Financial Statements of

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

30 June 2011

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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HEALTH SERVICES AUTHORITY
CAYMAN ISLANDS
Caring People. Quality Service.

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STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Cayman Islands Health Services Authority ("Health Authority") in accordance with the provisions of the Public Management and Finance law (*2010 Revision*) , and International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the Public Management and Finance law (*2010 Revision*), and International Financial Reporting Standards.

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

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

Except for the effects of weaknesses in internal control over completeness of patient revenues and the impact this has on our ability to provide assurance over the completeness of patient receivables, we confirm that these financial statements fairly present the financial position, financial performance and cash flows of the Health Authority for the financial year ended 30 June 2011.

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

(a) completely and reliably reflect the financial transactions of Health Authority for the year ended 30 June 2011;
(b) fairly reflect the financial position as at 30th June 2011 and performance for the year then ended;
(c) comply with the provisions of the Public Management and Finance law (*2010 Revision*) and International Financial Reporting Standards.

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

Lizette Yearwood
Chief Executive Officer
Date: 17/10/12

Canover Watson
Chairman
Date: OCT 17, 2012

Heather Boothe
Chief Financial Officer
Date: 17 Oct 2012

HEALTH SERVICES AUTHORITY
OCT 17 2012
CHAIRMAN OF THE BOARD

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AUDITOR GENERAL'S REPORT

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

I have audited the accompanying financial statements of the Cayman Islands Health Services Authority (the "Health Authority"), which comprise the balance sheet as at 30 June 2011, 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 (2010 Revision) and Section 60(1)(a) of the Public Management and Finance Law (2010 Revision) as amended.

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) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Financial Statements

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Except as discussed in the Basis for Qualified Opinion paragraphs, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health Authority's internal control.

(Continued)

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Ineffective controls over completeness of patient revenues

I determined that the controls Management has set-up to ensure completeness of patient revenues are not properly designed and could not be relied upon. In the absence of properly designed controls which are effectively implemented, I was unable to satisfy myself that the reported patient revenues of $68.5 Million are complete.

Completeness and valuation of patient-related accounts receivables

I was unable to determine the completeness and valuation of patient-related accounts receivable reported on the balance sheet for similar reasons as reported for patient revenues, and consequently I was not able to test the reasonableness of the allowance for bad debts and the related bad debt expense. In addition, there is significant uncertainty as to when $6.425 million owed to the Health Authority by the Ministry of Health, Environment, Youth, Sports & Culture (the "Ministry") and included in the accounts receivable, will be liquidated.

Inability to ascertain the accuracy, existence and valuation of year-end inventory

The inventory listing presented highlighted significant differences for the majority of items from what my staff had verified during the year-end inventory count. We were unable to carry out other procedures to satisfy ourselves that this listing is an accurate reflection of the inventory that existed as of June 30, 2011. As a result I am unable to satisfy myself of the accuracy, existence and valuation of inventory as at 30 June 2011.

Uncertainties due to disclaimers of opinion on the prior year's financial statements

Because of the disclaimers of audit opinion on the Health Authority's financial statements for the preceding 5 years, I am unable to determine the accuracy of the accumulated deficit as reported in the balance sheet and the statement of changes in net worth.

Qualified Opinion

In my opinion, except for the possible effects of the adjustments necessary in respect of the matters discussed in the 'Basis for Qualified Opinion' paragraphs above, these financial statements present fairly, in all material respects, the financial position of the Health Authority as at 30 June 2011, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

(Continued)

Emphasis of Matter

I draw attention to note 22 to the financial statements which describes the uncertainty related to the Health Authority's post-employment health benefit. My opinion is not qualified in respect of this matter.



