Annual Report

2016-2017

JOURNEYS

HEALTH SERVICES AUTHORITY
CAYMAN ISLANDS
Caring People. Quality Service.

Cayman Islands Health Services Authority

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About Us

The Cayman Islands Health Services Authority provides care through the 124-bed Cayman Islands Hospital (104 inpatient and 20 observation beds) and the 18-bed Faith Hospital on Cayman Brac. Ancillary services are offered at district health centres, and clinics for dental and eye care.

Mission

The Mission of the Health Services Authority is to provide the highest quality healthcare and improve the well-being of people in the Cayman Islands through accessible, sustainable patient-focused services by highly-skilled, empowered and caring staff in collaboration with our partners.

Core Values

We believe that caring and compassionate personal behaviors are at the core of our organization's commitment to delivering quality patient focused care. By making an official commitment to practice these values, we reinforce them, acknowledge that they are expected behaviors and encourage our fellow employees to practice them diligently.

- Respect
- Responsibility
- Integrity
- Caring
- Excellence

Our Strategic Focus

1. Financial sustainability, including a clean audit opinion by 2018.
2. Improvement in the patient experience across the continuum of care.
3. Facility upgrade and expansion to meet the existing needs and projected growth of services and population.
4. Implementation of technology and systems to meet new environmental standards.
5. Introduction and expansion of clinical services and improvements in the patient experience to retain our position as the premier provider of healthcare services in the Cayman Islands.
6. Recruitment, development, motivation, and retention of productive and engaged employees to meet current and future organisational needs.
7. Strengthening primary healthcare services by enhancing health promotion and disease prevention activities.

Foreword

This Annual Report is for the Cayman Islands Health Services Authority (the 'HSA'). The report outlines the HSA's performance during the period from July 1st, 2016 to December 31st, 2017 and compares it to the actual performance for the preceding period.

The requirement for an Annual Report is prescribed under section 52 of the Public Management and Finance Law (2017 Revision) (PMFL). Section 52 states:

> *(1) In respect of each financial year, each statutory authority and government company shall prepare an annual report.*
>
> *(2) An annual report shall report the performance of the authority or company and compare it with that proposed in the ownership agreement for that financial year and shall include -*
>
> *(a) a summary of the **nature and scope of the activities** of the authority or company during that financial year;*
>
> *(b) a summary of the extent to which the **strategic goals and objectives** of the authority or company described in the annual ownership agreement were achieved;*
>
> *(c) a summary of the extent to which the **ownership performance targets** set out in the authority's or company's annual ownership agreement for that financial year have been achieved in that financial year;*
>
> *(d) for the financial years -*
>
> *(i) 2004/5 to 2007/8, unaudited financial statements; or*
>
> *(ii) 2008/9 and onwards, **audited financial statements**, which shall be prepared on a basis consistent with the forecast financial statements in the authority's or company's annual ownership agreement for that financial year and contain the statements and information set out in Schedule 4.*
>
> *(e) the amount of any **equity investment** made by the Cabinet in the authority or company during the financial year;*
>
> *(f) the amount of any **capital withdrawals** made by the Cabinet from the authority or company during the financial year;*
>
> *(g) the amount of any **dividends or profit distributions** paid by the authority or company during the financial year;*
>
> *(h) the amount of any **loans** to the authority or company by the Cabinet during the financial year; and*
>
> *(i) details of any **guarantees** relating to the authority or company made by the Cabinet during the financial year.*
>
> *(3) The financial statements referred to in subsection (2)(d) shall be prepared within two months of the end of the financial year.*

(3A) The financial statements referred to in subsection (2)(d)(ii) shall be submitted to the Auditor General for auditing, and the Auditor General shall express an opinion within two months of receipt of the financial statements.

(4) The annual report shall be presented to the Cabinet by the relevant minister or official member no later than four months after the end of the financial year.

This annual report complies with the requirements of the PMFL and covers three main areas:

- Service Delivery;
- Financial performance; and
- Governance.

The service delivery section outlines the contributions made by the HSA in furtherance of the Government's policy outcome goals. It also provides commentary which explains material variances in performance when compared to budget.

The financial performance section shows the financial resources the HSA was afforded in the 2016-17 budget and the inputs purchased to provide services. The financial performance is presented in the form of financial statements prepared in accordance with International Financial Reporting Standards and the supporting notes to those financial statements.

The report also includes a section on Governance which outlines the HSA's efforts in the areas of risk management, and compliance with various statutory requirements


The Cayman Islands Hospital
Grand Cayman

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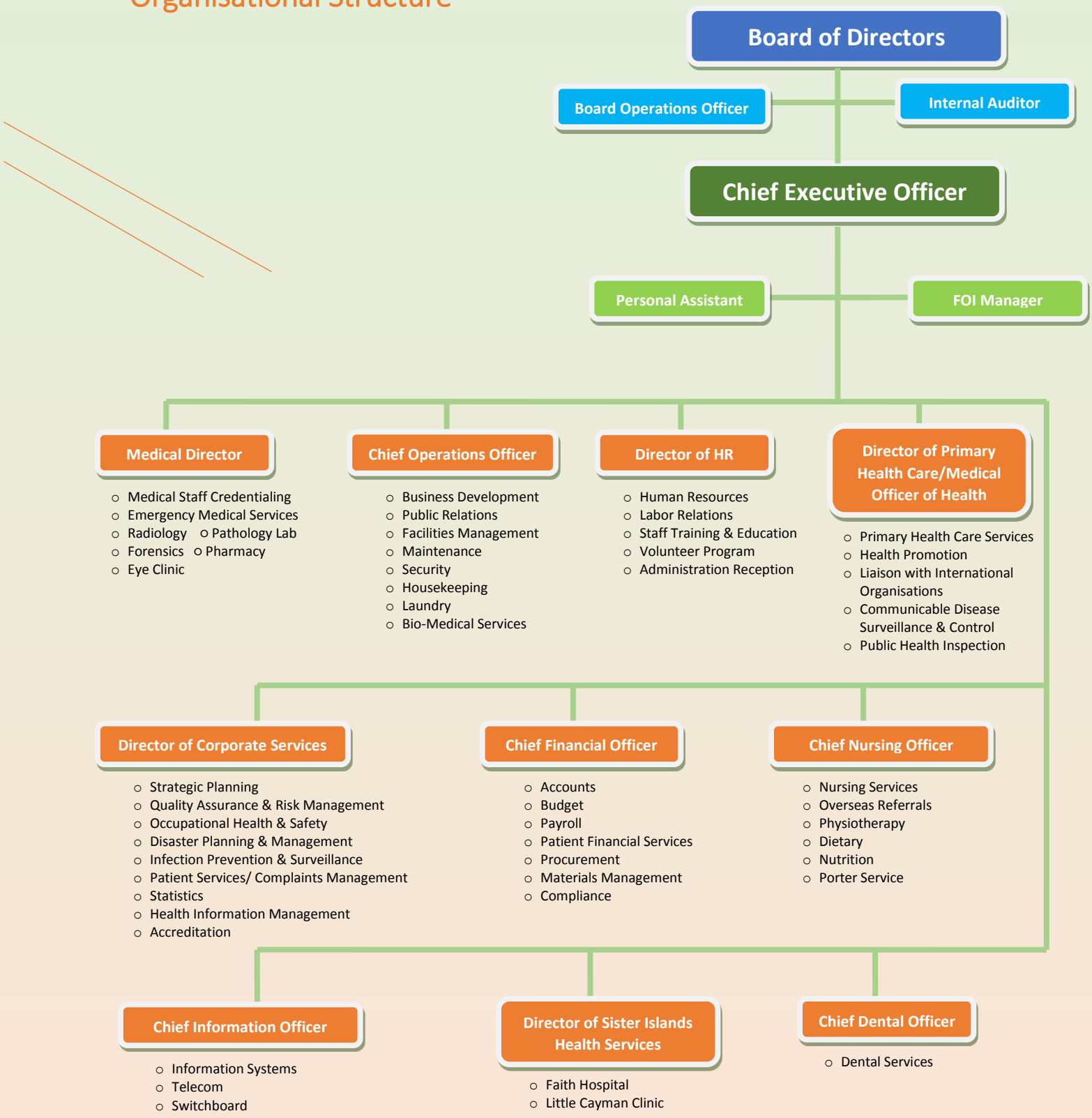
Our Performance Journey

Overview

Organisational Structure



Our Board

Name: Jonathan Tibbetts
Title: Chairman

Name: Karie Bergstrom
Title: Deputy Chairwoman, HR Sub-Committee Chair

Name: Nanalie Cover
Title: Finance Sub-Committee Chair, Audit Committee Chair

Name: Arthur McTaggart
Title: IT Sub-Committee Chair

Name: John Meghoo
Title: Director

Name: Jennie Manderson
Title: Director

Name: Christina Kirkaldy
Title: Director

Name: Andre Scott
Ministry of Finance Representative

Our Chief Officer receiving her flu shot.

Message from the Chairman

From the Boardroom to the Bedside

The end of 2017 marked the penultimate year for the HSA's 2010 – 2018 Strategic Plan. The plan was developed by listening to our patients as they articulated the important factors in their healthcare journey, and devising a model for the delivery of optimal care at all our facilities.

The Board's plan charts a path from the boardroom to the bedside by ensuring the care and safety of our patients remain the central focus of all decisions made at the HSA. Our goal is to continuously decrease the incidence of adverse communicable disease of patients under care; implement evidence-based practice in all areas of clinical care; achieve financial sustainability; and satisfactorily meet the healthcare quality standards of at least 90% of our population by 2018.

This journey was embraced by our management team who subsequently developed 13 strategies to achieve the vision communicated by the Board. Since the inception of the plan, I've been encouraged and inspired by the passion, ingenuity, and hard work of our hospital team as they continuously work to implement measures to enhance the patient experience at all our facilities.

The HSA is many things to our patients and their families. It's a safe place where they can face some of life's biggest challenges while being supported by compassionate caregivers. It's a place of respite, healing, hope, optimism, and at times, the miracle of new life.

It is with great humility and a sense of responsibility that we serve our patients, our staff, and our greater community through our journey to deliver the highest standards of patient-focused care to all who visit the HSA.

This Annual Report outlines the steps we made along that journey between July 2016 and December 2017 and our plans for the year ahead. As we journey into 2018, I am excited by our trajectory and the levels that can be achieved through continued partnership with the government and our community.

To our staff, thank you for your tireless efforts. To our government and our community, thank you for your partnership and support. This is an exciting time for the HSA, and I am honored to be a part of this journey.

Sincerely

Jonathan Tibbetts
Chairman

Message from the Chief Executive Officer

Sharing the journey of every patient

It is my pleasure to present the 2016-17 Annual Report of the HSA. The past 18 months have been a period of significant growth and progress for our healthcare system as we work to ensure continued access to quality patient-centered care.

Every patient we encounter has a story. We see life at every stage, from the happy joyous moments to the most tearful ones. As we journey with our patients through these moments, we are reminded of the awesome responsibility we have as caregivers, and the privilege bestowed upon us to serve our community through healthcare.

The fiscal period ending December 2017 saw the achievement of several notable milestones. We launched our Patient and Family Advisory Committee; expanded our clinical diagnostic capabilities for the testing of viral diseases; and reduced wait times for lab tests, pharmacy, outpatient appointments, and accident & emergency.

We also began our journey toward hospital-wide Joint Commission International (JCI) accreditation. This independent measurement will provide our patients with greater confidence that they are receiving the highest quality of care in an accurate and efficient manner.

Another accreditation that has eluded the HSA since its inception is that of its finances. In 2017, significant progress was made to implement the identified policies, procedures, and controls required to improve our financial audit opinion over the next financial year.

As we look forward to 2018, I think it is important that we pause to acknowledge the challenges and opportunities ahead, but also reflect on the journey we've taken to get to this point and the achievements we've made together.

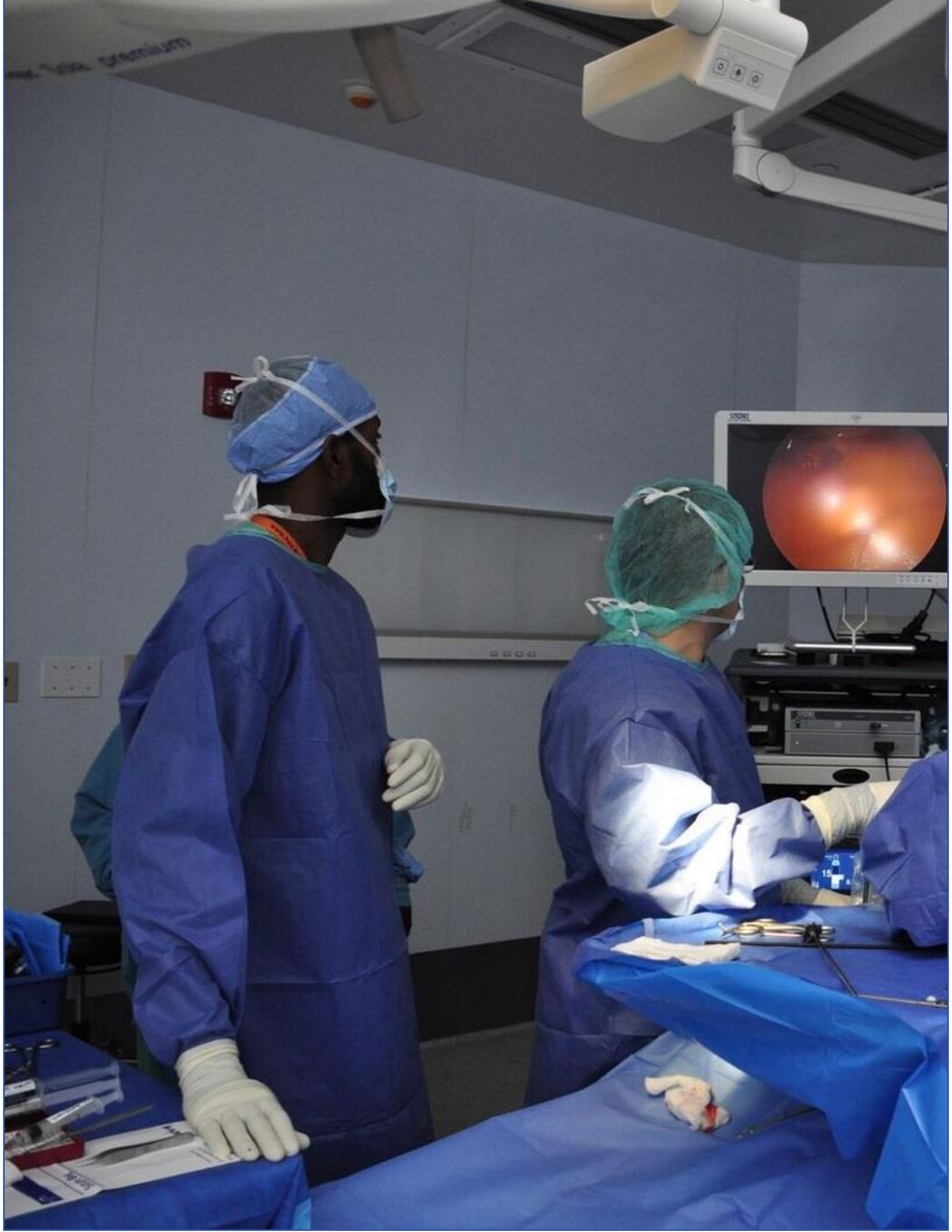
It wasn't very long ago that the Auditor General said of the HSA's leadership and finances: **"**Had this been a business, we would have already filed for bankruptcy."

This year, for the first time, we were able to achieve sufficient cash reserves to enable the organization to operate for 90 days without revenue. It was a significant milestone and another testament to how far we've come.

I would like to sincerely thank our entire HSA family, volunteers, and other community partners who journey with us each day to meet our *patient first* philosophy. Through your continued partnership and support, I firmly believe we will continue to achieve new heights in delivering quality healthcare to the Cayman Islands.

Sincerely,

Lizzette Yearwood, MMH, JP
CEO



Nature & Scope of Activities

General Nature of Activities

The Health Services Authority (HSA) is responsible for the provision and administration of 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, Environment, Culture & Housing (HECH).

Scope of Activities

The HSA provides patient care through the 124-beds at the Cayman Islands Hospital (the country's principal health care facility), and the 18-beds at the Faith Hospital on Cayman Brac. Ancillary services are offered at district health centres, and clinics for dental and ophthalmologic care. 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.

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

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

Governance

The Health Services Authority is governed by an eight-member Board which establishes strategic policy direction for the organization through various subcommittees

Board Sub- Committees

- **Human Resource Sub-Committee**: provides strategic direction in support of the organization's mandate to recruit, retain, develop and empower highly skilled and caring staff and maintain the Authority's staffing plan.
- **Clinical Sub-Committee:** provides the Authority's Board of Directors with clinical advice and examines ways to better manage services and reviews all new applications, revocations and appeals concerning practicing privileges
- **Finance Sub-Committee**: Reviews the Authority's budget documents, ownership and purchase agreements with CIG, monthly financials, submits projections and recommendations to the Board, and oversees procurement.
- **Information Sub-Committee**: establishes and monitors policies for the management of information systems to ensure that the business objectives of the HSA are being met.
- **Risk Management Sub-Committee:** Monitors actual and potential organizational risk and provide recommendations as to ways the organisation should manage and reduce exposure to liability.
- **Audit Committee:** supports the Board with oversight of the financial statements, compliance with legal and regulatory requirements and the maintenance of independence for the internal and external audit.

Outcomes and Achievements

This chapter of our journey began in 2002 when we transitioned from a central government department to a statutory authority.

That transition was the consummate analogy of being thrown from a cliff with an expectation that you will build an airplane before hitting the rocks at the bottom. We had little in the way of financial systems, limited experience running an independent authority, and limited capitalization to quickly put things in place.

Over the next four years of our journey, there were five Chief Executive Officers (CEOs), a similar number of Chief Financial Officers, three Medical Directors and four Human Resource Directors.

Frequent changes in the senior leadership of the organisation left it without the consistent management required to facilitate effective implementation of systems and processes to carry the organisation forward in a coherent manner.

The resulting financial problems led to the organisation's patient billing system being so outdated that it took up to two years for patients to get bills, long after the prescribed period in law for insurance companies to legally provide reimbursement.

Things became so bad that the Auditor General at the time opined: **"**Had this been a business, we would have already filed for bankruptcy."

A further decision by the government to halt all subsidies and injections for operating losses to the Authority meant our executive team had to quickly identify potential areas for improvement, and quickly make the necessary changes to ensure maintenance of operations.

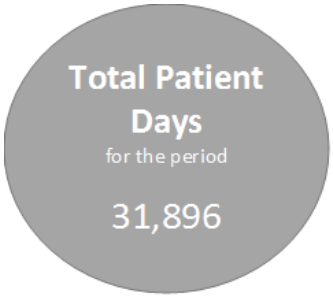
Since then, the HSA has not only made significant improvements in financial performance, but in clinical quality, patient outcomes and staff retention as well.

Under the strategic leadership of the senior management team, stability was restored with the expertise and experience to make immediate impact that would ensure positive long-term clinical, financial, and operational results.

In August 2017, the HSA achieved a milestone accomplishment with cash reserves of $26 million (enough to run the organization for 98 days without any revenue).

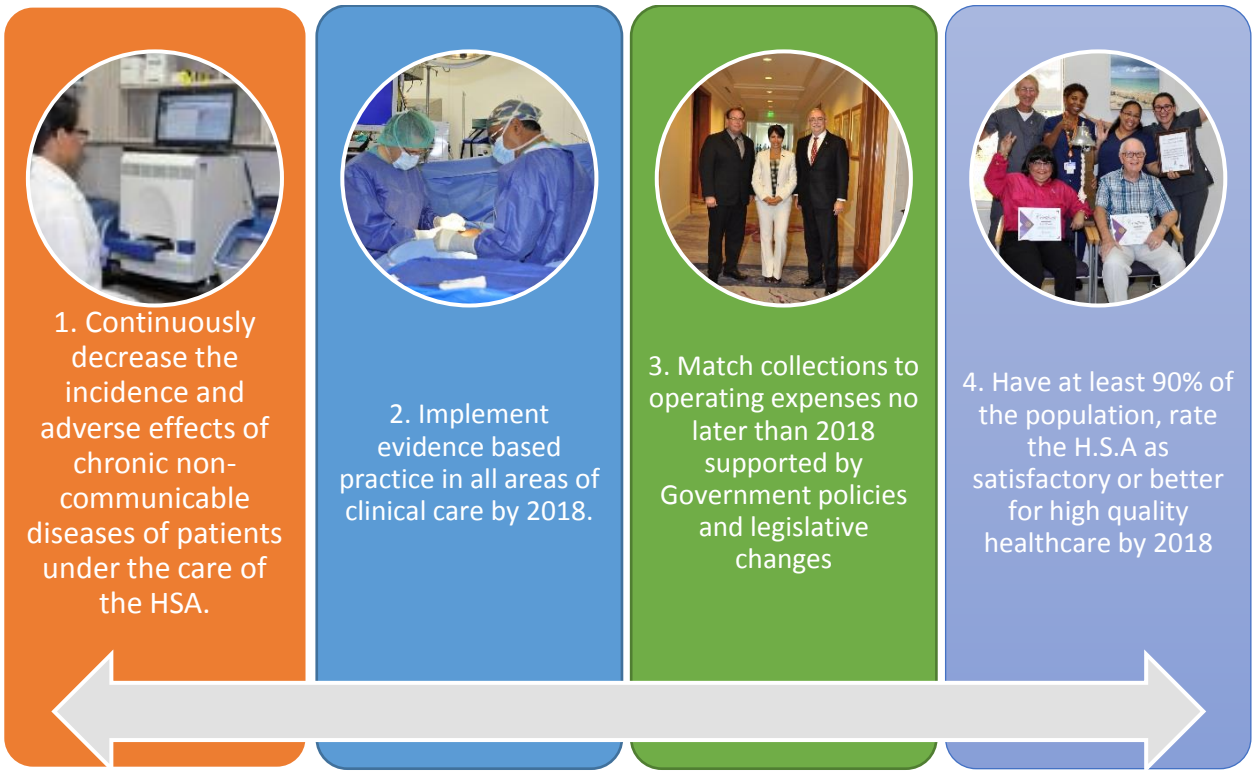
In only a few short years, the HSA has not only defied the odds and the bleak prognosis for its sustainability but is being recognised as a major healthcare success story with governments and international healthcare organisations using our turn-around strategies as a model to replicate in their countries.

