2008
	\$000	\$000
Current service cost, net of employee contributions	752	804
Interest cost	441	393
Expected return on assets net of expense	<u>(382)</u>	<u>(391)</u>
	<u>811</u>	<u>806</u>

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

	30 June 2009	30 June 2008
	\$000	\$000
Global equities	108,642	112,612
US equities	Nil	Nil
Bonds	120,606	104,327
Long term deposits/Cash	9,608	14,430
Cash	Nil	Nil
Cash term deposits	Nil	Nil
Property	7,280	11,016
Total fund assets	<u>246,136</u>	<u>242,385</u>

The share of Plan assets at 30 June 2009 allocated to the Health Authority's participation in the defined benefit part of the plan is \$4,736,262 (2008: \$5,075,607).

ISLANDS HEALTH SERVICES AUTHORITY

to financial statements

June 30, 2009

(stated in Cayman Islands dollars)

15. Pension (continued)

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 (2008: *projected unit credit*)

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

	30 June 2009	30 June 2008
Discount rate	5.75%	6.75%
Expected long-term rate of return (net of expense)	6.00%	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)	13.14	14.09

C. Other assumptions –

1. Mortality – Standard U.S. mortality rates (2008: *Standard U.S. mortality rates*)
2. Retirement age – completion of age 57 and 10 years of service (2008: *completion of age 57 and 10 years of service*)

D. Asset valuation –fair (market) value [2008: fair (market) value]

The Health Authority expects to make a contribution of \$359,000 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 128 (2008: 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 2009 is 611 (2008: 552).

During the year ended 30 June 2009, the Authority and its employees contributed to the fund 7% and 6%, respectively (2008: 7% and 6%, respectively).

The total amount recognised as a pension expense for the year ended 30 June 2009, inclusive of both defined benefit and defined contribution parts, was \$ 2,304,807 (2008: \$2,117,565).

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2009

(stated in Cayman Islands dollars)

16. Joint venture

The Health Authority as owner of a 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". The contributions are deposited to a 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. 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.

17. Provision

	30 June 2009	30 June 2008
Employee benefits	\$1,949,852	\$1,895,864
Provision for legal claims	94,803	93,246
	<u>\$2,044,655</u>	<u>\$1,989,110</u>

Legal Claims

The Health Authority is a defendant to several claims that have been brought against by patients and employees as a result of its medical operations. Anticipated expenditure for the lawsuits as of 30 June 2009 is \$94,803 (2008: \$93,246) and this amount has been reported in the statement of revenue and expenses. As of 30 June 2010, \$63,415 and \$12,430 was paid out for medical malpractice claims and employee claim, respectively. Below is the movement of provisions for legal claims as at 30 June 2009:

Balance at 1 July 2008	\$93,246
Additional provisions	4,792
Reductions resulting from payments	(3,235)
Balance at 30 June 2009	<u>\$94,803</u>

18. 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 \$637,250 and \$225,000 respectively are less than probable and are covered by insurance in excess of deductible; accordingly, no provisions were recognized for possible losses.

CAJAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

June 30, 2009

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18. Contingencies and commitments (continued)

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.

(b) Capital and operating commitments

Commitments for the construction of building such as major renovation of Faith Hospital and completion of general practice building and operating rooms amount to \$2,050,894.

In addition, the Health Authority has entered into a 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.

19. 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 2009, management estimates that the aggregate amount of Health Authority's transactions with government-related entities are at least 70% (2008:70%) of its operating income and between 5-10% (2008:5-10%) of its operating expenditures. Significant transactions with the government-related entities are discussed as follows:

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

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19. Related party transactions (continued)

- The Health Authority received equity injection during the year of \$9,357,587 (2007:\$13,491,094) from the Government's Cabinet. These payments do not have to be repaid and are composed as follows:

	30 June 2009	30 June 2008
Equity drawdown	\$6,519,120	\$9,657,974
Capital drawdown	2,838,467	3,833,120
	<u>\$9,357,587</u>	<u>\$13,491,094</u>

- Pursuant to the general and supplemental appropriation for the year ended 30 June 2009, the Health Authority billed the Government's Cabinet \$26,117,665 (2008:\$ 19,946,744) 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 \$15,069,071 (2008:\$10,617,000) which includes the maintenance of Faith Hospital in the amount of \$5,162,667 (2008:\$ 2,244,000).
- 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 \$26,588,149 (2008:\$24,086,760). 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 2009	30 June 2008
Short-term benefits	\$1,294,436	\$1,217,885
	<u>\$1,294,436</u>	<u>\$1,217,885</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.

20. 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.

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20. Financial instruments and associated risks (continued)

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

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. None of the other financial instruments is exposed to interest rate risk.

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.

Management of Capital–The Health Authority manages its capital to ensure it will be able to continue as going concerns while maximizing the return to stakeholders. Capital consists of equity and retained earnings or deficit. The Board of Directors monitors the monthly net income or deficit with aim to ensuring that the expenses do not exceed the budgets and that the Health Authority becomes profitable in the long run. The Health Authority is not subject to any externally imposed capital requirements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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21. Subsequent Events

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 and Management does not anticipate losses with BAICO.

Subsequent to 30 June 2009, the Health Authority has paid for medical bills of its retirees whose medical coverage was dropped by the Portfolio of the Civil Service (POCS). The continued payment of these medical bills constitutes a constructive obligation on the Health Authority to be liable for future medical bills of such retirees although there is no policy decision yet issued by the POCS as to who should be liable for the medical costs of these retirees. Such liability has not been estimated or recognized in these financial statements and the Health Authority is currently trying to engage an insurance company to cover the retiree's medical benefits.