Alastair Swarbrick, MA(Hons), CPFA
Auditor General

Cayman Islands
17 October 2012

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Balance sheet

As at June 30, 2011
(stated in Cayman Islands dollars)

	Note	2011	Budget	*2010 (Restated)*
Current assets				
Cash and cash equivalents	4, 20.2	$9,805,717	$5,227,587	*$5,183,312*
Other receivables	5, 20.2	1,303,543	3,057,822	*2,210,558*
Accounts receivable, net	6, 20.2	11,561,684	17,285,769	*14,361,519*
Inventory	7	6,814,804	2,786,397	*5,014,800*
Advances to suppliers		974,924	-	*729,680*
Prepaid expenses		366	82,639	*3,764*
Total current assets		30,461,038	28,440,214	*27,503,633*
Non-current assets				
Fixed assets	8	63,899,361	47,420,738	*64,594,789*
Total assets		$94,360,399	$75,860,952	*$92,098,422*
Current liabilities				
Accounts payable and accrued expenses	9, 20.2	5,839,149	8,932,754	*6,756,025*
Unfunded pension obligation	16	3,425,000	1,687,258	*2,593,000*
Loans payable	10	94,932	-	-
Provision	17	10,000	-	*4,886*
Total current liabilities		9,369,081	10,620,012	*9,353,911*
Non-current liabilities				
Loans payable	10	682,918	-	-
Total liabilities		$10,051,999	$10,620,012	*$9,353,911*
Net assets		$84,308,400	$65,240,940	*$82,744,511*
Represented by:				
Contributed capital		127,847,565	140,427,143	*126,039,565*
Accumulated deficit		(57,766,592)	(75,186,203)	*(57,522,481)*
Asset revaluation	8	16,091,758	-	*16,091,758*
Net worth		$86,172,731	$65,240,940	*$84,608,842*

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of revenue and expenses

For the year ended June 30, 2011
(stated in Cayman Islands dollars)

	Note	2011	Budget	*2010*
Revenue				
Patient services fees	11	$68,514,544	$65,662,856	*$67,027,572*
Government programme	12	14,545,790	15,189,112	*15,515,171*
Other income	13	407,713	313,861	*1,462,485*
Total Revenues		83,468,047	81,165,829	*84,005,228*
Operating expenses				
Staff costs	14	48,722,245	46,916,410	*43,521,078*
Supplies & materials	7	9,223,226	8,462,184	*9,964,241*
Provision for bad debts	6	11,266,420	8,619,089	*10,665,181*
Other operating expense	15	5,177,656	6,136,431	*4,752,985*
Depreciation	8	2,989,203	2,955,126	*2,530,905*
Utilities		2,924,548	2,822,328	*2,518,173*
Insurance		2,512,726	2,553,691	*2,249,815*
Legal & professional fees		474,847	1,068,500	*1,057,999*
Travel & subsistence		289,388	310,794	*302,074*
Training		127,032	155,850	*200,502*
Reference materials		4,867	20,100	*2,062*
Total Expenses		83,712,158	80,020,503	*77,765,015*
Net loss for the year		**($244,111)**	**$1,145,326**	***$6,240,213***

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of changes in net worth

For the year ended June 30, 2011
(stated in Cayman Islands dollars)

	Note	Contributed capital	Accumulated deficit	Asset revaluation	Total
Balance, 30 June 2009		123,954,475	(66,440,569)	-	57,513,906
Net income for the year		-	6,240,213	-	$6,240,213
Capital contribution during the year	19	2,204,210	-	-	$2,204,210
Balance, 30 June 2010		126,039,565	(58,216,905)	-	67,822,660
Asset revaluation	8	-	-	16,091,758	$16,091,758
Prior period adjustments	21	-	694,424	-	$694,424
Restated balance		126,039,565	(57,522,481)	16,091,758	84,608,842
Net loss for the year		-	(244,111)	-	($244,111)
Capital contribution during the year	19	1,808,000	-	-	$1,808,000
Balance, 30 June 2011		127,847,565	(57,766,592)	16,091,758	86,172,731

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of cash flows

For the year ended June 30, 2011
(stated in Cayman Islands dollars)