A cornerstone of the HSA's turnaround is its staff, 57 per cent of whom are Caymanians- the highest number in the history of the organisation. The HSA has been tremendously blessed with skilled physicians, dedicated nurses, talented managers and other personnel who have remained loyal to the organisation over the years and whose sacrifices and commitment have resulted in the organisation's extraordinary performance.



So, build a plane we did, and while there is still some turbulence to overcome, our journey so far is something to be proud of. Over the next few pages, we will be sharing some of our other achievements this year as we journey to even greater heights.

Our strategic journey is framed by the following four overarching objectives set by the Board as part of the Corporate Strategic Plan 2010-2018:



These overarching objectives were defined by the following seven (7) specific strategies to secure future success and growth for the HSA. They form the basis for the strategic ownership goals outlined in the annual Ownership Agreement with the Cayman Islands Government:

1. Financial sustainability, including a clean audit opinion by 2018.
2. Improvement in the patient experience across the continuum of care.
3. Facility upgrade and expansion to meet the existing needs and projected growth of services and population.
4. Implementation of technology and systems to meet new environmental standards.
5. Introduction and expansion of clinical services and improvements in the patient experience to retain our position as the premier provider of healthcare services in the Cayman Islands.
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7. Strengthening primary healthcare services by enhancing health promotion and disease prevention activities.

Strategy 1. Achieve financial sustainability-including a clean audit opinion by 2018.

Preserving access to care by ensuring continued affordability

Access to high-quality care is directly linked to the affordability of that care. With even the best doctors and medicine, the public will not benefit if their ability to access our facilities are constrained by unaffordable costs. The HSA has tens of thousands of patient encounters each year; meeting the needs of those patients means running a 24-hour operation which costs money. When that cost is equitably shared among the persons benefiting from the services, the cost to each patient is more manageable. However, when only a few individuals pay for what they receive, the cost will inevitably increase for others if we are to maintain operations and continue delivering world-class services.

The HSA increased efforts in 2017 to review and enhance existing financial controls, improve collections for services we provide, and further improve on our overall efficiencies.

Synonymous with good medical care, before we could prescribe treatments to improve our financial controls, it was important that we carried out a proper set of diagnostics. Our diagnostic efforts were aided by the engagement of local accounting firm Deloitte to provide:

1. An independent review and assessment of the HSA's Financial Management Framework (including documentation of existing procedures and workflow);
2. The design for an HSA-specific Financial Management Framework, including Patient Costing Model; and
3. Identification/confirmation of critical path and critical success factors to meet stakeholder's objectives.

The Financial Process and Control Report prescribed the following eight (8) recommendations for the achievement of a clean audit opinion for 2018:

1. Update and Develop Policies and Procedures
2. Establish a Three Lines of Defense Framework
3. Implement a Change Management Process and Steering Committee
4. Audit of the Revenue Cycle and CERNER
5. Implement and Remediate Control Deficiencies
6. Training
7. Statistical Reporting
8. Develop a Performance Management System

This work was completed by the summer of 2017 and resulted in 32 observations and recommendations for improvements.

During the financial year, considerable work was carried out to implement recommendations 1, 2, 5 and 6.

Recommendations 3, 4, 7, and 8 will be implemented in "Phase 2" of the project, which is expected to commence in the first quarter of 2018.

Total Encounters Created for the period **571,966**

The final six months of 2017 were spent implementing those recommendations and training staff to improve consciousness on the importance of effective financial controls and their respective roles in the overall internal control framework. This work is an important part of the HSA's goal to achieve a clean audit opinion on its finances in 2018.

In 2017, we also entered into an agreement with a local law firm, HSM, to assist with the collection of outstanding debts owed by patients who have failed to maintain financial commitments for medical services received at our facilities. Under the terms of the agreement, outstanding patient debts will be transferred to HSM after all other efforts have been exhausted to collect payments.

The initial agreement is for less than 1% of the overall debt and is viewed as a pilot programme to determine the effectiveness of collecting from patients who are able to pay by utilizing this type of service.

The overall Accounts Receivable portfolio of the HSA was more than $100 million at the end of 2017. Collection and reinvestment of this money could make a substantial difference in enabling the hiring of more doctors and nurses, acquisition of additional equipment and technology, and the expansion of much needed clinical space to ensure continuity of safe, high quality healthcare services that are accessible to all

Sophie Elias donating food for mental health patients.

Strategy 2. Pursue improvement in the patient experience across the continuum of care.

Ensuring patients are placed in an optimal care setting to meet their needs

In August 2017, we officially opened our Acute Care Clinic (ACC) in the General Practice building of the Cayman Islands Hospital, after a pilot period of two years. The clinic will treat patients with non-emergency medical conditions who still have an immediate need to see a doctor. The service offers a lower-cost alternative to the Accident & Emergency (A&E) Department and will eventually reduce wait times.

The Acute Care Clinic also offers walk-in treatment for everyday illness and injury, including minor cuts, mild sprains, fever, sore throats, earaches, and the common cold symptoms during peak flu season. No appointment is required, and the clinic will be open Monday to Friday from 7:30 a.m. to 8:00 p.m. on the campus.

In August 2017, 1,402 walk-in patients were seen at the George Town General Practice Clinic; this represents a 5 per cent increase when compared with June 2017, and a 20 per cent increase when compared with August 2016. Our customers are seeing and availing themselves of the benefits of this clinic.

The Acute Care Clinic reflects the Authority's commitment to providing accessible, convenient, and high-quality medical treatments. The clinic will benefit patients who may not be able to see their primary physician, who do not have a primary physician or who do not need emergency treatment. This is a crucial development that delivers a better experience for our patients.

Reducing patient wait times

The timeliness of service delivery is an important factor in the business of healthcare. Reducing wait times has therefore been a key focus in improving the customer service experience at the HSA. Through concerted efforts, in 2017 wait time for lab tests were reduced to almost zero. Pharmacy wait times have been cut in half compared to 10 years ago, and outpatient appointments have been reduced from months (in the case of some patients) to days. Average wait times in Accident & Emergency has also been decreased by more than one hour per patient since the opening of the Acute Care Clinic.

"The patient experience is crucial to us, and that's why quality and service is foremost in our new five-year strategic plan that lays the foundation for our continued transformational change to a medical centre of excellence. That means improving our already excellent patient outcomes. We are committed to modern health-care facilities, equipment and practices that save lives and keep our communities healthy." CEO Lizzette Yearwood

Despite the significant increase in patient volume, the average waiting time at the ACC from registration until seen by the physician was 1.08 hours; this is 15 minutes less than July 2017 (1.23 hours). The current waiting time continues to be significantly less than the previously time of 2.5 - 3 hours for "walk-in" patients to be seen at the HSA.

In short, patients now wait less for better services. We are putting patient needs first. As a result, patient satisfaction is at the highest it has been in four years and continues to improve.

Strategy 3. Upgrade and expand facilities to meet the existing needs and projected growth of services and population.

Expanding our facilities and clinical services to meet the needs of a growing population.

Demand for services at the HSA have risen significantly over the past 5 years. A growing population; longer lifespans thanks to improvements in medicine and medical care, and the continued prevalence of chronic illnesses have amplified the demand for clinical services at our various facilities.

Increase in the demand for services places additional pressures on our physical plant to cope with the increased encounters. As the leading healthcare organisation on these islands, we have a duty to ensure that our people and those who visit our islands have access to the quality care they need.

In 2016-17, we relocated some of our departments to Smith Road Centre offices.

The relocation will make room for the expansion of the Specialist Clinic and the establishment of a new Cardiology Unit at the Cayman Islands Hospital.

The increase in available space will give the unit the capacity to offer a wider range of paediatric services, including a Children's Acute Care Clinic. This clinic will be dedicated to the walk-in treatment for everyday illness and injury of children only so they will not have to wait with adults at the Acute Care Clinic in the General Practice Building.

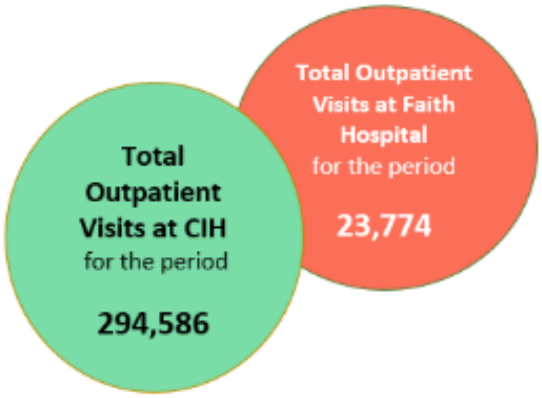
Public Health's relocation will also create more space for additional consultation rooms for Women's Health, which may help to reduce patient wait times.

With the expansion to the Smith Road Centre, we will be raising the standards of healthcare even higher by expanding our range of services, improving the levels of comfort, privacy and care our patients and their families experience, as well as creating more space for our staff to work more efficiently.

"When choosing a hospital, few things matter to patients more than quality of care and that continues to be our relentless focus daily," – CEO Lizzette Yearwood

Strategy 4. Implement technology and systems to meet new environmental standards.

In 2017, we formalized our Innovation Committee with the purpose of providing a method for employees to submit bold, innovative cost-saving suggestions to improve the business practices, clinical quality, customer service, and financial performance of the HSA.



The programme will promote greater efficiencies in the HSA's operations by providing employees an opportunity and incentive to contribute ideas with the potential to deliver measurable cost savings and increased efficiency.

Staff have put forward ideas to reduce paper, conserve energy, and optimize the overall consumption of resources.

As our physical plants age and items are replaced, the HSA will be focusing on the use of green technologies to reduce water and energy consumption and the overall waste generated by the hospital.

Breast Cancer Foundation donation of Hypothermia Caps.

Strategy 5. Introduce expanded clinical services and improvements in the patient experience to retain our position as the premier provider of healthcare services in the Cayman Islands.

In 2017, we became the **first hospital in the Caribbean to perform gall bladder removal surgery** using the Fluorescence Cholangiography technique. The new surgical technique was performed by Dr. Sanjib K. Mohanty in collaboration with another private General Surgeon, Dr Zolton Szucs. It involved using a fluorescent dye that, when activated, provides a clearer view of the area of operation, increases surgical precision, and provides safer patient outcomes.

Due to the lack of radiation associated with this technique, it improves patient recovery in certain medical procedures and provides greater safety to staff and patients.

In the future, we would like to extend this technique to other surgical procedures including breast cancer surgery. The equipment to perform this surgery was a significant investment for the HSA, and is part of our equipment to provide modern equipment and facilities for the benefit of our patients.

On October 3, 2017, we were honored to have visiting UK Overseas Territories Minister, Baroness Joyce Anelay and Her Excellency Governor Helen Kilpatrick cut the ribbon on **Faith Hospital's new Emergency Helipad.**

Response time is critical for acute heart patients; the sooner they receive treatment, the better their chance for a positive outcome and survival. The main benefit of the now fully operational helipad is that it will be utilised by the Royal Cayman Islands Police Service (RCIPS) helicopter for patients with medical emergencies who need to be airlifted to Grand Cayman for further treatment.

In addition to airlifting patients to Grand Cayman, the RCIPS has also assisted in a number of other emergencies, including bringing units of blood and specialist doctors to Faith Hospital to help stabilise trauma patients before transporting them to Grand Cayman.

The completion and opening of the helipad was met with overwhelming support and satisfaction from the community. Residents expressed happiness and a sense of reassurance that in a case of cardiac emergency, they will receive urgent and efficient care.

We are especially grateful to Mr. Robert Hurlstone, who generously donated the land for the helipad. This public-private partnership is a great example of how partners in our community play a vital role in ensuring access to quality medical care.

Our pathology laboratory was reaccredited in 2017 by the Joint Commission International (JCI) organization, renewing its status as the **only accredited medical laboratory in the Cayman**

Islands with a highly skilled team of professionals who are among the best in the region.

JCI is the largest health care accreditation organization and its seal is universally recognized as the Gold Seal of Approval for healthcare standards.

While laboratory professionals may not always interact directly with patients on a day-to-day basis, they play a crucial role in the detection, diagnosis, and treatment of disease. The tests they conduct help determine the presence, extent, or absence of disease in patients and monitor the effectiveness of treatment.

"Evidence-based practice is an integration of the best available research evidence with clinical expertise, and patient values into the decision-making process for patient care".

We are especially proud of Laboratory Manager Ms. Judith Clarke. When the accreditation assessment was carried out, Ms. Kathy Cross, JCI Surveyor, remarked, "During my assessment, the Cayman Islands Health Services Authority's laboratory demonstrated it has excellent staff, equipment and exceptional management that work collectively to provide outstanding service to the physicians and patients of the Authority."

We are happy to achieve these standards and accolades as they represent further steps in our journey toward exceptional healthcare.

People suffering from severe arthritis and other joint disorders of the hip and knee can now find relief with **total hip and knee replacement surgeries now being performed** at the Cayman Islands Hospital.

Total Specialist Clinic Visits for the period **52,150**

Joint disorders such as osteoarthritis, which is a common form of arthritis affecting millions of people worldwide, are often painful and leave the affected person disabled.

Total hip and knee replacement surgeries, which are the most common forms of joint replacement surgeries, help to get rid of the pain by removing the diseased cartilage and bone from the affected joint and replacing it with a prosthesis.

Formerly, patients with destructive joint conditions examined at the HSA were referred elsewhere on island for these procedures. By employing Consultant Orthopaedic and Trauma Surgeons, Drs Pekko Kuusela and Toni-Karri Pakarinen, patients can now be seen and treated at our facility.

Another major improvement in our service offering for 2016-17 was the upgrade of our Trauma Services through additional staffing and investment in medical equipment and technology to manage and treat all types of lower limb injuries and fractures.

The new, modern equipment enables us to manage more versatile and complex trauma cases. They are also more minimally invasive compared to their predecessors and provide more stability for fracture sites to enable early mobilization of affected extremity. This usually leads to better healing of the fracture and faster recovery for patients.

Finally, in 2016-17, work was also carried out to develop **a modern Cardiology Unit.** This dedicated unit will offer new technology and specialised care for patients with heart conditions, who require all levels of assessment, diagnosis and intervention.

Strategy 6. Recruit, develop, motivate, and retain productive and engaged employees to meet current and future organisational needs.

While we manage a physical asset base of more than $100 million, by far, the most important asset we manage are people who work tirelessly each day on the front line and behind the scenes to deliver services to our patients. In 2016-17, the HSA engaged in several activities to recognize, develop, motivate, and engage existing employees, while positioning ourselves as an employer of choice for potential talent.

Among the events held was our long service award which recognized employees who have been with our organization between 5 and 35+ years. Quite telling is the fact that over 80 percent of our staff across all facilities were eligible for awards in the various categories.

The HSA's average turnover rate is 8.34 per cent. This is 50 percent lower than the United States average of 17.1 percent according to the 2016 U.S. National Healthcare Retention and RN Staffing Report. This is an indication of the great work environment and culture that exists at the Authority and the high level of job satisfaction among its employees.

According to a report by the World Health Organization (WHO) titled "Global Health Workforce Labor Market Projections for 2030," worldwide demand for health workers will increase to 80 million over the next 10 – 13 years and the Latin America and Caribbean regions will most likely be impacted.

This means we must double our efforts to develop and retain talent within our industry to ensure future sustainability. One of our key strategies for talent development is our Internship programme.

In 2017, we welcomed 65 student interns from July 1 to August 31 for a work-study programme to prepare for future careers in healthcare. The annual Summer Internship Programme allows high school students interested in a healthcare career and college students already pursuing studies in a healthcare discipline to work in the Cayman Islands Hospital and Faith Hospital in both clinical and non-clinical areas.

The programme helps to promote the variety of career options available within the healthcare field to the students. This year, interns were assigned to more than 12 departments within the HSA including biomedical engineering, health information management, finance, laboratory, information technology and physiotherapy.

In addition to learning practical skills and discovering the diverse career options within the healthcare industry, the students also learned about professionalism from their supervisors and skills to help them make the most of future opportunities.

This programme helps to create a pipeline of future healthcare professionals and reflects our commitment to growing the next

"Colleagues, we are proud of you and deeply appreciate the service that you have rendered to this organization"

generation of healthcare professionals in the Cayman Islands.

You will find further discussions on exciting things happening at the HSA in the Human Resources section of this report.

Strategy 7. Strengthen primary healthcare services by enhancing health promotion and disease prevention activities.

"The CayHealth Programme, launched on a pilot basis in 2010, is an example of leading practice in managing chronic disease." – Extract Report of the Office of the Auditor General, January 2017: Ensuring Quality Healthcare and a Healthy Population

Managing the impact of chronic disease and illnesses require a community effort. To highlight the importance of this community effort and to raise awareness of everyone's role in protecting the public from infectious diseases, the HSA celebrated **International Infection Prevention Week** (IIPW) on 16-22 October, 2016. The event was an example of patients, families, and healthcare providers working together to keep each other safe, by becoming more educated on infectious diseases and strategies to minimize their impact and spread. The theme for 2016 was "Break the Chain of Infection."

The events hosted included a display in the HSA's atrium with prizes and giveaways and two Continuing Medical Education (CME) Programmes both held in the hospital's Hibiscus Conference Room. The CMEs included an hour-long video conference on Antimicrobial Stewardship by Jorge Murillo, M.D., an Infectious Disease Specialist from Baptist Health South Florida as well as a day-long programme which included talks on various topics such as Hand Hygiene, Immunization, Zika Virus, HSA's Antibiogram and Reprocessing of Instruments.

Patient Experience

A Patient and Family Advisory Committee was launched in September 2017 and is comprised of individuals and interest groups representing a broad cross-section of the population. It will advise the Authority on strategies and initiatives, from their unique perspective as users of the services.

The aim is to further improve the patient experience by gleaning first-hand feedback from key stakeholders. The Committee will also serve as liaisons between the hospital and the communities to share community members stories, positive and negative, to help improve processes.

The Patient and Family Advisory Committee will focus on: identifying from the patient and family point of view what defines a remarkable patient and family experience; advising on focused topics to refine or improve opportunities for excellent patient and family experiences; championing HSA approved initiatives that enhance experiences, safety and outcomes for patients and families; and promoting the hospital's mission, vision and values among patients and family members in the community.

Other journeys we took

Journeys into our community

In April 2017, we observed World Health Day by offering **free health screenings** (blood sugar and blood pressure) at all the District Health Centres, George Town General Practice, Faith Hospital, Cayman Brac and Little Cayman.

The free health screenings are a part of the continued initiatives of the Public Health Department to emphasise the benefits of healthy lifestyles and early detection issues such as Diabetes and Hypertension which will enable appropriate treatment in preventing complications and ensuring quality of life.

In May of each year, we celebrate **Better Hearing and Speech Month** (BHSM) by going out into the community to raise awareness about communication disorders. The theme for 2017, was "Communication: The Key to Connection." Under this theme, our Speech Language Pathologist (SLP) and Chairperson of the Caribbean Speech Hearing Association (CaribSHA), Faith Gealey, highlighted the potential risks overusing personal devices pose to speech and language development as well as to hearing health.

Research tells us that children who are engaged in technology have diminished creativity and do not interact with other people when compared to children who are engaged in non-technological activities. Although we don't have specific statistics available for the Cayman Islands, it is safe to say that the occurrences on island are not much different than what we are seeing from other developed countries.

In March, we also offered free screenings for blood pressure, glucose and cholesterol at our George Town facility. This programme was part of our global campaign that aims to increase awareness of the importance of our kidneys to our health, and **reduce the impact of kidney disease** and its associated problems worldwide.

Chronic Kidney Disease (CKD) is a non-communicable disease that affects one in 10 people worldwide. While severity can vary, CKD is incurable and patients with the illness will need lifelong care. The purpose of the screening being offered to the community is to help persons to identify if they are at risk of kidney disease and to give them the opportunity to adopt preventive behaviours to reduce this risk, as necessary.

In October 2016, we celebrated the 100th meeting of the Cayman Islands Bariatric Support Group.

Bariatric Surgery, otherwise known as weight-loss surgery, is an operation that is performed in order to help individuals, such as those with obesity, to lose weight by making changes to their digestive system to limit the amount of food that can be eaten. Obesity is a disease, and bariatric surgery greatly improves an individual's quality of life and may extend it by 8-12 years.

Partners along our journey

The HSA, and the role it plays in our community, would not be possible without the generous support and partnership of individuals and organizations. In 2016-17, we were fortunate to receive generous donations from a multitude of organizations and individuals who are making a positive difference in our ability to deliver quality healthcare.

In 2017, we received a brand new Chevrolet G-4500 TraumaHawk Ambulance thanks to the generous donation and efforts of the **Cayman Heart Fund and the Honourable Franz Manderson**, Deputy Governor. Fundraising for the new ambulance began in 2016 with fervent efforts by the Cayman Heart Fund. The Cayman Heart Fund was aided in their efforts to procure the vehicle with a $60,000 donation raised by the Deputy Governor's "DG 5K Challenge."

The new Ambulance offers an improved workspace layout that allows EMS staff to provide 360-degree patient care and to transport more than one patient at a time. It is equipped with a cardiac monitor, 12-lead ECG, that provides the ability to identify if a person is experiencing cardiac arrest and can transfer this data from the field to our Accident & Emergency physician for consultation prior to the patient's arrival. This new vehicle increases our capacity to respond to the needs of our community and, in turn, improve our service. We are sincerely grateful.

Our Mental Health Outpatient Unit Waiting Room has been transformed into an area of comfort and recreation, thanks to volunteers of the **Rotary Club of Grand Cayman Sunrise**. Paint, sweat, smiles, and love were the perfect combination needed to transform the area into one of enjoyment for patients and visitors.

In addition to giving the room a new paint job, the Rotarians donated a new television, DVD player, wall-mounted magazine racks, and pictures for the walls. They also donated toys, books, chairs and a table for children. They were assisted by members of the Rotaract Club of Grand Cayman.

In a crisis or emergency, the natural human response is "What can I do? How can I help?" 2017 World Blood Donor Day campaign slogan gave the answer: "Give blood. Give now. Give often." The campaign focuses on blood donations in emergencies and encourages persons not to wait until disaster strikes to donate.

Our mission in 2017 was to achieve 500 new registered donors by the end of the year. In our efforts, the Cayman Islands Blood Bank hosted many successful blood drives with companies such as **Kimpton Seafire Resort + Spa**, **CIBC FirstCaribbean**, **DMS, KPMG, the Ritz Carlton Grand Cayman,** and many others. It has also received constant support from its partners **Generali Worldwide Cayman** and the **Rotary and Rotaract clubs of the Cayman Islands.** The hard work paid off with over 700 new donors added to our Blood Bank's donor pool.

Maintaining the Human Touch

On September 6th, our Caribbean neighbor Anguilla was devastated by Hurricane Irma, a Category 5 storm. Having experienced a similar catastrophe in 2004 with Hurricane Ivan, we knew they would need help. A decision was made to dispatch a team of nine medical volunteers to join the disaster relief efforts to help the thousands of people whose lives have been devastated by the hurricane and the flooding left in its wake.

Our team included a general practice physician, an emergency room physician, two emergency room nurses, two operating room nurses, a critical care unit nurse, a chemotherapy nurse, and a paramedic. While on the ground, the team provided needed respite to the staff of the Princess Alexandra Hospital so they could return home to look after their homes and families.

In a true demonstration of community spirit several persons and businesses throughout the Cayman Islands joined our team to complete a new memorial garden at the Cayman Islands Hospital. The garden was constructed in honour of former staff member **Chelsea Doxey**, who passed away from ovarian cancer in 2015.

Ms. Doxey, who worked as a paramedic in the Emergency Medical Services (EMS) Department, was 27 years old when her two-year battle with ovarian cancer ended.

The memorial garden project developed from a wish of several members of the EMS staff to remember their colleague, as well as to provide an additional facility for patients undergoing lengthy chemotherapy treatments.

During her illness, Ms Doxey endured many extensive treatments at the Chemotherapy Unit. It is typical of a patient receiving chemotherapy to spend these long periods being confined to a chair with little to do except read a book or watch television.

The alternative purpose of the garden was to create additional space for these patients where they could stretch their legs and relax while undergoing their treatments.

After Ms. Doxey's passing, permission was sought to build the garden on an area of undeveloped land next to the hospital's Chemotherapy Unit. Work on the project began after the suggestion was approved by both HSA and the Cayman Islands Cancer Society.

After weeks of hard work, the garden was completed in November. The finished product is not just a beautiful sanctuary for patients undergoing chemotherapy treatments; it is also a place where Chelsea will be remembered.

Sadly, in 2017, we also tragically lost our colleague **Dr. Vary Jones-Leslie** who will be remembered by her colleagues, patients, and friends as a respected and compassionate clinician who dedicated her life to serving others and was passionate about her job beyond just providing medical care.

She was forward thinking and lived life to the fullest. Her warm spirit, caring attitude and commitment to making a difference in the lives of others was exemplary.

Despite the grief that we feel at her passing, she has left us with the many memories of a wonderful human being and a challenge to demonstrate the best of humanity in our everyday interactions.

Leading the way on the journey to innovative practices

In 2017, we pioneered the use of a unique procedure in the Cayman Islands with the addition of an interventional radiologist to our team of specialists. The procedure known as 'Radiofrequency Ablation (RFA)' was performed for the first time on island at the Cayman Islands Hospital in the **treatment of a patient with Osteoid Osteoma, a benign bone tumor.**

A multi-disciplinary team consisting of Dr. Hesham Sida, Orthopaedic Surgeon, CTMH Doctors Hospital, our Pathologist Dr. Shravana Jyoti, Pathologist, and our Interventional Radiologist, Dr. Vladimir Sloboda, worked to make this case a success.

Radiofrequency ablation (RFA) is a thermal ablation technique that uses electrodes to generate heat and destroy abnormal tissue. It is a minimally invasive technique for treatment of cancer. RFA is routinely used by interventional radiologists who use imaging techniques (CT, US, MRI) to insert the RFA probe/electrode through the skin into a tumor.

The range of diseases and organs amenable to the procedures are constantly evolving. They include, but are not limited to, diseases and elements of the vascular, gastrointestinal, hepatobiliary, genitourinary, pulmonary, musculoskeletal, and central nervous system. We are excited about this new procedure and the potential benefits to our patients.

In 2016-17, we also worked on **increasing options for women in Cayman combatting fibroids** with the introduction of a highly effective, minimally invasive procedure that is only available on island at our Cayman Islands Hospital. This removes the need for our patients to travel overseas to have this procedure carried out.

This minimally invasive alternative to treat noncancerous tumors in the uterus called uterine fibroids is known as Uterine Fibroid Embolization (UFE). Minimally invasive treatment options provide alternatives to surgical treatment of fibroids with lower complication rates, quicker recovery times, preservation of the uterus, and the option to use local anesthesia instead of general anesthesia.

In comparison to surgical options such as a hysterectomy or myomectomy, uterine fibroid embolization is the least invasive, most cost-effective, and lowest risk alternative with the shortest recovery time.

The Cayman Islands made its mark in the region as a **trailblazer in both medical and educational based speech, and in language and hearing services.** Our Speech Language Pathologist (SLP), Faith Gealey, founded the Caribbean Speech Hearing Association (CaribSHA) along with three other Caribbean-based Speech Language Pathologists. The organization was launched in August 2017 at the University of West Indies (UWI) in conjunction with the Society of Caribbean Linguistics and involved several presentations and discussions.

Ms Gealey noted that during these presentations and discussions, Cayman stood out as a regional leader in the field for providing medical-based speech therapy services, services within the school system, and a universal newborn hearing screening programme.

Employee Faith Gealey

Human Resource Management

Human Resources

Training

The HSA carried out several **training** interventions as part of our ongoing staff development during 2016-17. 329 days of staff training were delivered in 2016-17 at total cost of approximately $100,000. Various training initiatives included:

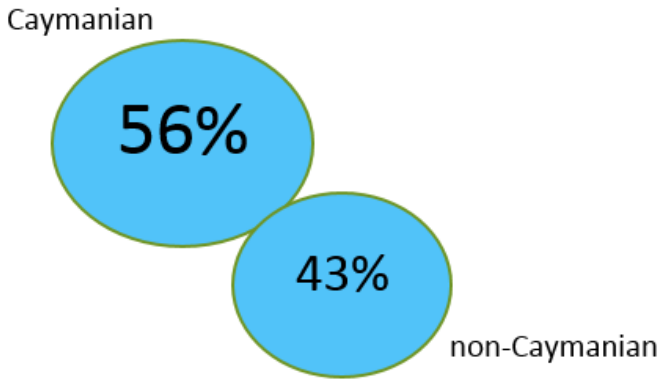
- In October 2016 four senior technicians were trained on the El Dorado Blood Bank Donor system.
- In 2016, approximately 600 staff received fire safety awareness training, and 44 persons were trained as Fire Marshalls. Fire Marshalls are trained to competently carry out daily safety risk assessments of their working environment and provide assistance with evacuation and head count at assembly points if sections have to be evacuated.
- Two online courses were developed to assist staff in meeting their mandatory training requirements:
  - Computer Ergonomics
  - Blood borne pathogens
- Certificates were issued by the Occupational Health and Safety Officer and the Infection Control Coordinator to staff who completed the training.
- All HR Officers have been trained in the organization-wide Customer Service Training. HR processes are now discussed and reviewed at monthly HR meetings and each person, as part of their training plan, is required to access and complete at least six HR-related topics per year.
- Pharmacy registration and Patient Financial Services staff received training for the revenue cycle process, which replaces Profit. This was delivered in 2017 along with training for Physicians on the use of the revised medical templates and new policies associated with Charge Capture.
- 45 section managers, senior managers and procurement officers received a three-day training seminar on procurement best practices. This was organized through the Government's Central Procurement Office.

Staff Recognition and Awards

HSA Laboratory staff received three awards at the Caribbean Association of Medical Technologists (CASMET) and American Medical Technologists (AMT) meeting held in St. Marteen. Mr. Dale Chin received an award for Medical Technologist of the Region for the Biennium (May 2015 – April 2017). Mr. Martin McKenzie was recognized for outstanding Academic Award for the Region; and Ms. Sheilane Ricot was awarded Phlebotomist of Region for the Biennium.

Speech therapist Ms. Faith Gealey had an exciting period in 2016-17. In November 2017 she won the Young Caymanian Leadership Award (YCLA) and was also appointed in 2017 as the Chairperson for the Caribbean Spech-Language-Hearing Association.

In 2016, Ms. Kristina Bramwell from our Physiotherapy Unit was also selected as one of the five finalists for the 2016 (YCLA).



First Annual Employee Rewards and Recognition

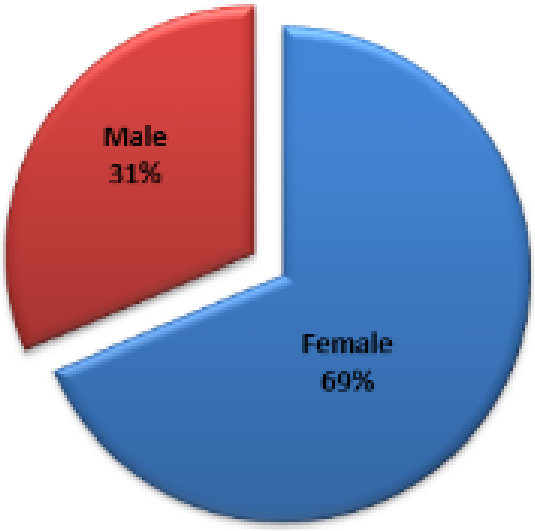
In keeping with Strategy 6 of our Strategic Plan, the First Annual Employee Rewards and Recognition function was held in July of 2016. Employees who served for 5 years or more were recognized in groups according to their tenure with the organization. A total of 522 employees, (including Faith Hospital), have more than 5 years' tenure with the Health Services Authority.

Thirteen (13) persons have been with the organization for more than 35 years; Ninety-three (93) has been with us between 20 and 34 years; two-hundred and thirty-five (235) have loyally served between 10 and 19 years; and one hundred and eighty-one (181) were recognized for service tenure between 5 and 9 years.

Retirements and Appointments

Nurse Manager Pamela Harper retired at the end of March 2017. Following her retirement, Nurse Suzette Young-Watson was appointed as the New Nurse Manager.

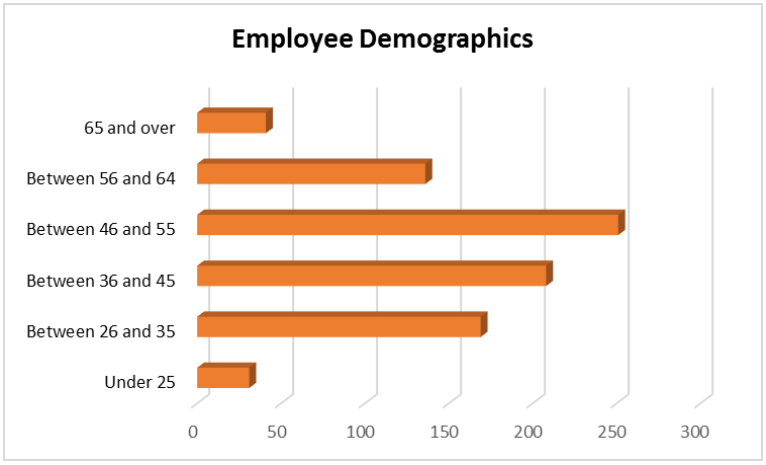
Dr. Gyanendr**a** Jha was been appointed as the new Head of Department for Surgery, and Dr. Kadiyala Sekhar was appointed as his deputy.

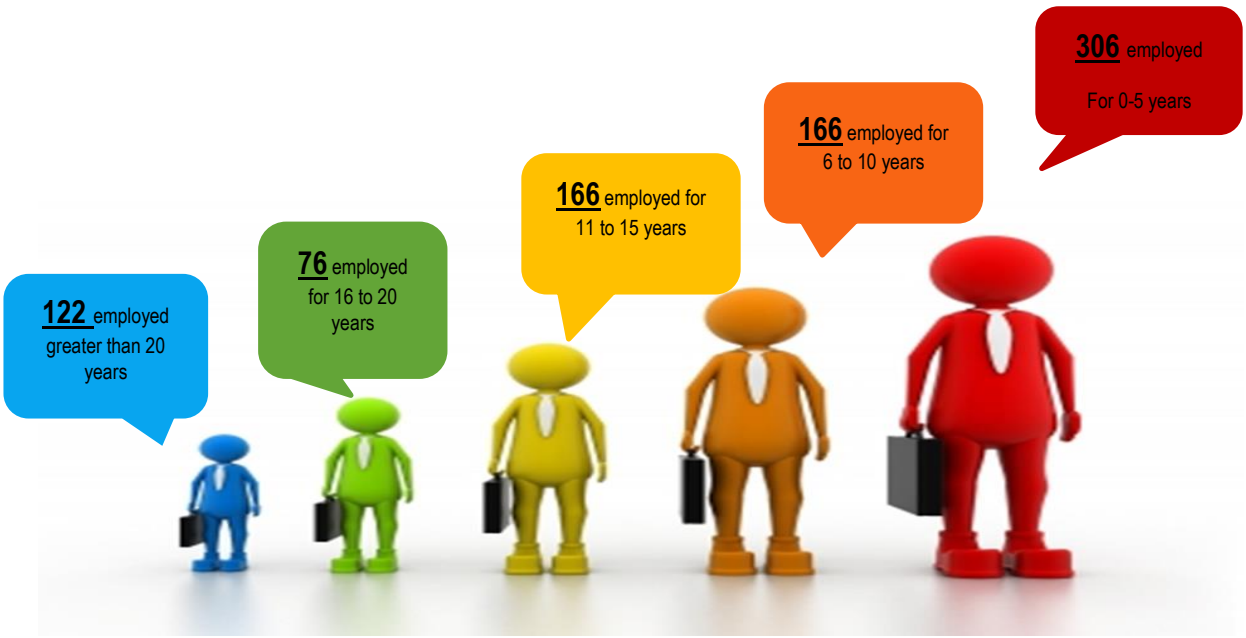


Other notable HR Developments.

On September 9, 2016, the Public Service Pensions (Amendment) Regulations 2016 allowing the implementation of the Public Service Pensions Law (Amendment) 2016 which raises the retirement age to 65 was gazetted.

This allows the staff over the age of 60 and still employed with the HSA to continue pension contributions until age 65. This change affects approximately 58 employees with a budgetary impact of approximately $350,000 for the fiscal period.





Financial Statements

Management Discussion and Analysis of Financial Results

In 2017, the Cayman Islands Government changed its fiscal year from July to June, to January to December. Consequently, the information presented in these financials statements reflect an 18-month period (July 2016 to December 2017). This was part of the transitional arrangements specified by the Ministry of Finance.

The Operating results show a comprehensive income of $11.4 million. This result was better than the $32.8 million loss for 2016 which was largely the result of changes in accounting policy for the recognition of post-retirement benefits. Prior to 2016, the HSA did not recognize its liability or in-year service cost of the post-retirement healthcare obligation.

Cash Position
The Authority closed the fiscal year with approximately $31.9 in cash balances. This amount is approximately $28 million higher than the $3.9 million recorded at June 30th, 2016. Importantly, the 2017 closing cash balance represents 105 days of operating expenditures which means the Authority was compliant with its minimum 90 cash reserve requirements for the first time in its history as a statutory body.

Accounts receivable
Closing net accounts receivable for the period was $12.2 million. This was a reduction from the 2016 position of $27.9 million. During the period, the authority wrote off $17.6 million in bad debts and made additional provisions for approximately $11 million. These provisions are based on management's experience with the collectability of certain debts based on the time they've been outstanding.

In 2017, management engaged the services of an external debt collector and authorized the use of legal actions to recover debts from individuals who have the means to pay but have opted not to settle their obligations with the authority. The engagement is a pilot project representing approximately 1% of the overall outstanding debt portfolio. The effectiveness of this recovery method will be evaluated periodically to determine if an expansion would be effective in reducing the level of annual bad-debts written off, and improve the recovery of funds which are currently outstanding.

Inventory
Inventory on hand was $6.3 million at the close of the fiscal period. This balance includes an allowance of $583K for expiration and obsolescence. The authority utilized inventories of approximately $22.8 million during the year as part of normal operations.

Changes in Fixed Assets
The HSA closed the fiscal year with a fixed asset base valued at $71.9 million. During the fiscal period, $2.5 million was added to buildings. This largely reflects the completion of some $1.9 million in plant assets which were under construction at the close of the previous fiscal period. $1.5 million in medical equipment was acquired and approximately $493K in other assets were procured.

The overall value of the fixed asset base declined by approximately 1% after taking into account the effects of Depreciation and revaluations recognized during the period.

Borrowings
The authority had no outstanding borrowings as at December 31st, 2017 as loan balances

totalling approximately $1.4 million at the end of the previous fiscal year were fully extinguished during the period. With our strong closing cash position, management does not intend to incur any immediate additional long-term borrowings unless there is a clear business case to do so.

Accounts Payable and accrued expenses

Accounts payable and accrued expenses decreased from $6.6 million as at June 30th, 2016, to $4 million at the close of the fiscal period under review. This reduction was largely due to a $2.7 million reduction in accounts payable as improvements in the Authority's cash position allows management to settle daily operating obligations in a timely manner.

Post-retirement obligations

The HSA operates defined contribution and defined benefit post-retirement plans. No future obligations accrue under the defined contribution plans as the authority settles those obligations annually and participants are only entitled to the amounts contributed less adjustments for plan gains or losses.

The Health Services Authority provides post-retirement health care benefits to staff employed before November 1, 2010 after qualifying periods of service and existing HSA retirees whose medical coverage are not covered by the Portfolio of the Civil Service (POCS).

The original contractual arrangements for these individuals include post-retirement benefits which accrue each year the employee provides services to the authority. The amounts accrued will be paid out as future benefits to the employees following retirement.

Prior to 2016, the HSA did not recognize or account for the full effects of post-retirement healthcare benefits in its Financial Statements. Premiums paid on behalf of retirees and actual medical cost incurred by retirees were included as medical costs and reported as a part of staff costs in the Statement of Comprehensive Income.

During the fiscal period, the Authority commissioned a measurement of its post-retirement healthcare obligations from international actuaries Mercer. The valuation accords with IAS 19 and showed a defined benefit healthcare obligation of $149.1 million as at December 31st, 2017.