	Note	2011	Budget	*2010*
Cash provided by/(applied in):				
Operating activities				
Net income (loss) for the year		($244,111)	$1,145,326	*$6,240,213*
Add item not affecting working capital:				
Depreciation	8	2,989,203	2,955,126	*2,530,905*
Prior period adjustments		-	-	*1,864,331*
Net changes in non-cash working capital balances relating to operations:				
Other receivables, (increase) decrease		907,015	(2,857,821)	*(1,003,816)*
Accounts receivable, net, (increase) decrease		2,799,835	(2,388,855)	*(2,833,971)*
Inventory, increase		(1,800,004)	-	*(2,265,970)*
Advances to suppliers, increase		(245,244)	-	*(15,674)*
Prepaid expenses, decrease (increase)		3,398	-	*36,379*
Accounts payable and accrued expenses, decrease		(916,876)	1,129,687	*(2,622,161)*
Unfunded pension obligation, increase	16	832,000	-	*924,000*
Provision, decrease		5,114	-	*(89,917)*
Net cash generated from operating activities		4,330,330	(16,537)	*2,764,319*
Investing activities				
Cost of fixed assets purchased - net	8	(2,293,775)	(1,808,000)	*(3,585,685)*
Financing activities				
Capital contribution from Government	19	1,808,000	1,808,000	*2,204,210*
Loans payable, net of payment	10	777,850	-	-
Net cash generated from financing activities		2,585,850	1,808,000	*2,204,210*
Increase in cash during the year		4,622,405	(16,537)	*1,382,844*
Cash and cash equivalents at beginning of year		5,183,312	5,244,124	*3,800,468*
Cash and cash equivalents at end of year		$9,805,717	$5,227,587	*$5,183,312*

See accompanying notes to financial statements.

1. Background information

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

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

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

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

2. Changes in Accounting Standards/ IFRS

A) Amendments to published standards effective July 1, 2010:

IFRS 7 – Financial Instruments: Disclosures (amended and effective January 1, 2011)

IAS 1 – Presentation of Financial Statements (revised and effective January 1, 2011)

2. Changes in Accounting Standards/ IFRS (continued)

B) Relevant standards and amendments issued prior to June 30, 2011 but not effective until future periods and are predicted to have an impact on Health Authority:

IFRS 9 – Financial Instruments – Classification and Measurement (amended and effective January 1, 2013)

IFRS 7 – Financial Instruments –Enhancing disclosures about transfers of financial assets (amended and effective July 1, 2011)

IFRS 13 – Fair Value Measurement (original issue May 2011 and effective January 1, 2013)

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

3. Significant accounting policies

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

(a) Basis of accounting

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

(b) Use of estimates

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

(c) Financial instruments

(i) Classification

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

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

3. Significant accounting policies (continued)

(c)Financial instruments (continued)

(ii) Recognition

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

(iii) Measurement

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

(iv) Specific instruments

Cash and cash equivalents

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

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

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

3. Significant accounting policies (continued)

(d) Fixed assets/depreciation (continued)

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

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

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

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

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

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

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

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.

3. Significant accounting policies (continued)

(d) Fixed assets/depreciation (continued)

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

(e) Impairment

The carrying amount of the Health Authority's assets other than inventory (see note 3(h)) 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 such as Government programmes is recognized when invoiced. Other income such as donation, rental and other miscellaneous income is recognized when a grant is received or when services are provided.

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 $4,506,901 (*2010: $4,601,832*) are netted against revenue as these are considered as contractual adjustments.

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.

(k) Provisions

Provisions are recognised when Health Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that the Health Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the 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.

4. Cash and cash equivalents

	2011	*2010*
Petty cash	$6,000	*$6,300*
Bank accounts	9,799,717	*5,177,012*
	$9,805,717	*$5,183,312*

At 30 June 2011, out of the $3.2 million unsecured bank overdraft facility which is reviewed annually, nil (*2010: $769,912*) was used.

As part of fixed deposit accounts, $1 million relates to the capital injection provided by Cabinet. This is restricted cash that is only available for use of a generator project.