The measurement and recognition of these obligations have had a material impact on both the financial position and operating results of the authority.

Key ratios

The Liquidity ratio compares the HSA's current assets with its current liabilities and shows the authority's ability to meet its short-term financial obligations as they become. The HSA's liquidity ratio at the close of the fiscal period was 4.78:1. This means the authority had $4.78 in current assets to cover every dollar of current obligation. This provides comfort to our creditors that we will be able to meet our obligations as they fall due.

The **Working Capital** current assets less current liabilities measures efficiency and short-term health of the organization. At December 31st, the HSA had $42.4 million available as working capital.

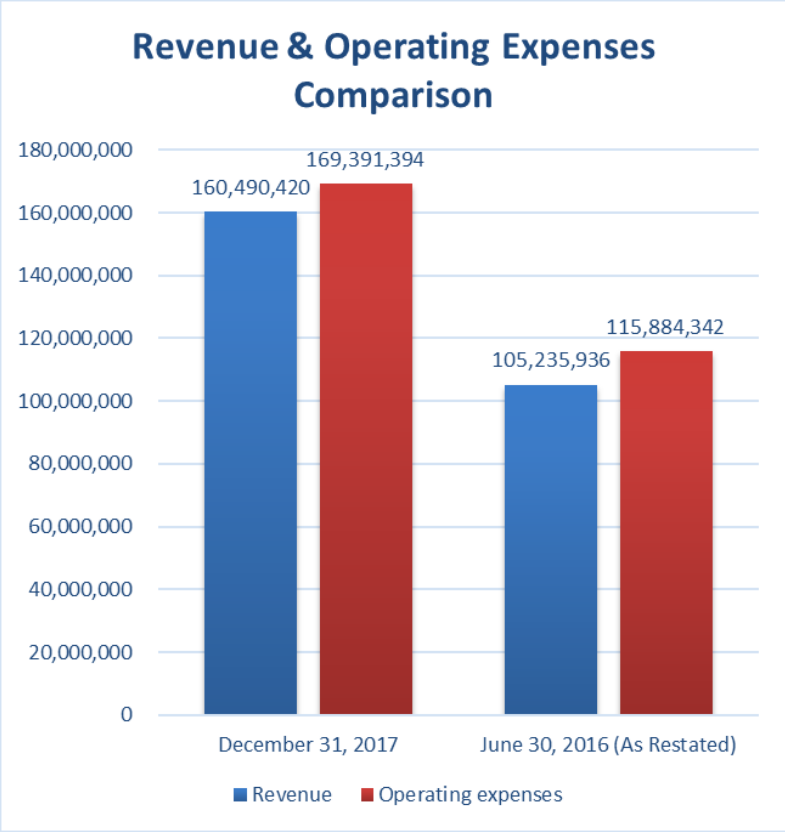
Revenue

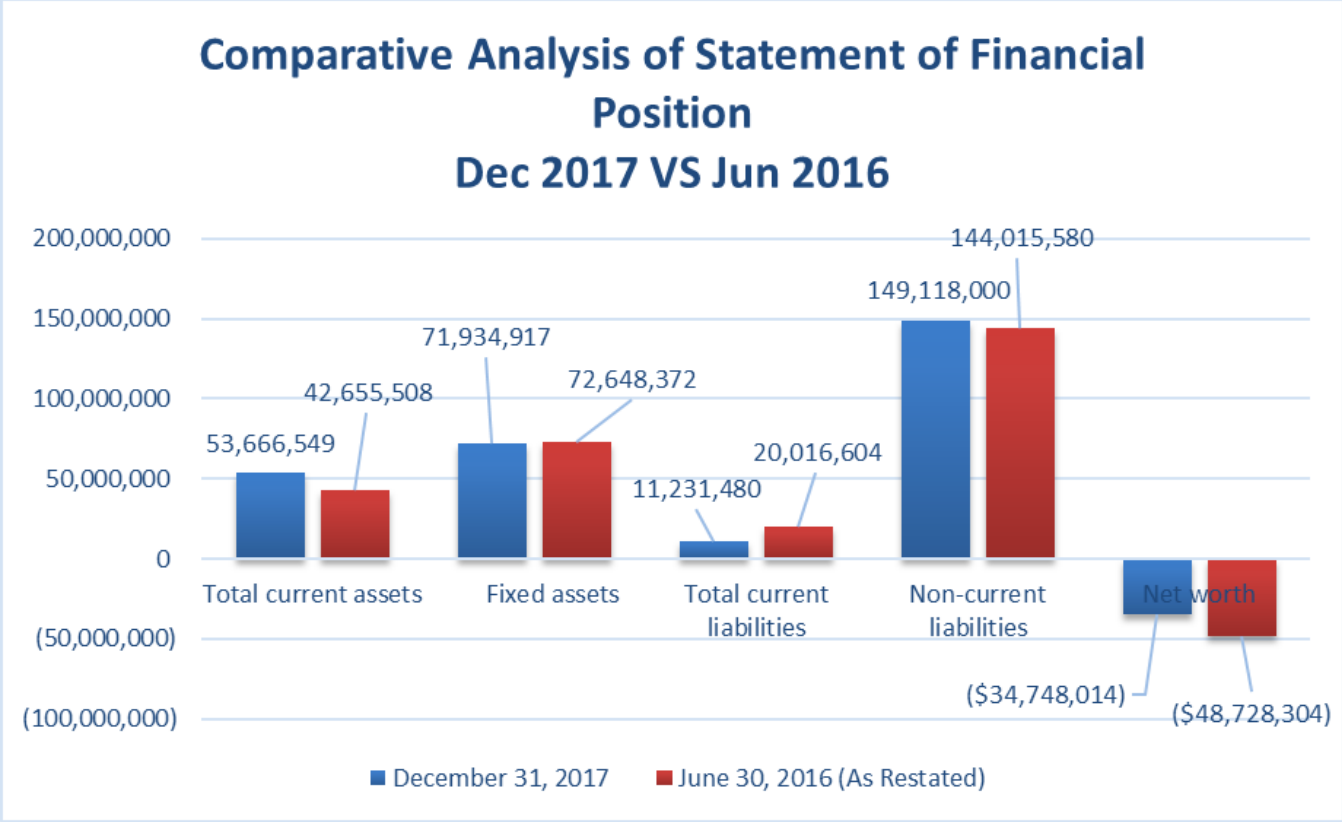
Total operating Revenue for the 18-month period were $160.5 million. This was approximately $1.5 million higher than the budgeted revenue $158.9 for the corresponding period. The better than budgeted performance was largely due to increases in revenue from other income and patient services fees. Approximately 12% of the Authority's income for the period was derived from health programmes delivered on behalf of the Cayman Islands Government. Revenue earned from the delivery of these programmes were in line with budgetary expectations.

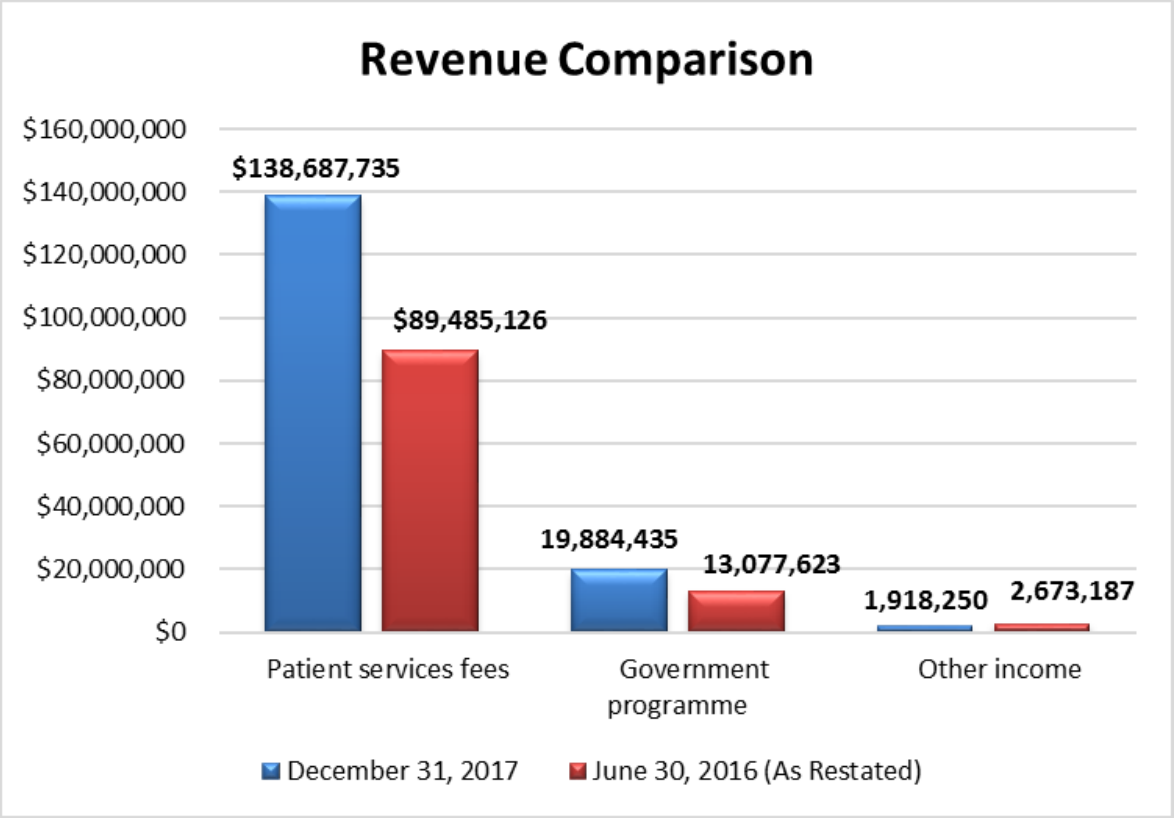
Operating Expenses

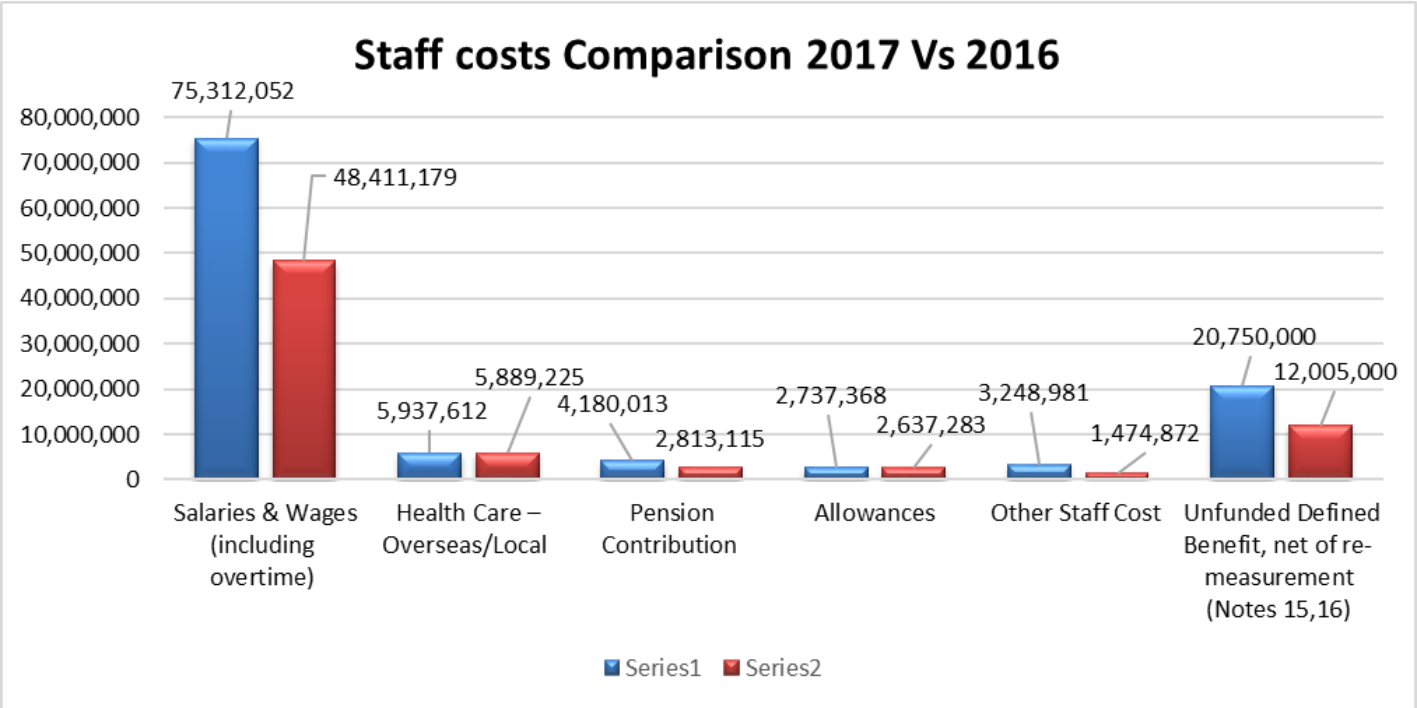
Total operating costs of $169 million was approximately $11 million more than the budgeted costs of $158.1 million. Staff costs of $112.2 million accounted for 66% of total operating expenses and was 21% higher than the budgeted cost of $92.8 million. This increase was largely due to the impact of service costs associated with post-retirement healthcare benefits.

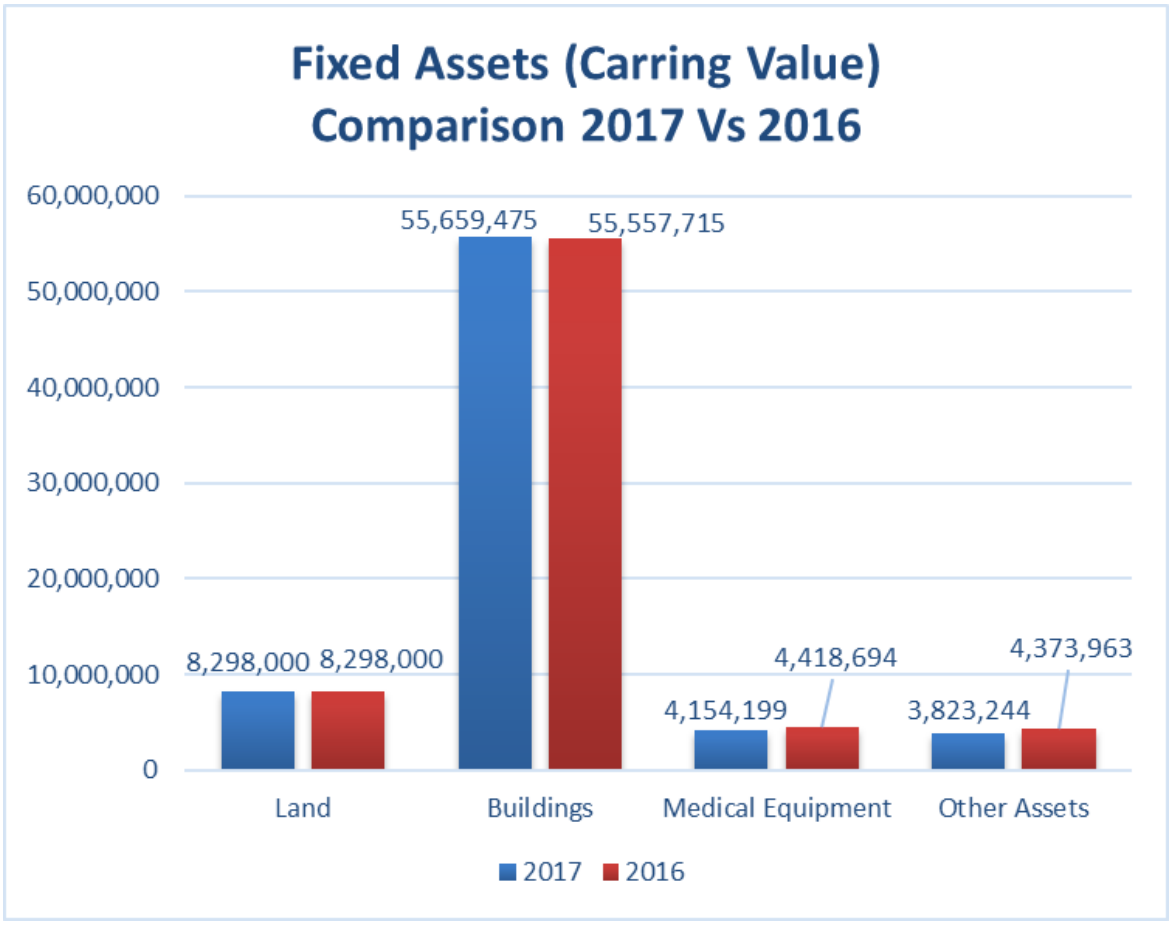
The cost of supplies and materials consumed during the period was $22.8 million which was $2.6 million higher than budgeted. This is partially due to global rising costs in drugs and healthcare supplies as well as higher than budgeted sales during the period.