5. Other receivables

	2011	*2010*
Cabinet receivable	$1,186,876	*$3,086,410*
Other accounts receivable	64,245	*315,701*
Insurance claims receivable	-	*220,942*
Salary advance	52,422	*24,829*
Allowance for bad debts	-	*(1,437,324)*
	$1,303,543	*$2,210,558*

6. Accounts receivable, net

	2011	*2010 (Restated)*
Gross accounts receivable	$38,448,469	*$64,053,277*
Allowance for bad debts	(26,886,785)	*(49,691,758)*
	$11,561,684	*$14,361,519*

6. Accounts receivable, net (continued)

Allowance for bad debts movement:

	2011	*2010 (Restated)*
Balance at 1 July	$48,084,042	*$37,937,844*
Additional provisions	11,266,420	*10,665,181*
Provisions (contractual adjustments)	4,499,485	*6,199,622*
Write-offs	(38,570,879)	*(5,110,889)*
Prior year adjustment	1,607,717	-
	$26,886,785	*$ 49,691,758*

Bad debts of $38.5 million that had accumulated over a period of 2 to 7 years were written off after all efforts to collect were exhausted.

7. Inventory

	2011	*2010 (Restated)*
Pharmaceutical supplies (Note 21)	$4,093,489	*$3,194,250*
Medical supplies	2,315,355	*1,649,007*
Other supplies	405,960	*171,543*
	$6,814,804	*$5,014,800*

The cost of inventories recognized as operating expenses during the period was $9,223,226 (*2010: $9,964,241*).

8. Fixed assets

For the year ended June 30, 2011	Land	Buildings	Medical equipment	Other assets	Total
Cost:					
At beginning of year	6,514,000	51,054,713	11,664,072	10,316,612	79,549,397
Additions during year	-	1,112,996	760,847	468,852	2,342,695
Adjustments	-	-	-	(48,150)	(48,150)
Derecognition during year	-	-	(79,589)	(79,308)	(158,897)
At end of year	6,514,000	52,167,709	12,345,330	10,658,006	81,685,045

8. Fixed assets (continued)

For the year ended June 30, 2011	Land	Buildings	Medical equipment	Other fixed assets	Total
Accumulated depreciation:					
At beginning of year	-	-	*7,496,908*	*7,457,700*	*14,954,608*
Derecognition during year	-	-	(79,256)	(78,871)	(158,127)
Charge for year	-	1,245,159	778,090	965,954	2,989,203
At end of year	-	1,245,159	8,195,742	8,344,783	17,785,684
Carrying value:					
At June 30, 2011	$6,514,000	$50,922,550	$4,149,588	$2,313,223	$63,899,361

For the year ended June 30, 2010	Land	Buildings	Medical equipment	Other fixed assets	Total
Cost:					
At beginning of year	*2,340,920*	*43,262,101*	*11,078,055*	*10,860,576*	*67,541,652*
Additions during year	-	*829,485*	*802,526*	*2,680,798*	*4,312,809*
Transfers during the year	-	*2,800*	*2,474*	*(789,119)*	*(783,845)*
Adjustments	-	-	-	*48,011*	*48,011*
Derecognition during year	-	-	*(218,983)*	*(6,171)*	*(225,154)*
At end of year	*2,340,920*	*44,094,386*	*11,664,072*	*12,794,095*	*70,893,473*
Asset revaluation	*4,173,080*	*4,482,844*	-	-	*8,655,924*
Transfers during the year	-	*2,477,483*	-	*(2,477,483)*	-
Restated value	*6,514,000*	*51,054,713*	*11,664,072*	*10,316,612*	*79,549,397*
Accumulated depreciation:					
At beginning of year	-	*6,663,467*	*6,874,577*	*6,555,357*	*20,093,401*
Derecognition during year	-	-	*(143,496)*	*(6,171)*	*(149,667)*
Adjustments	-	*(87,671)*	*3,474*	-	*(84,197)*
Charge for year	-	*904,010*	*762,353*	*864,542*	*2,530,905*
At end of year	-	*7,479,806*	*7,496,908*	*7,413,728*	*22,390,442*
Asset revaluation	-	*(7,435,834)*	-	-	*(7,435,834)*
Transfers during the year	-	*(43,972)*	-	*43,972*	-
Restated value	-	-	*7,496,908*	*7,457,700*	*14,954,608*
Restated carrying value:					
At June 30, 2010	*$6,514,000*	*$51,054,713*	*$4,167,164*	*$2,858,912*	*$64,594,789*

8. Fixed assets (continued)

Included in other fixed assets are: cost of buildings under construction, computer hardware & software, furniture & fittings, motor vehicles and office equipment. The cost of buildings under construction as at 30 June 2011 amounts to $19,789 (*2010: $2,667,533*).

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 and June 17, 2011 by the Department of Lands & Survey and DDL Studio Ltd., an independent appraiser, respectively on depreciated replacement cost basis. The June 30, 2010 balance of fixed assets has been restated to include the result of recent asset revaluation which amounts to $16,091,758 and this amount is also presented in the net worth.

9. Accounts payable and accrued expenses

	2011	*2010 (Restated)*
Accounts payable (Note 20.2)	$2,910,830	*$3,360,835*
Accrued expenses (Note 20.2)	2,045,267	*2,141,393*
Employee benefits (Note 3 (j))	883,052	*1,253,797*
	$5,839,149	*$6,756,025*

10. Loans payable

	2011	*2010*
Current	$94,932	*$-*
Non-current	682,918	-
	$777,850	*$-*

Health Authority purchased seven units at the Lemon Grove Apartments located in George Town at a purchase price of $990,000 including chattels on 25 February 2011 to serve as housing for locums, visiting specialist, newly recruited employees and all other guests who needs temporary housing. This was funded by a secured loan of $800,000 obtained from First Caribbean International Bank (FCIB) at an interest rate of 3.5% for 10 years with an agreement of reducing the overdraft facility to $3.2 million from $4 million and each repayment of loan will be added back to the overdraft facility. A building with carrying amount of $995,925 (*2010: $nil*) is subject to a first charge to secure the loan.

11. Patient services fees

	2011	*2010*
Fees from the rendering of services-net	$52,336,143	*$50,902,625*
Fees from sale of goods	16,178,401	*16,124,947*
	$68,514,544	*$67,027,572*

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

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

12. Government programmes

	2011	*2010*
School Health	$1,497,897	*$1,444,881*
Faith Hospital	3,635,688	*3,994,849*
Ambulance	2,322,474	*2,109,939*
District Clinics	2,844,271	*4,210,834*
Paediatric	526,494	*701,372*
Mental Health	1,913,256	*2,137,443*
Practical Nurse (LPN)	264,996	*369,067*
Accident and Emergency	539,535	*546,786*
Public Health	1,001,179	-
	$14,545,790	*$15,515,171*

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.

13. Miscellaneous income

	2011	*2010*
Miscellaneous Sales & Receipts	$407,713	*$707,325*
Public Health	-	*755,160*
	$407,713	$1,462,485

14. Staff costs

	2011	*2010*
Salaries & Wages (including overtime)	$40,115,664	*$36,828,042*
Health Care – Overseas/Local	2,981,123	*1,306,750*
Pension Contribution	2,468,709	*2,324,149*
Other Staff Cost	1,373,544	*1,098,469*
Allowances	951,205	*1,039,668*
Unfunded Defined Benefit	832,000	*924,000*
	$48,722,245	*$43,521,078*

15. Other operating expenses

	2011	*2010*
Software licensing fees	$1,401,697	*$1,295,247*
Repairs and maintenance	827,337	*933,613*
Custom duties (Note 21)	580,351	*322,660*
Freight and shipping	546,938	*756,477*
Overseas laboratory tests	429,192	*341,000*
Mail courier service	399,972	*265,305*
Computer maintenance	189,804	*78,348*
Public relations and publicity	146,347	*139,956*
Bank charges	85,281	*145,382*
Advertising	61,817	*64,917*
Miscellaneous (Note 21)	508,920	*410,080*
	$5,177,656	*$4,752,985*

16. Pension

(a) Defined Benefit Part

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

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

16. Pension (continued)

(a) Defined Benefit Part (continued)

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 26 July 2012 *(2010: 25 July 2011)* of the independent professional actuary was completed based on 30 June 2011 *(2009: 30 June 2010)* 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 2011 is as follows:

	30 June 2011 $000	***30 June 2010 $000***
Net present value of defined benefit obligation	11,542	*11,037*
Less: Fair value of Plan assets	6,308	*5,352*
	5,234	*5,685*
Less: Unrecognised actuarial net losses	1,809	*3,092*
Net liability arising from unfunded pension obligation	3,425	*2,593*