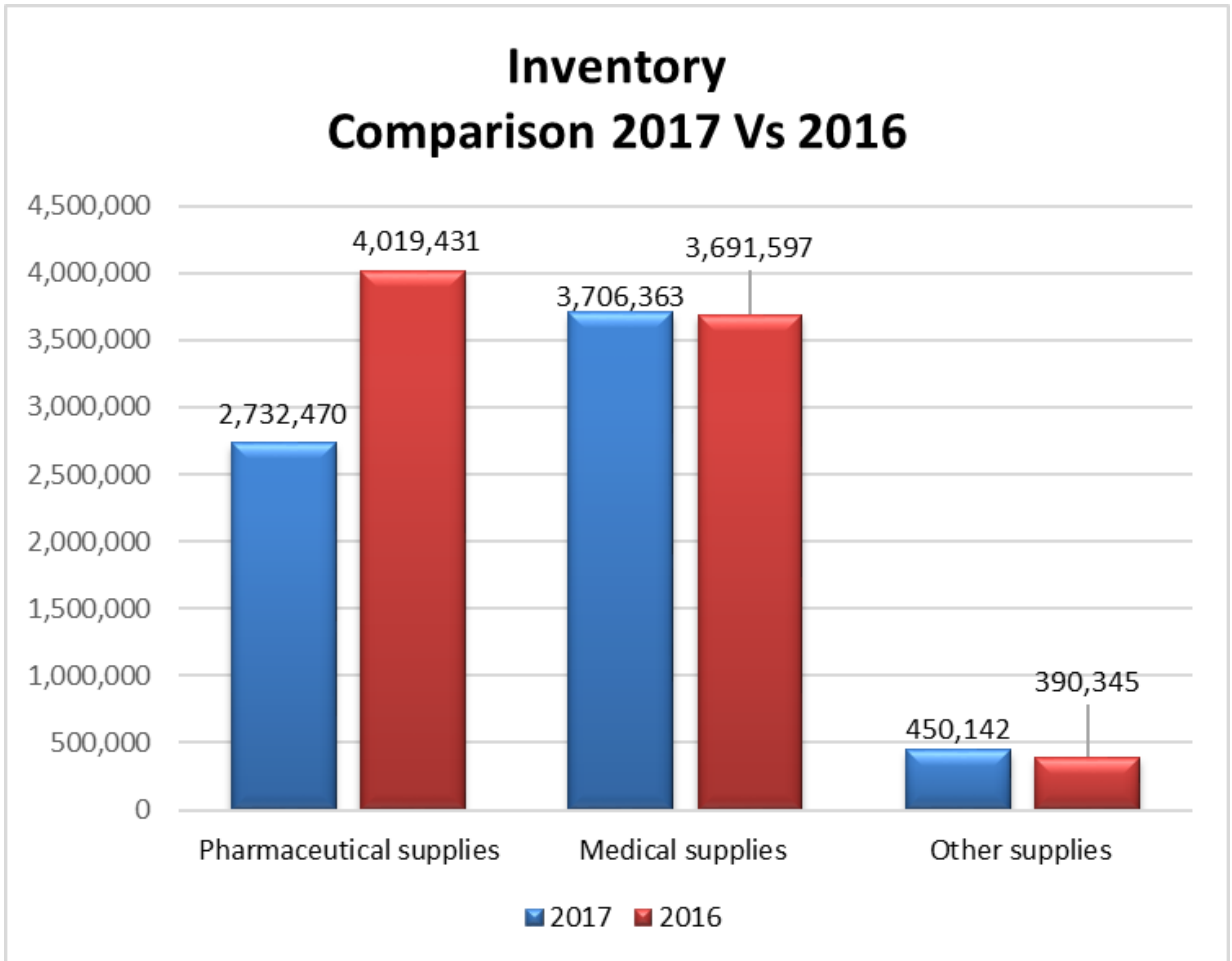


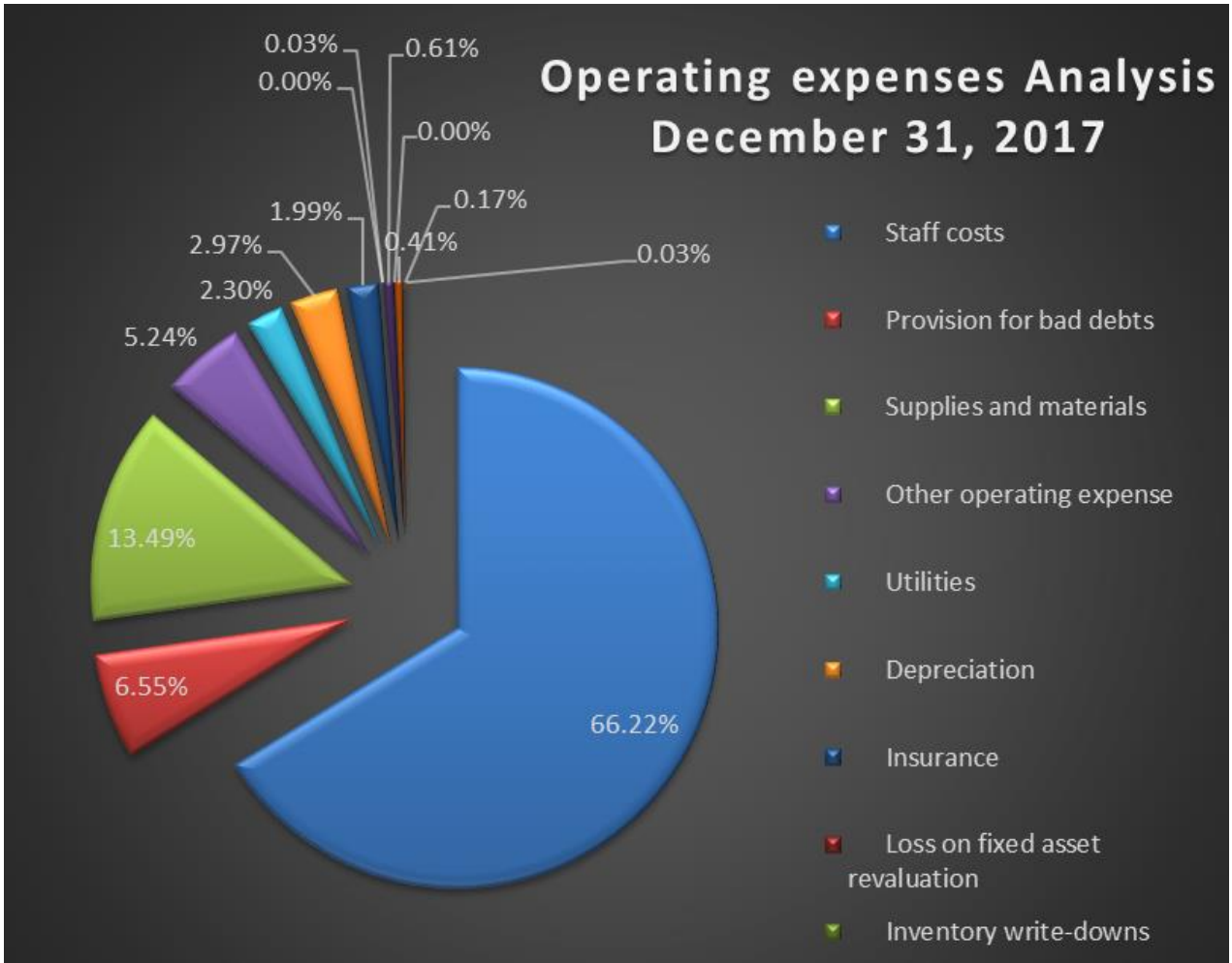


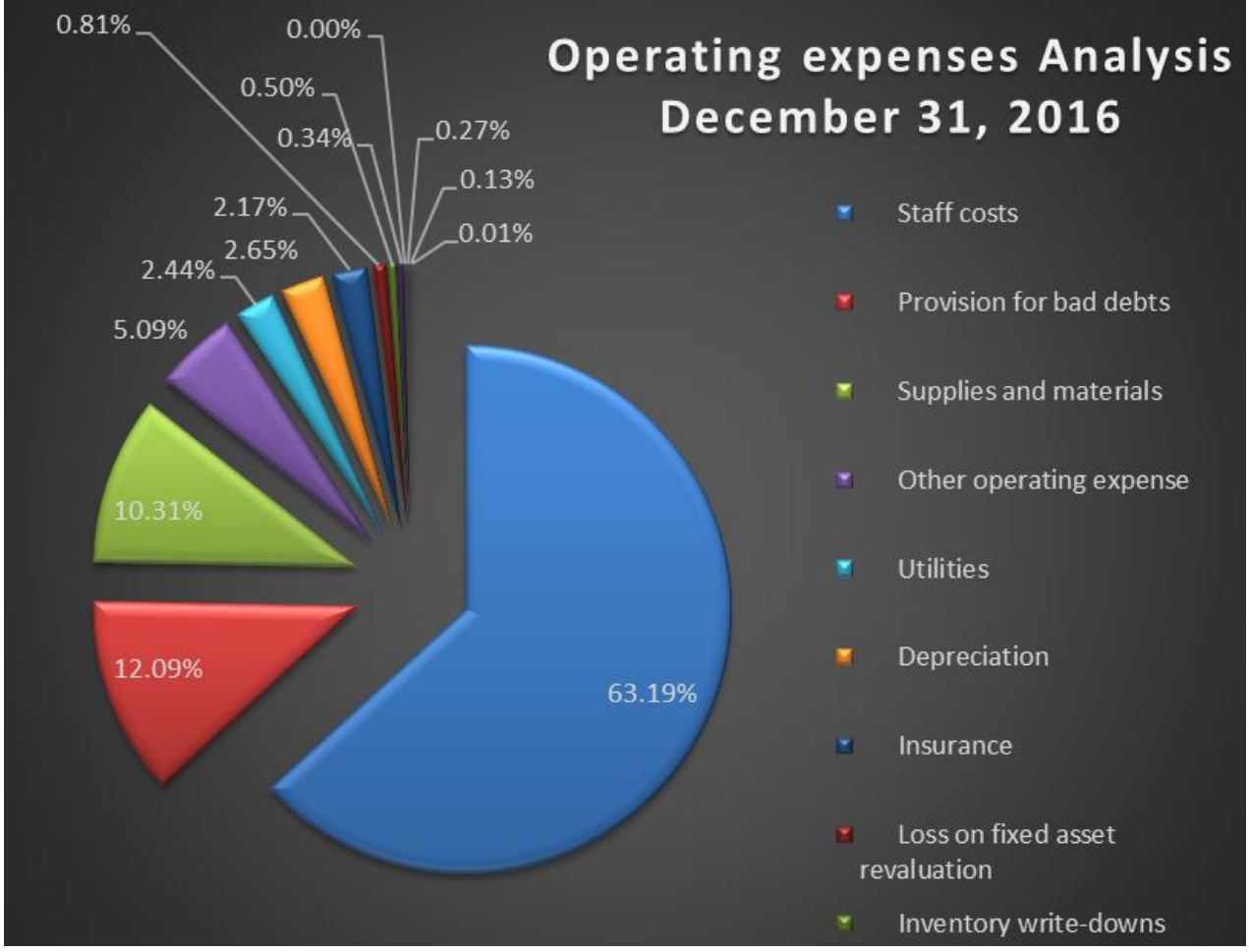

Revenue Comparison
$160,000,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
$138,687,735
$89,485,126
19,884,435
13,077,623
1,918,250
2,673,187
Patient services fees
Government programme
Other income
December 31, 2017
June 30, 2016 (As Restated)

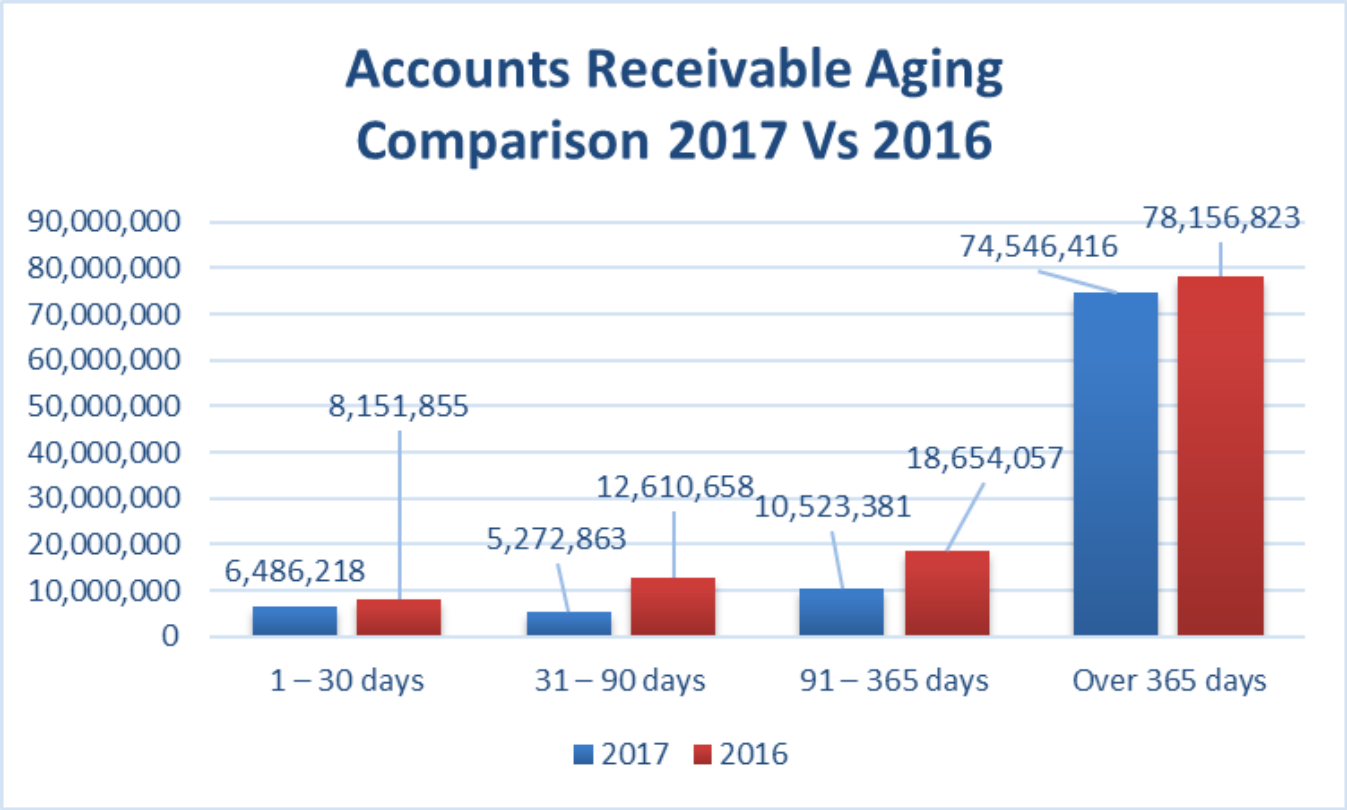

Staff costs Comparison 2017 Vs 2016
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
75,312,052
48,411,179
5,937,612
5,889,225
4,180,013
2,813,115
2,737,368
2,637,283
3,248,981
1,474,872
20,750,000
12,005,000
Salaries & Wages (including overtime)
Health Care – Overseas/Local
Pension Contribution
Allowances
Other Staff Cost
Unfunded Defined Benefit, net of re-measurement (Notes 15,16)
Series1
Series2

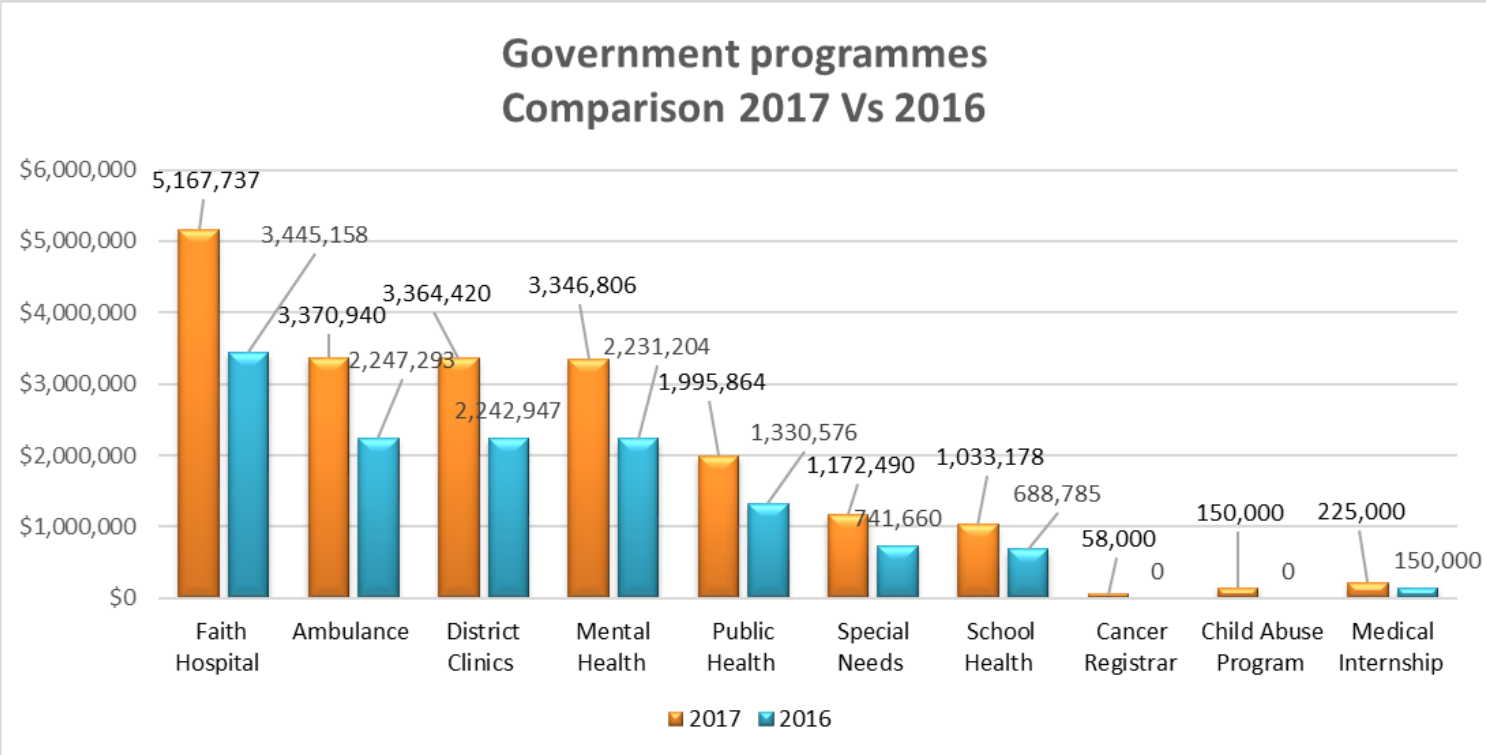

Fixed Assets (Carring Value)
Comparison 2017 Vs 2016
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
8,298,000
8,298,000
55,659,475
55,557,715
4,154,199
4,418,694
3,823,244
4,373,963
Land
Buildings
Medical Equipment
Other Assets
2017
2016


Inventory
Comparison 2017 Vs 2016
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2,732,470
4,019,431
3,706,363
3,691,597
450,142
390,345
Pharmaceutical supplies
Medical supplies
Other supplies
2017
2016


Operating expenses Analysis
December 31, 2017
0.03%
0.61%
0.00%
0.00%
0.17%
1.99%
2.97%
0.41%
0.03%
2.30%
5.24%
13.49%
6.55%
66.22%
Staff costs
Provision for bad debts
Supplies and materials
Other operating expense
Utilities
Depreciation
Insurance
Loss on fixed asset revaluation
Inventory write-downs


Operating expenses Analysis
December 31, 2016
0.81%
0.00%
0.50%
0.34%
0.27%
0.13%
2.17%
0.01%
2.65%
2.44%
5.09%
10.31%
12.09%
63.19%
Staff costs
Provision for bad debts
Supplies and materials
Other operating expense
Utilities
Depreciation
Insurance
Loss on fixed asset revaluation
Inventory write-downs


Accounts Receivable Aging
Comparison 2017 Vs 2016
90,000,000
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
6,486,218
8,151,855
5,272,863
12,610,658
10,523,381
18,654,057
74,546,416
78,156,823
1 – 30 days
31 – 90 days
91 – 365 days
Over 365 days
2017
2016


Government programmes
Comparison 2017 Vs 2016
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
5,167,737
3,445,158
3,370,940
2,247,293
3,364,420
2,242,947
3,346,806
2,231,204
1,995,864
1,330,576
1,172,490
741,660
1,033,178
688,785
58,000
0
150,000
0
225,000
150,000
Faith Hospital
Ambulance
District Clinics
Mental Health
Public Health
Special Needs
School Health
Cancer Registrar
Child Abuse Program
Medical Internship
2017
2016

HEALTH SERVICES AUTHORITY
CAYMAN ISLANDS
Caring People. Quality Service.

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95 Hospital Road, PO Box 915
Grand Cayman KY1-1103, CAYMAN ISLANDS

April 30, 2018

STATEMENT OF RESPONSIBILITY FOR THE 2017 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 (2017 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 (2017 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 have properly recorded the financial transactions of the Health Authority.

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

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, comprehensive income, and cash flows of the Health Authority for the 18-month period ended 31 December 2017.

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 the Health Authority for the 18-month period ended 31 December 2017;
b) fairly reflect the financial position as at 31 December 2017 and comprehensive income for the 18-month period ended 31 December 2017;
c) comply with the provisions of the *Public Management and Finance law (2017 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 on Auditing.

Lizzette R. Yearwood, BScN, MHA, MMH, JP
Chief Executive Officer

April 30th 2018
Date

Jonathan Tibbetts
Chairman, HSA Board

April 30th 2018
Date

Salome Trinidad
Financial Controller

April 30th 2018
Date

CC: Interim CFO

Office of the Auditor General
CAYMAN ISLANDS

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AUDITOR GENERAL'S REPORT

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

Qualified Opinion

I have audited the financial statements of the Cayman Islands Health Services Authority (the "Authority" or the "HSA"), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 18-month period from 1 July 2016 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 12 to 51.

In my opinion, except for the the possible effects of the matter described in the *Basis for Qualified Opinion* section of my report, the accompanying financial statements present fairly, in all material respects, the financial position of the Cayman Islands Health Services Authority as at 31 December 2017 and its financial performance and its cash flows for the 18-month period from 1 July 2016 to 31 December 2017 in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

Patient services fees

I was unable to satisfy myself that the reported amount for patient service fees of $138.7 million is fairly stated on the statement of comprehensive income. The Authority could not represent to me that the controls for the recording of patient service fees are effective to ensure that reported revenues are complete. Furthermore, I was unable to perform sufficient audit procedures because of the lack of internal controls.

Patient related accounts receivable

I was unable to satisfy myself that the net amount of accounts receivable of $12.2 million as shown on the statement of financial position is fairly stated. As the amount reported for patient related accounts receivable is directly related to our concerns relating to the amount reported for revenues, I was also unable to perform sufficient audit procedures for this amount. My review of subsequent receipts from patients to satisfy myself of the provision for bad debts at 31 December 2017 was also impaired for the same reason.

Accumulated deficit

Due to the concerns I have regarding the amount reported for patient related accounts receivable, I was unable to satisfy myself that the amount of $208.0 million reported as the accumulated deficit in the net worth section of the statement of financial position was accurately reported.

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the International Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

AUDITOR GENERAL'S REPORT (continued)

Emphasis of Matter
I draw attention to note 23 of the financial statements, which states that the recognition of post-retirement health liability resulted in a net deficit of $34.7 million and a new loss for the year of $8.9 million. This event raised a substantial doubt about the Heath Authority's ability to continue as a going concern. The note also describes the series of action plans taken by management to alleviate this concern.

My opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR GENERAL'S REPORT (continued)

I have undertaken the audit in accordance with the provisions of Section 60(1)(a)(ii) of the *Public Management and Finance Law (2017 Revision) and Section 24(1) of the Health Services Authority Law (2010 Revision)*. I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Sue Winspear
Auditor General

30 April 2018
Cayman Islands

Statement of Financial Position

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF FINANCIAL POSITION
As at December 31, 2017 and 30 June 2016

	Note	December 31, 2017	Budget	June 30, 2016 (As Restated)	June 30, 2015 (As Restated)
	(expressed in Cayman Islands dollars and in thousands)				
Current assets					
Cash and cash equivalents	**4**	31,892,703	8,403,387	3,896,842	6,633,017
Accounts receivable - net	**5**	12,246,401	20,241,087	27,856,470	22,366,268
Other receivables - net	**6**	2,393,771	3,021,958	1,486,667	1,940,774
Inventory - net	**7**	6,306,218	6,307,317	7,370,219	6,113,235
Advances to suppliers		265,505	1,675,769	1,928,643	1,684,651
Prepaid expenses		561,951	316,667	116,667	105,676
Total Current Assets		**53,666,549**	**39,966,185**	**42,655,508**	**38,843,621**
Non-Current Assets					
Fixed assets	**8**	71,934,917	63,444,133	72,648,372	63,117,364
Total Assets		**125,601,466**	**103,410,318**	**115,303,880**	**101,960,985**
Current Liabilities					
Accounts payable and accrued expenses	**9, 22**	3,799,480	7,335,065	6,504,576	12,804,066
Employee pension benefits, net	**16**	7,432,000	11,470,000	13,261,000	10,220,000
Loans payable	**10**	-	256,557	251,028	243,295
Total Current Liabilities		**11,231,480**	**19,061,622**	**20,016,604**	**23,267,361**
Non-current liabilities					
Employee healthcare benefits, net	**17, 22**	149,118,000	-	142,878,000	111,749,000
Loans payable	**10**	-	750,057	1,137,580	1,388,017
Total non-current liabilities		**149,118,000**	**750,057**	**144,015,580**	**113,137,017**
Total liabilities		**160,349,480**	**19,811,679**	**164,032,184**	**136,404,378**
Net (liabilities) assets		**(34,748,014)**	**83,598,639**	**(48,728,304)**	**(34,443,393)**
Represented by:					
Contributed capital		140,805,201	133,867,722	138,262,937	131,225,222
Accumulated deficit	22	(208,008,753)	(66,360,841)	(199,107,779)	(188,459,373)
Other comprehensive income (loss)	22	4,873,000	-	(15,466,000)	6,699,000
Asset revaluation		27,582,538	16,091,758	27,582,538	16,091,758
Net (deficit) worth		**(34,748,014)**	**83,598,639**	**(48,728,304)**	**(34,443,393)**

See accompanying notes to financial statements.

Statement of Comprehensive Income

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE 18-MONTH PERIOD ENDED DECEMBER 31, 2017

	Note	December 31, 2017	Budget	June 30, 2016 (As Restated)
(expressed in Cayman Islands dollars and in thousands)				
Revenue				
Patient services fees	**11**	$138,687,735	$138,320,503	$89,485,126
Government programme	**12**	19,884,435	19,884,435	13,077,623
Other income		1,918,250	697,350	2,673,187
Total Revenue		**160,490,420**	**158,902,288**	**105,235,936**
Operating Expenses				
Staff costs	**13, 22**	112,166,026	92,829,275	73,230,674
Supplies and materials		22,843,942	20,248,821	11,952,475
Provision for bad debts	**5, 6**	11,091,467	17,951,582	14,013,265
Other operating expense	**14**	8,882,770	10,213,313	5,898,971
Depreciation	**8**	5,026,387	4,748,189	3,068,180
Utilities		3,895,640	5,395,097	2,826,698
Insurance		3,373,291	3,783,417	2,517,568
Loss on fixed asset revaluation		-	-	934,025
Legal and professional fees	**15**	1,032,606	1,610,944	393,814
Travel and subsistence		694,448	598,563	308,672
Training		288,260	620,550	152,589
Reference materials		48,321	93,923	13,170
Inventory write-downs	**7**	48,236	-	574,241
Total Operating Expenses		**169,391,394**	**158,093,674**	**115,884,342**
Net (loss) income for the year		**(8,900,974)**	**808,614**	**(10,648,406)**
Other comprehensive income (loss)				
Re-measurement of defined pension benefit	**16**	7,576,000	-	(1,752,000)
Re-measurement of defined healthcare benefit	**17, 22**	12,763,000	-	(20,413,000)
		20,339,000	**-**	**(22,165,000)**
Total Comprehensive income (loss) for the year		**11,438,026**	**808,614**	**(32,813,406)**

See accompanying notes to financial statements.

Statement of Changes in Equity

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE 18-MONTH PERIOD ENDED DECEMBER 31, 2017

	Note	Contributed capital	Accumulated deficit (As Restated)	Other comprehensive income (loss) (As Restated)	Asset revaluation	Total (As Restated)
		(expressed in Cayman Islands dollars and in thousands)				
Balance, 30 June 2015, as previously reported	**22**	$131,225,222	($70,456,547)	$385,000	$16,091,758	77,245,433
Prior period adjustment	**22**	-	(118,002,826)	6,314,000	-	(111,688,826)
Balance, 01 July 2015, as restated		**$131,225,222**	**($188,459,373)**	**$6,699,000**	**$16,091,758**	**(34,443,393)**
Net loss for the year	**22**	-	(10,648,406)	-	-	(10,648,406)
Other comprehensive loss for the year	**22**	-	-	(22,165,000)	-	(22,165,000)
Asset Revaluation increment	**8**	-	-	-	11,490,780	11,490,780
Capital contribution during the year	**20**	7,037,715	-	-	-	7,037,715
Balance, 30 June 2016, as restated	**22**	**$138,262,937**	**($199,107,779)**	**($15,466,000)**	**$27,582,538**	**($48,728,304)**
Net loss for the year		-	(8,900,974)	-	-	(8,900,974)
Other comprehensive income for the year		-	-	20,339,000	-	20,339,000
Capital contribution during the year	**20**	2,542,264	-	-	-	2,542,264
Balance, 31 December 2017		**$140,805,201**	**($208,008,753)**	**$4,873,000**	**$27,582,538**	**($34,748,014)**

See accompanying notes to financial statements.

Statement of Cash Flows

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE 18-MONTH PERIOD ENDED DECEMBER 31, 2017

	Note	December 31, 2017	Budget	June 30, 2016 (As Restated)
(expressed in Cayman Islands dollars and in thousands)				
Cash provided by/(applied in)				
OPERATING ACTIVITIES				
Net (loss) income for the year	**22**	($8,900,974)	$808,614	($10,648,406)
Add item not affecting working capital:				
Provision for bad debts	**5, 6**	11,091,467	17,951,582	14,013,265
Write-down of insurance premium liability		-	-	6,415,060
Depreciation	**8**	5,026,387	4,748,189	3,068,180
Inventory write-downs	**7**	48,236	-	574,241
Loss on asset revaluation		-	-	934,025
Loss on disposal of fixed assets		110,261	-	12,279
Net Changes in non-cash working capital balances relating to operations:				
Accounts receivable, net, decrease, (increase)		4,637,579	(25,874,690)	(19,158,234)
Other receivables, (increase) decrease		(17,199)	(85,636)	108,874
Inventory, net, decrease (increase)		1,015,765	(50,000)	(1,831,225)
Advances to suppliers, (increase) decrease		(265,505)	50,000	(243,992)
Prepaid expenses, increase		(445,284)	(25,000)	(10,991)
Accounts payable and accrued expenses, (decrease) increase		(2,705,096)	599,290	(6,299,490)
Employee pension benefits, net, increase	**16**	1,747,000	-	1,289,000
Employee healthcare benefits, net, increase	**17, 22**	19,003,000	-	10,716,000
Net cash generated from (used in) operating activities		**30,345,637**	**(1,877,651)**	**(1,061,414)**
INVESTING ACTIVITIES				
Cost of fixed assets purchased	**8**	**(2,494,550)**	**(4,142,500)**	**(2,054,712)**
FINANCING ACTIVITIES				
Capital contribution from Government	**20**	1,533,382	1,642,500	622,655
Loans payable, net of payment	**10**	(1,388,608)	(381,403)	(242,704)
Net cash generated from financing activities		**144,774**	**1,261,097**	**379,951**
Increase (decrease) in cash during the year		27,995,861	(4,759,054)	(2,736,175)
Cash and cash equivalents at beginning of year		3,896,842	13,162,441	6,633,017
CASH AND CASH EQUIVALENTS AT END OF YEAR		**$31,892,703**	**$8,403,387**	**$3,896,842**

See accompanying notes to financial statements.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

1. Background information

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

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

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

Comparative Information:

The Health Authority's financial year was changed from 30 June to 31 December as a result of an amendment to the *Public Management and Finance Law (2013 Revision)* that was passed by the Legislative Assembly on 27 March 2017. Accordingly, the financial statements have been prepared for the 18-month period ended 31 December 2017, however the comparatives are for the 12 month period ended 30 June 2016 and are not entirely comparable to the 31 December 2017 numbers.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

2. Changes in Accounting Standards/ IFRS

Below are several new standards and amendments that have been issued but are not yet effective. They do not impact the annual financial statements of the Health Authority. The nature and impact of each new standard/amendment is described below:

(i) IFRS 9 Financial Instruments (Effective for annual periods beginning on or after 1 January 2018)
A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: (1) Classification and measurement, (2) Impairment, (3) Hedge accounting and (4) Derecognition.

(ii) IFRS 15 Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2018).

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: (1) Identify the contract with the customer, (2) Identify the performance obligations in the contract, (3) Determine the transaction price, (4) Allocate the transaction price to the performance obligations in the contracts, and (5) Recognise revenue when (or as) the entity satisfies a performance obligation.

(iii) Clarifications to IFRS 15 'Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2018).

Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

(iv) IFRS 16 Leases - (Effective for annual periods beginning on or after 1 January 2019)

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

(v) IFRS 17 Insurance Contracts - (Effective for annual periods beginning on or after 1 January 2021)

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

2. Changes in Accounting Standards/ IFRS (continued)

(i) IFRIC 22 Foreign Currency Transactions and Advance Consideration - (Effective for annual periods beginning on or after 1 January 2018)

The interpretation addresses the foreign currency transactions or parts of transactions where: (1) there is consideration that is denominated or priced in a foreign currency; (2) the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and (3) the prepayment asset or deferred income liability is non-monetary.

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) employee benefits [see (j) below].

Changes in accounting policies

When presentation or reclassification of items in the financial statements is amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

(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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year of the revision and future years, where applicable.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

3. Significant accounting policies (continued)

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, accounts receivable and other receivables.

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, employee benefits, loans payable 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.

(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. Bank accounts held at same institution are presented at net amount.

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 comprehensive income.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Derecognition

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

(d) Fixed assets and depreciation

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position 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 statement of financial position date.

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 the statement of comprehensive income, in which case the increase is credited to statement of comprehensive income 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 comprehensive income 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 comprehensive income. 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.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

3. Significant accounting policies (continued)

(d) Fixed assets/depreciation (continued)

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 comprehensive income on a straight-line basis based on 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 the statement of comprehensive income.

(e) Impairment

The carrying amount of the Health Authority's assets other than inventory (see note 3(h)) is reviewed at each statement of financial position 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 statement of financial position date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. 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.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

3. Significant accounting policies (continued)

(g) Allowance for doubtful debts

The allowance for doubtful debts is established through a provision for doubtful 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 doubtful debts, based on an evaluation of collectability and prior doubtful 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 items.

(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 are recognized when a grant is received or when services are provided.

(j) Employee benefits

The Health Authority employees and their dependants receive free medical benefits of which a portion is provided by the Health Authority. The portion provided by the Health Authority within its facility is valued at $6,928,396 (30 June 2016: $4,981,688) netted against revenue as this is considered as contractual adjustments.

The Health Authority provides post-employment benefits through defined benefit and defined contribution plans.

Defined benefit plans

The Health Authority's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, and mortality rates. When the calculation results in a net benefit asset, the recognised assets is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

Defined benefit plans (continued)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income (loss). The net interest expense on the net defined benefit liability for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

The discount rate used to value the defined benefit obligation is based on a combination of high quality corporate bonds, in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations and the long-term rate of return of plan assets.

In addition to employee pension benefits, the Health Authority also provides certain employee health care benefits to current and future retirees. To be eligible, employees must meet the following criteria at retirement: hired prior to 1 November 2010; complete 10 consecutive years with the Health Authority and Cayman Islands Government (CIG) as principal employer; retire from the Health Authority at age 65 (statutory requirement age) or after age 50 (early retirement age) on the advice of the Medical Board; hired by CIG and transferred to the Health Authority without a break in service.

In accordance with IAS 19, the Health Authority recognizes a liability when an employee has provided services in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits. These amounts are reported in the statements of financial position and comprehensive income, respectively. They are also presented in additional details in the notes to the financial statements.

The Health Authority presently pays its post-retirement health care obligations annually from its operating expenditure budget. The Health Authority is presently considering alternative funding arrangements which will set aside funds to meet future post-retirement health care obligations as and when they fall due.

Defined Contribution Plans:

The Health Authority's obligations for contributions to employee defined contribution pension plans are recognized in the statement of comprehensive income in the periods during which services are rendered by employees.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

3. Significant accounting policies (continued)

(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 statement of financial position 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

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Petty cash	$8,900	$8,900
Bank accounts	31,883,803	3,887,942
	$31,892,703	**$3,896,842**

At 31 December 2017, out of the $2.7 million unsecured bank overdraft facility which is reviewed annually, $303,010 (2016: $713,736) was used most recently in 13 June 2017.

5. Accounts receivable - net

	2017	2016
(expressed in Cayman Islands dollars)		
Gross accounts receivable	$96,828,877	$117,573,393
Allowances for doubtful debts	(84,582,476)	(89,716,923.0)
	$12,246,401	**$27,856,470**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

5. Accounts receivable – net (continued)

Allowance for doubtful debts movement:

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Balance at 1 July	$89,716,923	$75,583,324
Additional provisions	10,972,490	13,668,032
Additional contractual adjustments	1,517,655	1,202,549
Write-offs	(17,624,592)	(736,982)
	$84,582,476	**$89,716,923**

Below is the aging profile of accounts receivable as at 31 December 2017 and 30 June 2016:

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
1-30 days	$6,486,218	$8,151,855
31-90 days	5,272,863	12,610,658
91-365 days	10,523,381	18,654,057
Over 365 days	74,546,416	78,156,823
	$96,828,878	**$117,573,393**

6. Other receivables – net

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Cabinet receivable	$3,913,182	$3,055,320
Other accounts receivable	394,694	451,080
Contractual adjustment (Note 3j)	2,635,882	4,751,476
Salary advance	52,976	52,999
	6,996,734	**8,310,875**
Less allowance for doubtful debts	$4,602,963	$6,824,208
	$2,393,771	**$1,486,667**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

6. Other receivables – net (continued)

Allowance for doubtful debts movement:

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Balance at 1 July	$6,824,208	$4,274,112
Additional provisions	118,977	345,233
Additional contractual adjustment (Note 3j)	6,928,396	4,981,688
Write-offs	(9,268,618)	(2,776,825)
	$4,602,963	**$6,824,208**

Health Authority provided medical benefits to its employees and their dependents during the period under review. These benefits were recorded as contractual adjustment (or reduction to revenue) with an allowance for bad debts, as these are not collectible.

Accounts Receivable balances are written off monthly based on adjudication from British Caymanian with an uncollectible allowance of 100 percent provided for any remaining balance.

The receivable for employee benefits were previously presented as part of the overall gross accounts receivable shown on the financial position in prior years. However as at July 1, 2016, a reclassification was done to segregate these contractual adjustments from the gross account receivable, to other receivable. Additional disclosure is presented as part of Note 13- Staff Costs.

7. Inventory - net

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Pharmaceutical supplies	$2,732,470	$4,019,431
Medical Supplies	3,706,363	3,691,597
Other Supplies	450,142	390,345
	6,888,975	**8,101,373**
Less allowance for inventory impairment	582,757	731,154
	$6,306,218	**$7,370,219**

The cost of inventories recognized as operating expenses during the period was $22,843,941 (*2016: $11,952,475*).

The inventory write-downs presented in the Statement of comprehensive income as at 31 December 2017 amounts to $48,236 (*2016: $574,241*) and this represent the write-off for expired drugs and inventory adjustments after year end count.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

8. Fixed assets

For the year ended December 31, 2017	Land	Buildings	Medical Equipment	Other assets	Total
		(expressed in Cayman Islands dollars and in thousands)			
Cost:					
At beginning of year	8,298,000	55,557,715	16,696,838	15,560,492	96,113,045
Additions during year	-	2,420,619	1,509,787	492,788	4,423,194
Derecognition during year	-	-	(753,115)	(178,910)	(932,025)
At end of year	8,298,000	57,978,334	17,453,510	15,874,370	99,604,214
Accumulated depreciation:					
At beginning of year	-	-	12,278,144	11,186,529	23,464,673
Charge for year	-	2,318,859	1,661,763	1,045,765	5,026,387
Derecognition during year	-	-	(640,596)	(181,167)	(821,763)
At end of year	-	2,318,859	13,299,311	12,051,127	27,669,297
Carrying Value					
At December 31, 2017	$8,298,000	$55,659,475	$4,154,199	$3,823,244	$71,934,917

For the year ended June 30, 2016	Land	Buildings	Medical Equipment	Other assets	Total
		(expressed in Cayman Islands dollars and in thousands)			
Cost:					
At beginning of year	8,253,125	52,996,110	16,004,991	14,275,550	91,529,776
Additions during year	-	40,713	691,847	1,322,152	2,054,712
Derecognition during year	-	(1,995)	-	(37,210)	(39,205)
Revaluation adjustment	44,875	2,522,887	-	-	2,567,762
At end of year	8,298,000	55,557,715	16,696,838	15,560,492	96,113,045
Accumulated depreciation:					
At beginning of year	-	6,630,615	11,083,628	10,698,169	28,412,412
Charge for year	-	1,358,378	1,194,516	515,286	3,068,180
Derecognition during year	-	-	-	(26,926)	(26,926)
Revaluation adjustment	-	(7,988,993)	-	-	(7,988,993)
At end of year	-	-	12,278,144	11,186,529	23,464,673
Carrying Value:					
At June 30, 2016	$8,298,000	$55,557,715	$4,418,694	$4,373,963	$72,648,372

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 31 December 2017 amounts to nil (*2016: $1,864,531*).

Under the Health Services Authority Law, the Cayman Islands Government vested in the Health Authority's various health care facilities in the Cayman Islands. These properties were valued on January 1, 2001, June 17, 2011 and July 5, 2016 by the Department of Lands & Survey and DDL Studio Ltd., an independent appraiser, respectively on depreciated replacement cost basis. The June 30, 2016 balance of fixed assets after asset revaluation on the same date includes an amount relating to gross revaluation surplus of $11,490,780 (included in statement of changes in net worth) and gross revaluation loss of $934,025 (charged to statement of comprehensive income).

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

9. Accounts payable and accrued expenses

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Accounts Payable	$898,456	$3,320,550
Accrued expenses	2,647,151	2,977,657
Employee benefits (Note 3 (j))	253,873	206,369
	$3,799,480	**$6,504,576**

10. Loans payable

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Current	$-	$251,028
Non-current	-	1,137,580
	$-	**$1,388,608**

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 3.75% for 10 years. A building with carrying amount of $917,613 (*2016: $*950,000) is subject to a first charge to secure the loan.

On 4 November 2011, Health Authority also purchased a 1.53 acre piece of land located at the corner of Hospital Road and Smith Road at a purchase price of $1.7 million. This was funded by a secured loan of $1.7 million obtained from FCIB at an interest rate of 3.75% for 10 years. A land with carrying amount of *$1,545,000* (*2016*: *$1,545,000*) is subject to a first charge to secure the loan.

With these two loans obtained from FCIB the overdraft facility was reduced to $1.539 million from $4 million and each repayment of loan will be added back to the overdraft facility every year based on the bank agreement signed on 21 October 2011. As at 31 December 2017, the overdraft facility has been restored to a balance of $2.673 million from $1.906 million. The finance charge paid for both of these loans as at 31 December 2017 amounts to $46,352 (*2016: $*53,923).

All the outstanding balance of the loan as at June 2, 2017 has been fully paid by Health Authority through the equity injection of the Government. Subsequently, as at January 24, 2018 the loan facility agreement has been renewed thereby the overdraft has been restored to $4 million.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

11. Patient services fees

	2017 (18 Months)	2016 (12 Months)
(expressed in Cayman Islands dollars and in thousands)		
Fees from the rendering of services - net	$108,086,698	$69,189,144
Fees from sale of goods	30,601,037	20,295,982
	$138,687,735	**$89,485,126**

The amounts shown above for fees from sale of goods are derived from the sale of 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

	2017 (18 Months)	2016 (12 Months)
(expressed in Cayman Islands dollars and in thousands)		
Faith Hospital	5,167,737	$3,445,158
Ambulance	3,370,940	2,247,293
District Clinics	3,364,420	2,242,947
Mental Health	3,346,806	2,231,204
Public Health	1,995,864	1,330,576
Special Needs	1,172,490	741,660
School Health	1,033,178	688,785
Medical Internship	225,000	150000
Child Abuse Program	150,000	-
Cancer Registrar	58,000	-
	$ 19,884,435	**$ 13,077,623**

The amount reported as government programmes as stated above has no budget shortfall for both years ended 31 December 2017 and 30 June 2016.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

13. Staff costs

	2017 (18 Months)	2016 (12 Months)
(expressed in Cayman Islands dollars and in thousands)		
Salaries & Wages (including overtime)	$75,312,052	$48,411,179
Health Care – Overseas/Local	5,937,612	5,889,225
Pension Contribution	4,180,013	2,813,115
Allowances	2,737,368	2,637,283
Other Staff Cost	3,248,981	1,474,872
Unfunded Defined Benefit, net of re-measurement (Notes 15,16)	20,750,000	12,005,000
	112,166,026	**73,230,674**

The Health Authority employees and their dependants receive free medical benefits within Authority's facility and is valued at $6,928,396 (30 June 2016: $4,981,688), as discussed in Note 3j this is netted against revenue. Therefore, the total health care cost of employees and their dependants amounts to $12,866,008 (*2016: $10,870,913*) excluding the unfunded defined benefit portion of healthcare cost for its current and future retirees.