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

	30 June 2011 $000	***30 June 2010 $000***
Defined benefit obligation, beginning of year	11,037	*9,974*
Current service cost	793	*861*
Interest cost	596	*562*
Plan participant contributions	324	*327*
Net actuarial loss (gain) on obligations	(147)	*5*
Transfers between other participating entities	(1,061)	*(692)*
Defined benefit obligation, end of year	11,542	*11,037*

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

16. Pension (continued)

(a) Defined Benefit Part (continued)

	30 June 2011	***30 June 2010***
	$000	***$000***
Fair value of Plan assets, at the beginning of year	5,352	*4,736*
Employer and participant contributions	703	*708*
Expected return on assets, net of expense	328	*294*
Actuarial gain (loss) on Plan assets	986	*306*
Transfers between other participating entities	(1,061)	*(692)*
Impact of re-statement of beginning of year assets	-	-
Fair value of Plan assets, at the end of year	6,308	*5,352*

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 2011	***30 June 2010***
	$000	***$000***
Current service cost, net of employee contributions	793	*861*
Interest cost	596	*562*
Expected return on assets	(328)	*(294)*
Recognition of net loss	150	*176*
	1,211	*1,305*

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

	30 June 2011	***30 June 2010***
	$000	***$000***
Global equities	207,756	*151,946*
US equities	Nil	*Nil*
Bonds	107,775	*104,082*
Other	13,857	*14,177*
Cash	Nil	*Nil*
Cash term deposits	Nil	*Nil*
Property	11,316	*8,569*

The share of Plan assets at 30 June 2011 allocated to the Health Authority's participation in the defined benefit part of the plan is $6,308,078 (*2010: $5,352,196*).

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.

16. Pension (continued)

(a) Defined Benefit Part (continued)

The principal actuarial assumptions at the date of valuation:

A. Cost method - projected unit credit (*2010: projected unit credit*)

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

	30 June 2011	***30 June 2010***
Discount rate	5.50%	*5.50%*
Expected long-term rate of return (net of expense)	6.00%	*6.00%*
Salary increase	3.50%	*4.00%*
Future pension increases	2.50%	*2.50%*
Inflation rate	2.50%	*2.50%*
Expected remaining working lives (years)	12.01	*12.48*

C. Other assumptions

1. Mortality – Standard U.S. mortality rates (*2010: Standard U.S. mortality rates*)
2. Retirement age – completion of age 57 and 10 years of service (*2010: completion of age 57 and 10 years of service*)

D. Asset valuation –fair (market) value [2010: fair (market) value]

The Health Authority expects to make a contribution of $298,000 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 104 (*2010: 117*) at 30 June 2011.

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 number of employees enrolled in the defined contribution with the PSPB at 30 June 2011 is 598 (*2010: 594*).

During the year ended 30 June 2011, the Authority and its employees contributed to the fund 7% and 6%, respectively (*2010: 7% and 6%, respectively*).

The total amount recognised as a pension expense for the year ended 30 June 2011, inclusive of both defined benefit and defined contribution parts, was $3,300,709 (*2010: $3,248,149).*

17. Provision

	30 June 2011	***30 June 2010***
Provision for legal claims	$10,000	*$4,886*
	$10,000	*$4,886*

17. Provision (continued)

The Health Authority is a defendant to several claims that have been brought against it by patients and employees as a result of its medical operations. Estimated liability for the lawsuits as of 30 June 2011 is $10,000 (*2010: $4,886*) and this amount has been reported in the statement of revenue and expenses, as part of legal expenses. As of 30 June 2011, $116,171 and $12,460 was paid out for medical malpractice claims and employee claim, respectively. Below is the movement of provisions for legal claims for the year ended 30 June 2011:

	30 June 2011	***30 June 2010***
Balance at 1 July	$4,886	*$94,803*
Additional provisions	10,000	*4,886*
Reductions resulting from payments	(4,886)	*(94,803)*
Balance at 30 June	$10,000	*$4,886*

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 $678,099 and $225,000 (*2010: $678,099 and $225,000),* respectively are less than probable to be successful and are covered by insurance in excess of deductible; accordingly, no provisions were recognized for possible losses.

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

(b) Capital and operating commitments

Type	**One year or less**	**One to five years**	**Over five years**	**Total**
Capital Commitments				
Land and buildings	$ 210,620	$ -	$ -	$ 210,620
Other fixed assets	143,202	-	-	143,202
Total Capital Commitments	**353,822**	**-**	**-**	**353,822**
Operating Commitments				
Non-cancellable contracts for the supply of goods and services	1,562,656	1,867,460	-	3,430,116
Total Operating Commitments	**1,562,656**	**1,867,460**	**-**	**3,430,116**
Total Commitments	**$ 1,916,478**	**$ 1,867,460**	**$ -**	**$ 3,783,938**

18. Contingencies and commitments (continued)

(b) Capital and operating commitments (continued)

The outstanding capital commitment for the completion of electronic claims verification and adjudication, OR/CSR and generators projects amounts to $353,822.

In addition, the Health Authority has entered into various operating commitments with terms from one year to over five years term amounting to $3,430,116 (*2010: $2,717,272*). A substantial part of this amount pertains to the contract with Cerner Corporation for the off-site storage and management of clinical and financial electronic data which is a seven-year contract totaling US$7 million. This contract will expire on 28 June 2013.

19. Related party transactions

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

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

For the year ended 30 June 2011, management estimates that the aggregate amount of Health Authority's transactions with government-related entities are at least 71% (*2010:70%)* of its revenue and between 5-10% (*2010:5-10%)* of its operating expenditures. Significant transactions with the government-related entities are discussed as follows:

- The Health Authority provides health care for a large portion of the employees of the Government and their dependants including other ancillary services to other government related-entities and reported this as revenue in the amount of $30,513,411 (*2010:$ 30,011,785*). The Health Authority is reimbursed by Cayman Islands National Insurance Company (CINICO) for the services provided to the employees of the Government and their dependants.
- The Health Authority received equity injection during the year of $1,808,000 (*2010:* $2,204,210*)* from the Government's Cabinet. These payments do not have to be repaid and are composed as follows:

	30 June 2011	***30 June 2010***
Subsidy for Capital expenditures	$1,808,000	*$2,204,210*
	$1,808,000	*$2,204,210*

19. Related party transactions *(continued)*

- Pursuant to the general and supplemental appropriation for the year ended 30 June 2011, the Health Authority billed the Government's Cabinet $28,904,429 (*2010: $29,251,105*) during the year for the outputs that have been purchased by the Government to provide medical care for indigent persons and under/un-insured children (included in patient services fees) and other government programmes totalling $14,545,790 (*2010: $15,515,171*) which includes the maintenance of Faith Hospital in the amount of $3,635,688 (*2010: $3,994,849).* The amount outstanding as overall cabinet receivable as of 30 June 2011 amounts to $6,425,652 (*2010: $2,081,985*) were duly included in the supplemental budget requests of Government's Cabinet.
- Below is the cost incurred by Health Authority for the other government programmes delivered to the Government which is the same amount billed:

	Billed	Cost
School Health	$1,497,897	$1,497,897
Faith Hospital	3,635,688	3,635,688
Ambulance	2,322,474	2,322,474
District Clinics	2,844,271	2,844,271
Paediatric	526,494	526,494
Mental Health	1,913,256	1,913,256
Practical Nurse (LPN)	264,996	264,996
Accident and Emergency	539,535	539,535
Public Health	1,001,179	1,001,179
	$14,545,790	$14,545,790

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

	30 June 2011	***30 June 2010***
Short-term benefits:		
Senior management	$1,359,451	*$1,402,308*
Board of directors	23,400	*13,350*
	$1,382,851	*$1,415,658*

The Health Authority also had transactions with members of key management or with their family such as lease of apartment with an annual disbursement of $10,400 and salary of other related party (a doctor related to one of the key management employees)amounting to $158,360.The Health Authority incurred $29,307 in medical costs for key management employees during the year. No medical costs were incurred for members of the Board.

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.