14. Other operating expenses

	2017 (18 Months)	2016 (12 Months)
(expressed in Cayman Islands dollars and in thousands)		
Software licensing fees	$2,493,491	$1,727,010
Freight and shipping	1,502,443	1,012,220
Repairs and maintenance	1,267,951	944,276
Overseas laboratory tests	946,631	643,014
Leases	549,866	340,958
Public relations and publicity	282,815	189,358
Computer maintenance	293,165	171,128
Mail courier service	338,922	170,017
Loss on disposal of fixed assets	110,261	-
Bank charges	108,301	136,203
Advertising	104,266	55,250
Finance charges (Note 10)	46,352	53,923
Custom duties	157	14,127
Miscellaneous	838,149	441,487
	8,882,770	**5,898,971**

15. Legal and professional fees

	2017 (18 Months)	2016 (12 Months)
(expressed in Cayman Islands dollars and in thousands)		
Professional fees	$686,723	$158,961
Legal fees	197,109	51,078
Audit services	140,000	177,460
Others	8,774	6,315
	$1,032,606	**$393,814**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

16. Employee pension benefits, net

(a) Defined Benefit Plan

The Public Services Pension Plan (the "Plan") is managed by the Public Services Pension Board (the "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 Government's Financial Secretary 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.

Contributions towards benefits accruing in respect of the current service (i.e. for the period since the employee was enrolled in the plan) are funded at rates periodically advised to Health Authority by the Pensions Board and are recognised as an expense in the period incurred. The Health Authority is also required to make payments to the plan to fund benefits accruing in respect of past service (the "past service funding liability").

This past service funding liability, which is generally equivalent to the actuarially determined present value of the defined benefit obligations less the value of the assets available to meet such obligations, is calculated periodically by the Plan actuaries and reported to the Health Authority by the Pensions Board.

The Health Authority recognizes changes in the past service funding liability, adjusted for funding payments made, as an expense or gain in the period in which such changes are incurred. In the absence of formal notification from the Pensions Board, the Health Authority has no reliable way to quantify its liability to the Plan in respect of unfunded past service benefits.

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 provisional actuarial estimate was performed as of December 31, 2017 by the PSPB indicated a plan deficit attributable to the Health Authority of $7,432,000 (*2016:* $13,261,000). The Health Authority has engaged the PSPB and the new actuaries, Mercer, in discussions concerning the basis appropriateness of the calculation of the defined benefit liability and basis on which the obligation was assigned to the entity.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

16. Pension

(a) Defined Benefit Plan (continued)

Pension Expense and Reconciliation of Defined Pension Liability

	31.12.17	30.06.16
(expressed in Cayman Islands dollars and in thousands)		
Provision at the beginning of the year	13,261	10,220
Pension expense for the year	(5,157)	3,331
Employer contributions	(672)	(290)
Provision at end of year	**7,432**	**13,261**
Reconciliation of Funded Status:		
Company's share of defined benefit obligation	18,580	23,104
Less: Fair value of plan assets	11,148	9,843
Defined benefit liability	**7,432**	**13,261**
Components of Defined Benefit Cost for the year:		
Current service cost	1764	1,107
Total net interest cost	655	472
Administrative expenses and taxes	-	-
Defined benefit cost included in P&L	**2,419**	**1,579**
Remeasurement Included in Other Comprehensive Income (OCI):		
Demographic assumptions change	(2,248)	-
Financial assumptions change	(2,308)	3,305
Experience adjustments	(1,585)	(1,558)
Return on plan asset (excluding interest)	(1,435)	5
Total remeasurement included in OCI	**(7,576)**	**1,752**
Pension Expense for the year	**(5,157)**	**3,331**

The change in fair value of plan assets is as follows:

	31.12.17	30.06.16
(expressed in Cayman Islands dollars and in thousands)		
Fair value of plan assets at beginning of year (negative)	9,843	10,126
Interest income	523	494
Cash flows		
Employer and participant contributions	1,018	539
Benefit payments from plan	(631)	(1,311)
Transfers between other participating employers	(1,040)	-
Remeasurements – return on plan assets (excluding interest income)	1,435	(5)
Fair value of plan assets at end of year (negative)	11,148	**9,843**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

16. Pension

(a) Defined Benefit Plan (continued)

The defined benefit liability reconciliation is as follows:

	31.12.17	30.06.16
(expressed in Cayman Islands dollars and in thousands)		
Defined benefit obligation at beginning of year	23,104	20,346
Current service cost	1,764	1,107
Interest expense	1,178	966
Effect of changes in demographic assumptions	(2,248)	-
Effect of changes in financial assumptions	(2,308)	3,305
Effect of changes in experience adjustments	(1,585)	(1,558)
Cash flows	(1,325)	(1,062)
Defined benefit obligation at end of year	**18,580**	**23,104**

The sensitivity analysis on defined benefit obligation is shown below:

	31.12.17	30.06.16
(expressed in Cayman Islands dollars and in thousands)		
1. Discount rate		
a. Discount rate - 25 basis points	19,626	24,383
b. Discount rate + 25 basis points	17,608	21,919
2. Inflation rate		
a. Inflation rate - 25 basis points	17,602	21,932
b. Inflation rate + 25 basis points	19,628	24,362
3. Mortality		
a. Mortality - 10% of current rates	19,014	23,588
b.Mortality +10% of current rates	18,183	22,662

The expected cash flow for the following year is as follows:

	31.12.17	30.06.16
(expressed in Cayman Islands dollars and in thousands)		
Expected employer contributions	$380	450

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

16. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

The significant actuarial assumptions are presented below:

Weighted-average assumptions to determine benefit obligations:	31.12.17	30.06.16
1. Discount rate	3.80%	4.00%
2. Rate of salary increase	2.50%	3.50%
3. Rate of price inflation	2.00%	2.50%
4. Rate of pension increases	2.00%	2.50%
5. Post-retirement mortality table	RP-2014 generationally scaled back to 2006 using Scale MP-2014 then generationally projected using Scale MP-2016	RP-2014 generationally projected using Scale MP-2014
6. Cost Method	Projected Unit Credit	Projected Unit Credit
7. Asset valuation method	Market Value	Market Value

Weighted-average assumptions to determine defined benefit cost	31.12.17	30.06.16
1. Discount rate used to determine:		4.75%
Current service cost	4.10%	3.80%
Interest on current service cost	3.80%	2.50%
Interest on DBO	3.40%	2.00%
2. Rate of salary increase	3.50%	2.00%
3. Rate of price inflation	2.50%	2.50%
4. Rate of pension increases	2.50%	2.50%
5. Post-retirement mortality table	RP-2017 projected on a generational basis using Scale MP-2014	RP-2014 generationally projected using Scale MP-2014

Plan Assets
The Defined Benefit assets as well as Defined Contribution assets of the Plan are held as part of the Fund and managed by the PSPB. The assets of two other pension plans are pooled together to constitute the Fund.

The assets are notionally allocated to each of the three participating pension plans through an international accounting mechanism that tracks, for each accounting period, actual cash flows and allocates investment income based on the rate of return earned by the Fund. Based on the data provided, the gross rate of return earned by the Fund for the 2016/2017 fiscal year was 13.44% (*2016: 4.89%*). Similar internal accounting is used for developing each participating entity's share of the asset portfolio of the Fund.

The valuations are based on the asset values as at 31 December 2017 provided by the PSPB, along with cash flow and other supplemental asset information. The assets are held in trust by CIBC Mellon. The data provided by the PSPB had been relied without further audit.

The Fund currently has investment policy with a target asset mix of 80% equities and 20% bonds. As at 31 December 2017 and 30 June 2016, the Fund was invested as follows:

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

16. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

	31.12.17		30.06.16	
	(expressed in Cayman Islands dollars and in thousands)			
Plan Assets by Asset Category	**$000**	**Percentage**	**$000**	**Percentage**
Global equities securities	547,500	80%	431,083	80%
Debt securities	129,083	19%	103,167	19%
Cash	9,000	1%	2,583	1%
Total	**685,583**	**100%**	**536,833**	**100%**

The share of the Fund that has been notionally allocated to the Health Authority with regards to its participation in the Defined Benefit Part of the Plan is $11,148,000 as at 31 December 2017 (*2016 : $*9,843,000).

The Actuarial Assumptions
The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the defined benefit cost of the following year using the actuarial assumptions approved by the Financial Secretary. The principal financial and demographic assumptions used at 31 December 2017 and 30 June 2016 are shown in the table below.

Measurement Date	**31.12.17**	**30.06.16**
Discount rate		
BOY disclosure and current year expense	4.00% per year	4.75% per year
EOY disclosure	3.80% per year	4.00% per year
Following year current service cost	3.85% per year	4.10% per year
Increases in pensionable earnings	2.50% per year	3.50% per year
Rate of Pension Increases	2.00% per year	2.50% per year
Mortality		
BOY disclosure and current year expense	RP-2014 generationally projected using Scale MP-2014	RP-2014 generationally projected using Scale MP-2014
EOY disclosure and following year expense	RP-2014 scaled backto 2006 using Scale MP-2014 then generationally projected using Scale MP-2016	RP-2014 generationally projected using Scale MP-2014
Disability	None	None
Turnover Rates	Age related table	Age related table

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

16. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

Measurement Date	31.12.17	30.06.2016
Retirement	Age-related retirement used. See table below	Age 57 and 10 years of service
Assumed life expectations on retirement	Retiring today (member age 57): 29.13	Retiring today (member age 57): 30.21
	Retiring in 25 years (at age 57): 31.42	Retiring in 25 years (at age 57): 32.40
Liability Cost Method	Projected unit credit method	Projected unit credit method
Asset Value Method	Market Value of Assets	Market Value of Assets
Commutation of pension	All members commute 25% at retirement	All members commute 25% at retirement

Turnover Rates at sample ages:

Age	Males	Females
20	7.5%	12.5%
25	5.0%	12.5%
30	3.5%	7.5%
35	2.5%	4.5%
40	1.5%	2.5%
45	0.5%	5.0%
50	0.0%	0.0%

Retirement Rates:

Age	Males
Below 55	0%
55-59	8%
60	60%
61-64	8%
65	100%

There have been no changes in actuarial assumptions since the prior valuation other than the changes to the principal assumptions shown in the table above.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

16. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

Effective 1 July 2016, separate discount rates are being used to value the benefit obligation, service cost, interest cost and interest cost on the service cost. The discount rate used to calculate the benefit obligations is determined by multiplying the liability cashflows by the spot rates and determining a level equivalent discount rate. The discount rate used to calculate the services cost is determined by multiplying the service cost cashflows by the spot rates and determining level discount rate. Interest cost is determined by summing the product of the discounted liability cashflows and the spot rates. Interest on the service cost is determined by summing the product of the discounted service cost cashflows and the spot rates.

Participant Data

The defined benefit obligation at 31 December 2017 of the Health Authority as it relates to its participation in the Plan is based on the member data as at 30 September 2017 (76 active members). The data was updated from that used for the calculation of the defined benefit obligation as at 30 June 2016 (January 1, 2016).

b) Defined contribution plan

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 31 December 2017 is 699 (*2016: 656*).

During the year ended 31 December 2017, the Authority and its employees contributed to the fund 6.4% and 6%, respectively (*2016: 7% and 6%, respectively*).

The total amount recognised as a pension expense for the year ended 31 December 2017, inclusive of both defined benefit and defined contribution parts, was $5,927,013 (*2016: $*4,102,115*).*

17. Employee healthcare benefits, net

The Health Authority provides post-retirement health care benefits to staff employed before 1 November 2010 who provide qualifying periods of service, and existing retirees whose medical coverage was dropped by Portfolio of the Civil Service (POCS).

Starting April 2010, the Health Authority has paid for medical bills of its retirees whose medical coverage was dropped by the POCS. A policy directive has been received from POCS making Health Authority liable for future medical bills of such retirees. Subsequently, the Board made a policy decision that all new employees hired after 1 November 2010 will no longer be extended post-retirement medical benefits.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

17. Employee healthcare benefits, net (continued)

Therefore, to be eligible for the post-retirement healthcare program, an employee must meet the following criteria at retirement:

- Must be hired before November 1, 2010
- Must have completed 10 consecutive years of service with the Health Authority and CIG as principal employer
- Must retire from the Health Authority at the age 65 (statutory retirement age) or after age 50 (early retirement age) or on the advice of the Medical Board
- Employees hired with the CIG and transferred to the Health Authority without a break in service

The benefit entails a continuation of health insurance coverage on the medical plan offered to active employees. The premiums for this health insurance coverage are paid for by Health Authority for all eligible retirees until the end of their lives. This coverage falls within the definition of a defined benefit by the International Accounting Standards and as such represents a future liability of the Health Authority. The Health Authority is required to use the actuarial valuation method to determine the present value of its health insurance benefit obligations for its former workers as well as future retirees and the related current service costs. International Accounting Standards No. 19 (IAS 19) directs that funded or unfunded post-employment benefits be recognized in the statement of financial position (in the case of net defined liability or asset) and the statement of comprehensive income (for the annual expense).

These actuarial valuations use several financial and demographic assumptions to determine the liability and current expense of the benefits which will be honoured on behalf of the retirees. Financial assumptions include, the discount rate, estimated future costs of the medical premiums, and the claims rate for the medical plans. Demographic assumptions include estimated mortality and benefits levels.

The Authority commissioned Mercer Actuaries to provide this service and the results of their assessment are included hereunder. The Health Authority has a present value net defined benefit obligation of $149,118,000 as 31 December 2017 (2016: $142,878,000). The details of the valuation and the assumptions used are reproduced hereunder in accordance with IAS 19.

The financial obligation and annual expense were not previously reflected in Health Authority's Financial Statements, except for premiums paid on behalf of retirees and actual medical cost incurred by retirees. These were previously reported as medical costs and shown as a part of staff costs in the Statement of Comprehensive Income.

The Health Authority has not contributed to any fund in order to meet the future obligation. Consequently, the entire $149,118,000 is currently unfunded. Management's plan to address this unfunded post-retirement health liability is discussed in Note 23.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

17. Employee healthcare benefits, net (continued)

Disclosure Information:

Financial year ending on	31 December 2017	30 June 2016
(expressed in Cayman Islands dollars and in thousands)		
A. Change in defined benefit obligation		
1. Defined benefit obligation at end of prior year	142,878	111,749
2. Service cost		
a. Current service cost	13,052	6,973
b. Past service cost	-	-
c. (Gain)/loss on settlements	-	-
3. Interest Expense	7,671	5,308
4. Cash flows		
a. Benefit payments from plan assets	-	-
b. Benefit payment from employer	(1,720)	(1,565)
5 Other significant events	-	
6. Remeasurements		
a. Effect of changes in demographic assumptions	(20,300)	-
b. Effect of changes in financial assumptions	6,572	-
c. Effect of experience adjustments	965	20,413
7. Effect of changes in foreign exchange rates	-	-
8. Defined benefit obligation at end of year	**149,118**	**142,878**
B. Change in fair value of plan assets		
1. Fair value of plan assets at end of prior year	-	-
2. Interest income	-	-
3. Cash flows		
a. Total employer contributions		
(I) Employer contributions	-	
(ii) Employer direct benefit payments	1,720	1,565
(iii) Employer direct settlement payments	-	-
b. Participant contributions	-	-
c. Benefit payments from plan assets	-	-
d. Benefit payments from employer	(1,720)	(1,565)
e. Settlement payments from plan assets	-	-
f. Settlement payments from employer	-	-
4. Other significant events	-	-
5. Remeasurements	-	-
6. Effect of changes in foreign exchange rates	-	-
7. Fair value of plan assets at end of year	**-**	**-**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

17. Employee healthcare benefits, net (continued)

Disclosure Information: (continued)

Financial year ending on	31 December 2017	30 June 2016
(expressed in Cayman Islands dollars and in thousands)		
C. Amounts recognized in the statement of financial position		
1. Defined benefit obligation	149,118	142,878
2. Fair value of plan assets	-	-
3. Funded Status	**149,118**	**142,878**
4. Effect of asset ceiling/onerous liability	-	-
5. Net defined benefit liability (asset)	**149,118**	**142,878**
D. Components of defined benefit cost		
1. Service cost		
a. Current service cost	13,052	6,973
b. Reimbursement service cost	-	-
c. Past service cost	-	-
d. (Gain)/loss of settlements	-	-
e. Total service cost	**13,052**	**6,973**
2. Net interest cost		
a. Interest expense on DBO	7,671	5,308
b. Interest (income) on plan assets	-	-
c. Interest (income) on reimbursement rights	-	-
d. Interest expense on effect of (asset ceiling)/onerous liability	-	-
e. Total net interest cost	**7,671**	**5,308**
3. Remeasurement of Other Long Term Benefits	-	-
4. Administrative expenses and/or taxes (not reserved within DBO)	-	-
5. Defined benefit cost included in P&L	**20,723**	**12,281**
6. Remeasurements (recognized in other comprehensive income)		
a. Effect of changes in demographic assumptions	(20,300)	-
b. Effect of changes in financial assumptions	6,572	-
c. Effect of experience adjustments	965	20,413
d. Total remeasurements included in 0CI	**(12,763)**	**20,413**
7. Total Defined benefit cost recognized in P&L and OCI	**7,960**	**32,694**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

17. Employee healthcare benefits, net (continued)

Disclosure Information: (continued)

Financial year ending on	31 December 2017	30 June 2016
(expressed in Cayman Islands dollars and in thousands)		
E. Net defined benefit liability (asset) reconciliation		
1. Net defined benefit liability (asset)	142,878	111,749
2. Defined benefit cost included in P&L	20,723	12,281
3. Total remeasurements included in OCI	(12,763)	20,413
4. Other significant events	-	-
5. Cash flows		
a. Employer contributions	-	-
b. Employer direct benefit payments	(1,720)	(1,565)
c. Employer direct settlement payments	-	-
6. Credit to reimbursements	-	-
7. Effect of changes in foreign exchange rates	-	-
8. Net defined benefit liability (asset) as of end of year	**149,118**	**142,878**
F. Defined benefit obligation		
1. Defined benefit obligation by participant status		
a. Actives	132,226	127,768
b. Vested deferreds	-	-
c. Retirees	16,892	15,110
d. Total	**149,118**	**142,878**
G. Significant actuarial assumptions		
Weighted-average assumptions to determine defined benefit obligation		
Effective discount rate for defined benefit obligation	3.85%	4.05%
Health care cost trend rates		
Immediate trend rate	5.00%	5.00%
Ultimate trend rate	5.00%	5.00%
Year rate reaches ultimate trend rate	N/A	N/A
Mortality assumption	RP-2014 projected with MP-2016	RP-2014 projected with MP-2014

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

17. Employee healthcare benefits, net (continued)

Disclosure Information:

Financial year ending on	31 December 2017	30 June 2016
(expressed in Cayman Islands dollars and in thousands)		
G. Significant actuarial assumptions		
Weighted-average assumptions to determine defined benefit cost		
Effective discount rate for defined benefit obligation	4.05%	4.75%
Effective rate for net interest cost	3.60%	4.75%
Effective discount rate for service cost	4.20%	4.75%
Effective rate for interest on service cost	4.10%	4.75%
Health care cost trend rates		
Immediate trend rate	5.00%	5.00%
Ultimate trend rate	5.00%	5.00%
Year rate reaches ultimate trend rate	N/A	N/A
Morality assumption	RP-2014 projected with MP-2016	RP-2014 projected with MP-2014
H. Sensitivity analysis		
Change in the defined benefit of obligation		
Effective discount rates - 25 basis points	8,787	8,413
Effective discount rate + 25 basis points	(8,156)	(7,798)
Health care cost trend rates - 100 basis points	(29,004)	(26,443)
Health care cost trend rates + 100 basis points	39,163	34,733
Morality assumption +10%	(6,531)	(5,429)
I. Expected cash flows for following year		
1. Expected employer contributions	1,148	1,636
2. Expected contributions to reimbursement rights	-	-
3. Expected total benefit payments		
Year 1	1,148	1,636
Year 2	1,498	1,733
Year 3	1,844	2,006
Year 4	2,178	2,352
Year 5	2,523	2,699
Next 5 years	18,529	19,357

Participant data:

The defined benefit obligation at 31 December 2017 of the Health Authority as it relates to its participation in the plan were based on the data provided as at 31 May 2017 (494 active participants). The same data was used for the calculation of the defined benefit obligation at 30 June 2016.