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:

20.1 Credit risk

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

Accounts receivable consist of a large number of customers and these customers would either have health insurance policy with CINICO or with various commercial insurance or no insurance coverage at all. Concentration of credit risk belongs to the group of customers known as "self-pay". These amounts are owed by customers who have neither insurance coverage nor sufficient coverage which are estimated to be 65% uncollectable.

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

	Less than 1 month	1-3 months	3 months to 1 year	1 year over	Total
	$000	$000	$000	$000	$000
2011					
Gross accounts recivable	852	1,419	6,273	9,988	18,532
Allowance for bad debts	554	989	6,273	9,988	17,804
	298	430	-	-	728
2010					
Gross accounts recivable	865	2,243	6,225	23,523	32,856
Allowance for bad debts	562	1,458	5,337	23,523	30,880
	303	785	888	-	1,976

20. Financial instruments and associated risks (continued)

20.2 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Authority's funding and liquidity management requirements. The Authority manages liquidity risk by maintaining the $3.2 million credit facility, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the financial statements as of 30 June 2011 and 30 June 2010.

	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
30 June 2011							
Financial assets							
Cash and cash equivalents	$9,805,717		$9,805,717	$ -	$ -	$ -	$ -
Other receivables	1,303,543		1,303,543				
Accounts receivable, net	11,561,684		11,561,684				
	22,670,944	-	22,670,944	-	-	-	-
Financial liabilities							
Accounts payable and accrued expenses	5,839,149		5,839,149				
Unfunded pension obligation	3,425,000		3,425,000				
Loans payable	777,850		94,932	94,932	94,932	94,932	398,122
Provision	10,000		10,000				
	10,051,999	-	9,369,081	94,932	94,932	94,932	398,122
Difference in contractual flows	$12,618,945	-	$13,301,863	($94,932)	($94,932)	($94,932)	($398,122)

	Carrying amount	*No stated maturity*	*Contractual cash flows (undiscounted)*				
			0-1 yr	*1-2 yrs*	*2-3 yrs*	*3-4 yrs*	*>5 yrs*
30 June 2010 (Restated)							
Financial assets							
Cash and cash equivalents	*$5,183,312*		*$5,183,312*				
Other receivables	*2,210,558*		*$2,210,558*				
Accounts receivable, net	*14,361,519*		*$14,361,519*				
	21,755,389	-	*21,755,389*	-	-	-	-
Financial liabilities							
Accounts payable and accrued expenses	*6,756,025*		*6,756,025*				
Unfunded pension obligation	*2,593,000*		*2,593,000*				
Provision	*4,886*		*4,886*				
	9,353,911	-	*9,353,911*	-	-	-	-
Difference in contractual flows	*$12,401,478*	-	*$12,401,478*	-	-	-	-

20. Financial instruments and associated risks (continued)

20.3 Interest risk

Interest rate risk – The Health Authority is exposed to interest rate risk for the $3.2 million credit facility with FCIB at a prime rate plus 0.25% per annum. This interest rate will fluctuate from time to time in line with the general level of interest rates. The risk is managed by the Health Authority by maintaining a short-term credit agreement that is renewable every year to have a negotiable and preferred rate. In addition, the Health Authority is limiting the usage of the credit facility by continuously monitoring the daily cash position which management views as likely to result into a bank preferred interest rate on the renewal of the agreement. The Health Authority has a minimal exposure on interest risk as none of the other financial instruments is exposed to this type of risk.

21. Prior period adjustments

For the year ended June 30, 2011, $694,424 net amount of prior period adjustments was noted and restatement was effected as at June 30, 2010 balance sheet which impacted the following accounts:

- Decrease in accounts receivable – net in the amount of $138,121 for the correction of allowance for contractual adjustment ($1,607,716) and correction of accounts receivable to agree with sub-ledger ($1,469,595).
- Decrease in accounts payable and accrued expenses in the amount of $687,948 for correction of accruals and correction of accounts payable to agree with sub-ledger.
- Increase in inventory in the amount of $144,597 for public health vaccine adjustments and correction of inventory ledger.

22. Post employment benefit

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

23. Approval by the Board

The financial statements were approved by the Board of Directors and authorized for issue on October 17, 2012.