Actuarial Assumptions:

The assumptions as at the reporting date are used to determine the present value of the defined benefit obligation (DBO) at the date and the defined benefit cost for the following year. Mercer have used the actuarial assumptions selected by Health Authority. The assumptions, other than the claims cost and the future healthcare coverage assumption, are consistent with the assumptions used to determine the results for the CIG's post-retirement healthcare program. The principal financial and demographic assumptions used at 31 December 2017 and 30 June 2016 are shown in the table below:

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
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17. Defined benefit liability: Post-retirement health liability (continued)

Economic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Discount rate for benefit obligation (p.a.) 30 June 2016 31 December 2017	 4.05% 3.85%	Per IAS 19 para. 83, determined by reference to market yields on high quality corporate bonds (consistent with the term of the benefit obligations) at the fiscal year end date. Mercer US Above Mean Yield Curve (referencing US corporate bond yields) used to determine discount rates due to strong economic
Discount rate for the following year's current service cost (p.a.) 30 June 2016 31 December 2017	 4.20% 3.90%	
Rate of Medical Inflation (p.a.)	5.00%	Based on an analysis of historical claims information and long-term medical inflation expectations.

Demographic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Current mortality rates 30 June 2016 31 December 2017	 RP-2014 RP-2014 Mortality Table scaled back to 2006 using MP-2016	Recent mortality studies in the U.S. and Canada show that people are living longer. New mortality tables that been issued by U.S. and Canada. The mortality table has been updated to better reflect actual mortality improvement rates experienced in the U.S. over the last 20 years.
Mortality improvements 30 June 2016 31 December 2017	 Scale MP-2014 Scale MP-2016	Broad consensus amongst longevity experts that mortality improvement will continue in the future. In the U.S., the future mortality improvements scale has been updated to Scale MP-2016

Demographic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Turnover rates	Rate Age / Male / Female 20-24 7.5% 12.5% 25-29 5.0% 12.5% 30-34 3.5% 7.5% 35-39 2.5% 4.5% 40-44 1.5% 2.5% 45-49 0.5% 0.5% 50+ 0.0% 0.0%	
Disability rates	None	
Retirement Age 30 June 2016 31 December 2017	Age 57 & 10 years of service Age / Rate <55 0.0% 55-59 8.0% 60 60.0% 61-64 8.0% 65 100.0%	
Marital assumption	80% married, wife 3 years younger	

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

17. Employee healthcare benefits, net (continued)

Actuarial Assumptions: (continued)

Demographic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Current healthcare claims cost assumption at age 65 (at 31 May 2017)	Health - $6,300 per participant per year Dental - $600 per participant per year Administrative expenses - %100.77 per retiree per month	Based on 2017 premium rates (converted to KYD)
Healthcare coverage-future pensioners	Male - 50% single, 50% family Female - 60% single, 40% family	Based on Health Services Authority experience.
Healthcare utilization changes due to age	Mercer standard healthcare aging assumptions for medical and dental	Based on analysis of healthcare utilization for Mercer claims in Canada and US and by reference to Society of Actuaries studies.

18. Provision

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 31 December 2017 is nil (2016: nil). As of 31 December 2017, nil (2016: nil) was paid out as settlement for medical malpractice claims and employee claim, respectively.

19. 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 $6,360,000 and nil (*2016:* $6,385,000 and nil*),* 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 , Environment, Culture & Housing (the "Ministry").

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
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19. Contingencies and commitments

(b) Capital and operating commitments

Type	One year or less	One to five years	Over five years	Total
	(expressed in Cayman Islands dollars and in thousands)			
Capital Commitments				
Land and buildings	$ -	$ -	$ -	$ -
Other fixed assets	$263,032	-	-	$263,032
Total Capital Commitments	**$263,032**	-	-	**$263,032**
Operating Commitments				
Non-cancellable contracts for the supply of goods and services	3,327,467	2,132,457	18	5,459,942
Total Operating Commitments	**3,327,467**	**2,132,457**	**18**	**5,459,942**
Total Commitments	**$3,590,500**	**$2,132,457**	**$18**	**$5,722,974**

The outstanding capital commitments are for the completion of an ambulance bay and the purchase of medical equipment. These amount to $263,032 (*2016:* $160,207*)* and the contracts are with Island Builders and Andar, respectively.

In addition, the Health Authority has entered into various operating commitments with terms less than one year to over five years term amounting to $5,459,942 (*2016:* $483,171*).* 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 was renewed after it expired in 31 December 2017 for another three-year contract totaling US$3.2 million. This new contract will expire on 31 December 2020.

20. 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 31 December 2017, management estimates that the aggregate amount of Health Authority's transactions with government-related entities are at least 69% (*2016: 66%)* of its revenue and between 5-10% (*2016: 5-10%)* of its operating expenditures. Significant transactions with the government-related entities are discussed as follows:

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

20. Related party transactions (continued)

- 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 $68,010,883 (30 June *2016: $*42,891,385). 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 has drawn equity injection during the year amounting to $2,542,264 (30 June *2016: $*7,037,715*)* from the Government's Cabinet. Approximately $1,161,846 of this amount was additional injection by the Government for the early payment of loans with First Caribbean International Bank (FCIB). The equity injection do not impose a future obligation on Health Authority and are composed as follows:

	2017	2016
(expressed in Cayman Islands dollars and in thousands)		
Subsidy for Capital expenditures	$1,380,419	$622,655
Subsidy for Payment of Loans	1,161,846	-
Subsidy for Insurance premiums	-	6,415,060
	$2,542,264	**$7,037,715**

- Pursuant to the general and supplemental appropriation for the year ended 31 December 2017, the Health Authority billed the Government's Cabinet $51,519,946 (30 June *2016: $27,075,848*) 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 $19,884,435 (30 June *2016: $13,077,623*) and the maintenance of Faith Hospital in the amount of $5,167,737 (30 June *2016: $3,445,158).* The amount outstanding as cabinet receivable relating to other government programmes as of 31 December 2017 amounts to $3,913,181 (30 June *2016: $*3,055,320) and this is presented as other receivables.
- Below is the cost incurred by Health Authority for the other government programmes delivered to the Government and the budget amount:

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
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20. Related party transactions (continued)

	Billed	Budget
(expressed in Cayman Islands dollars and in thousands)		
Faith Hospital	5,167,737	5,167,737
Ambulance	3,370,940	3,370,940
District Clinics	3,364,420	3,364,420
Mental Health	3,346,806	3,346,806
Public Health	1,995,864	1,995,864
Special Needs	1,172,490	1,172,490
School Health	1,033,178	1,033,178
Medical Internship	225,000	225,000
Child Abuse Program	150,000	150,000
Cancer Registrar	58,000	58,000
	$19,884,435	**$19,884,435**

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

	2017 (18 months)	2016 (12 months)
(expressed in Cayman Islands dollars and in thousands)		
Short-term Benefits:		
Senior Management	$2,659,929	$1,623,361
Board of directors	23,700	18,813
	$2,683,629	$1,642,174

For the 18-month period ended 31 December 2017 the Health Authority had incurred a medical cost for its key management and their dependants in the amount of $154,483 (30 June *2016:* $13,294) including the cost provided in its own facility.

The Health Authority also had transactions with members of key management or with their family such as official travel reimbursements et al with an annual disbursement of $27,246 *(30 June 2016:* $34,347*)* and salary of other related party amounting to $420,535 *(30 June 2016:* $256,628*).*

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

21. Financial instruments and associated risks

The carrying amounts of Health Authority's financial instruments, including cash and cash equivalents, other receivables, accounts receivable, accounts payable and accrued expenses, 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:

21.1 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. Parties who defaults on their obligations 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 Health Authority has escalated the credit risk concentration to the Ministry for policy changes to reduce doubtful debts.

Accounts receivable consist of a large number of customers who would either have health insurance coverage 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. These are estimated to be 65% - 100% (*2016: 75%-100%)* uncollectible.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

21.1 Credit risk (continued)

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 doubtful debts, represents the maximum exposure to credit risk:

Type	Less than 1 month	1-3 months	3 months to 1 year	1 year over	Total
	(expressed in Cayman Islands dollars and in thousands)				
2017					
Gross accounts receivable	481	1,143	5,640	50,471	57,735
Allowance for bad debts	312	939	5,114	50,471	56,836
	169	204	526	-	899
2016					
Gross accounts receivable	762	1,220	7,188	52,611	61,781
Allowance for bad debts	572	1,037	6,963	52,599	61,171
	190	183	225	12	610

21.2 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 Health Authority's funding and liquidity management requirements. The Health 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.

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the financial statements as of 31 December 2017 and 30 June 2016.

Type	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
31-Dec-17							
Financial assets							
Cash and cash equivalents	$31,892,703		$31,892,703	$ -	$ -	$ -	$ -
Accounts receivable, net	12,246,401		12,246,401				
Other receivables	2,393,771		2,393,771				
	46,532,875	**$ -**	**46,532,875**	$ -	$ -	$ -	$ -
Financial libilities							
Accounts payable and accrued expenses	3,799,480		3,799,480				
Unfunded pension obligation	7,432,000		7,432,000				
	11,231,480	**$ -**	**11,231,480**	$ -	$ -	$ -	$ -
Difference in contractual flows	**$35,301,395**	**$ -**	**$35,301,395**	**$ -**	**$ -**	**$ -**	**$ -**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

21. Financial instruments and associated risks (continued)

21.2 Liquidity risk (continued)

Type	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
30-Jun-16							
Financial assets							
Cash and cash equivalents	$3,896,842		$3,896,842	$ -	$ -	$ -	$ -
Accounts receivable, net	$27,856,470		$27,856,470				
Other receivables	1,486,667		1,486,667				
	33,239,979	**$ -**	**33,239,979**	$ -	$ -	$ -	$ -
Financial libilities							
Accounts payable and accrued expenses	6,504,576		6,504,576				
Unfunded pension obligation	13,261,000		13,261,000				
Loans Payable	1,388,608		251,028	251,028	251,028	251,028	384,496
	21,154,184		**20,016,604**	**251,028**	**251,028**	**251,028**	**384,496**
Difference in contractual flows	**$12,085,795**	**$ -**	**$13,223,375**	**(251,028)**	**(251,028)**	**(251,028)**	**(384,496)**

21.3 Interest risk

Interest rate risk – The Health Authority is exposed to interest rate risk for the $4 million credit facility with First Caribbean International Bank (Cayman) Ltd ("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.

22. Prior period adjustments

For the prior year ended 30 June 2016

The financial statements for the year ended 30 June 2016 and 30 June 2015 were restated due to the significant adjustments required to account for the actuarially determined defined benefit liability for the Health Authority post-retirement health liability.

The actuarial valuation results showed a liability of $142,878,000 existed at 30 June 2016, represented by accumulated liability of $111,749,000 as at 30 June 2015 and service cost and adjustments totalling to $31,129,000 for the year ended 30 June 2016, resulting in a closing liability of $142,878,000 at 30 June 2016.

In addition, the Health Authority conducted a review of accrued liabilities and some of which were over accrued in prior year in the amount of $60,174.

Overall, this has resulted to a prior period adjustment amounting to $142,817,826 and restatement of prior year's primary financial statement.

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

22. Prior period adjustments (continued)

The following illustrates the adjustments for each item affected by the above prior period adjustments:

	As of and for the year ended 30 June 2016		
	As previously reported	Adjustment required	As restated
(expressed in Cayman Islands dollars and in thousands)			
Statement of financial position:			
Accounts payable and accrued expenses	6,564,750	(60,174)	6,504,576
Employee healthcare benefits, net	-	142,878,000	142,878,000
Total non-current liabilities	1,137,580	142,878,000	144,015,580
Accumulated deficit	(70,388,953)	(128,718,826)	(199,107,779)
Other comprehensive loss	(1,367,000)	(1,4099,000)	(15,466,000)
Net (liabilities) assets	**94,089,522**	**(142,817,826)**	**(48,728,304)**
Statement of comprehensive income:			
Staff costs	62,514,674	10,716,000	73,230,674
Total operating expenses	105,168,342	10,716,000	115,884,342
Net income (loss) for the year	67,594	(10,716,000)	(10,648,406)
Other comprehensive loss	(1,752,000)	(20,413,000)	(22,165,000)
Total comprehensive (loss) income for the year	**(1,684,406)**	**(31,129,000)**	**(32,813,406)**
Statement of cash flows:			
Net income (loss) for the year	67,594	(10,716,000)	(10,648,406)
Employee healthcare benefits, increase	-	10,716,000	10,716,000

	As of and for the year ended 30 June 2015		
	As previously reported	Adjustment required	As restated
(expressed in Cayman Islands dollars and in thousands)			
Statement of financial position:			
Accounts payable and accrued expenses	12,864,240	(60,174)	12,804,066
Employee healthcare benefits, net	-	111,749,000	111,749,000
Total non-current liabilities	1,388,017	111,749,000	113,137,017
Accumulated deficit	(70,456,547)	(118,002,826)	(188,459,373)
Other comprehensive income	385,000	6,314,000	6,699,000
Net (liabilities) assets	**77,245,433**	**(111,688,826)**	**(34,443,393)**

Notes to the Financial Statements

For the 18-month period ended 31 December 2017
(expressed in Cayman Islands dollars)

23. Going Concern Considerations (continued)

After the recognition of post-retirement health liability, Health Authority's financial position resulted to a net deficit of $34,748,014 as at 31 December 2017 with a net loss for the year of $8,900,974 as presented in the statement of comprehensive income.

This event has raised a substantial doubt about the Health Authority's ability to continue as going concern as it relates to its ability to meet the post-retirement health care obligation to its eligible employees and retirees as it falls due. Based on assessment made by the Management, this doubt has been alleviated by the series of action plans taken by the Management at present and in the near future.

At present, Health Authority is able to fund the medical cost of its retirees every time it falls due, the total medical cost paid as of 31 December 2017 amounts to $1,720,000 (2016: $1,565,000). In addition, stop loss insurance coverage is also in place to cover the acute cases of retirees thereby limiting the credit risk exposure of Health Authority. The overdraft facility has also been increased to $4 million as additional buffer for any cash short fall in the future and this remain unused at present. As Health Authority is a health care facility, Management believes that the Authority is capable of providing a proper health care to its retirees within its facility.

Health Authority is also actively consulting professionals at Marsh, a brokerage company specializing in risk and insurance services, on how to fund the post-retirement health liability. Health Authority is seeking some fund investment advice on financial instruments to hedge the liability for the post-retirement healthcare cost with a perspective to include other statutory authorities in this plan.

Appendices

Governance and Risk Management

The 2016/17 Annual Budget Statement identifies the key risks faced by the HSA and the strategies we use to manage those risks. For the fiscal year under review, the following risks, and actions taken to manage and mitigate those risks were:

Key Risks	Actions to Manage Risk	ACTIONS TAKEN TO MITIGATE THE RISKS
Strategic		
Potential loss of revenue (loss of market share) from increased competition from private healthcare providers in the community	1. Identify opportunities and implement measures to improve quality of services and patient experience 2. Focus on measures that will reduce waiting list and waiting time	• Additional examination room added in A&E • Continuation of the walk in Acute Care Clinic in GP to increase access to non-emergent care, reduce waiting times in A&E and enhance patient experience. • Continuation of *Service Plus* educational sessions offered to all staff to improve customer service and improve the experience of patients and colleagues. • Addition of an information desk in the Atrium to assist patients and visitors
Difficulty/inability to provide current level of services due to lack of office and clinical space	1. Approval of Master Facility Plan 2. Secure methods of funding 3. Temporary relocation of admin services offsite to allow for expansion of clinical services	• An RFP for the revision of the facility master plan for Grand Cayman and the development of master facility plans for Cayman Brac and Little Cayman was published and • A vendor has been selected for the work, this will supply additional clinical space for patient care.
Financial		
Inability to charge appropriately for services due to inconsistency of charge master pricing	1. Continued review of charge master to ensure alignment with standard health insurance fees	• Payment policy has been updated and compliance with policy is being monitored. • A collector/counsellor is available to assess need and encourage patients to pay at the point of service. • Close collaboration with the NAU continues to provide patients with the necessary financial assistance they need to access services.

Operational		
Potential loss of key staff in single incumbent positions due to retirement, resignation, lack of trained personnel on island and difficulty in recruiting and retaining professionals	1. Development and ongoing review of recruitment and retention strategies 2. Development of succession plan 3. Funding of succession plan	• Use of head hunters to recruit qualified staff. • Development and implementation of a succession plan • Phased adoption of the HR needs assessment and review is in progress • Annual awards and recognition programme to boost staff morale. • Issuing of 5-year contracts for key staff.
Potential Security breach of IT system	1. Intrusion detection assessment 2. Audit of active directory	• Domain name filtering (open DNS) is in place. • Continuous patch management is being done. • Continuous upgrade of end point protection (Intel Security). • Ongoing Intrusion detection assessment • Audit of active directory
Security of Staff and Facilities	1. Installation of additional CCTV cameras 2. Access control and maintenance of alarms on exits	• Installation of additional CCTV cameras completed. • Monitoring of access control and maintenance of alarms on exits. • Monitoring compliance with Access Control Policy. • Ensuring the integrity of perimeter fencing and gates. • Increase security surveillance in areas where cash is kept.
Potential for business interruption due to natural, internal or external disaster	1. Continuous review and testing of emergency plans 2. Identified downtime procedures	• Continuous review and testing of emergency plans. • Downtime procedures are in place • Disaster preparedness educational sessions for staff.
Potential for difficulty in evacuating patients on beds from the OR due to congestion in the main exit corridor adjacent to CSR with storage trolleys causing reduced corridor width.	1. Alternative arrangements for storage of trolleys is being explored	• Space identified for additional storage area to be built

Potential for the inappropriate use of company vehicles	1. Policy for the use and maintenance of vehicles 2. Use of log book to sign out and return vehicles	• Policy for the use and maintenance of vehicles • Use of log book to sign out and return vehicles
Clinical		
Poor patient experience or clinical outcome due to quality issues or system failure	1. Increased focus on improving the patient experience 2. Increased focus on staff training and development plan 3. Provision of continuing education to reduce risk of adverse outcome	• Increased focus on improving the patient experience through Service Plus and Core Values training. • Increased focus on staff training and development plan. • Provision of continuing education to reduce risk of adverse outcome.
Inadequate funding for the replacement of aging clinical equipment	1. Review replacement schedule 2. Replace equipment as funding becomes available 3. Develop an item catalogue to seek donations	• Continuously review and update the replacement schedule for equipment • Replace equipment as funding becomes available. • Develop Item catalogue for clinical equipment. • Partnership with Caring for Life Foundation to establish an avenue for donations toward equipment.
Potential delays in Pharmacy if the ENCOM system fails prior to the implementation of a new pharmacy software/system	1. Develop testing and training plan 2. Develop implementation guideline 3. Develop and practice downtime procedures	• Additional redundancies built in to provide back up for ENCOM
Potential for inadequate Blood Supply with poor patient outcome	1. SLA established with overseas Blood Bank 2. Frequent Blood Donor drives	• Contracts are in place to procure blood products from overseas • Frequent blood donor drives done additional blood donors registered

Legal Framework

The specific Laws which guide the work of the Health Services Authority are as follows:

- Health Services Authority Law
- Health Services Fees Law
- Health Insurance Law
- Health Practice Law
- Mental Health Law
- Pharmacy Law
- Prescription Law
- Public Health Law
- Freedom of Information Law
- Freedom of Information (General) Regulations
- Public Management and Finance Law
- The Procurement Law
- The Public Authority Law
- Labour Law
- Complaints Commissioner Law
- Freedom of Information Law
- National Pensions Law
- Children Law
- Tobacco Legislation
- Code of Ethics and Standards of Practice – Cayman Islands Medical & Dental Council
- Code of Ethics and Standards of Practice – Cayman Islands Pharmacy Council
- Code of Ethics and Standards of Practice – Council for Professions Allied with Medicine
- Misuse of Drugs law: Sections 2, 3 and4
- National Drug Council Law
- Animals Law: all sections on Part III and VII
- Cinematograph Law: sections 7-16
- Labor Law (2011 Revision): all sections in part VIII
- The Tobacco Law: all sections
- The Mental Health Law and Regulations 2013: all sections
- Children Law: Part IIIA, V, X,
- Water authority Law: part V and VII
- Health Insurance Law and Regulations 2005: all sections

Internal and External Audit Updates

The HSA received a qualified audit opinion for fiscal year 2015-16. The Authority's financial statements were qualified in three main areas:

1. Patient Services Fees
2. Patient related accounts receivable
3. Post-employment healthcare costs.

Number of FOI Requests Received

Ten (10) Freedom of Information requests were received from January to October 2017.

Seafarers Association donates scholarships

Contact

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Patient Financial Services

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Fax: (345)-946-9862

Medical Records

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Fax: (345) 949-0156

Notes


Congratulations
We are so proud of YOU!!
When you ring this bell, it signifies the completion of your treatment. However you will always remain a part of our family.
Certificate
Licci Powell
Certificate
Neil Cox

HEALTH SERVICES AUTHORITY
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Caring People. Quality Service.

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