

**BRITISH VIRGIN ISLANDS
HEALTH SERVICES AUTHORITY**

FINANCIAL STATEMENTS

FOR

YEAR ENDED

SEPTEMBER 30, 2013



ELLEN L. SKELTON BUILDING, FISHER'S LANE
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BRITISH VIRGIN ISLANDS



BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY

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INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY

We have audited the accompanying financial statements of British Virgin Islands Health Services Authority, which comprise the statement of financial position as at September 30, 2013, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, including a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As at and for the year ended September 30, 2013, the Authority's property and equipment is carried at \$10,891,759 in the statement of financial position, and depreciation expense is recognized in the statement of comprehensive income at \$1,695,148. We were unable to obtain sufficient appropriate audit evidence about the gross valuation of property and equipment, particularly, equipment, vehicles and furniture and fittings as at September 30, 2013. Consequently, we were unable to determine whether any adjustments might have been necessary in respect of property and equipment and accumulated depreciation at September 30, 2013, and the related elements making up the statements of comprehensive income, changes in equity, and cash flows for the year ended September 30, 2013.

Basis for Qualified Opinion (Continued)

In addition, the Authority did not have in place appropriate systems for recording and maintenance of all accounting transactions and balances from October 2012 when the old accounting system crashed until the installation of a new accounting system in February 2013. The introduction of the new system was problematic and there were misstatements and difference which are still being reconciled. We were unable to confirm or verify by alternative means accounts receivable included in the balance sheet at a total amount of \$ 9,575,853 at September 30, 2013. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded accounts receivable, and the elements making up the statements of income, changes in stockholders' equity, and cash flows.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of British Virgin Islands Health Services Authority as at September 30, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

CCP Accountancy Services Limited

CCP Accountancy Services Limited

January 19, 2016

Road Town, Tortola, B.V.I.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Notes</u>	<u>2013</u> <u>US\$</u>	<u>2012</u> <u>US\$</u>
REVENUES			
Government Subvention	17	22,501,137	21,224,271
Service Fees	13	5,079,851	10,634,882
Sales		1,061,989	1,052,476
Other Income		478,989	582,448
		<u>29,121,966</u>	<u>33,494,077</u>
COSTS AND EXPENSES			
Salaries and Employee Benefits	15	21,224,419	21,211,618
Costs of Sales and Services	14	3,952,577	2,755,136
Depreciation and Amortization	9, 10	1,695,148	1,538,878
Utilities		1,905,102	1,451,963
Insurance Expense		902,536	569,516
Rent	16	398,095	441,508
General Expenses		331,594	295,918
Repairs and Maintenance		201,968	175,130
Legal and Professional Fees	20	272,057	867,112
Vehicular Expenses		104,407	101,320
Travel and Entertainment		91,913	124,813
Finance Cost		46,087	-
Board Expenses	17	21,495	12,178
Provision for Inventory Obsolescence	8	13,156	30,772
Contracted Labor		-	160,561
Provision for Impairment Loss	6	2,165,282	76,965
Accounts Written Off		324,382	-
Miscellaneous Expenses		96,175	193,795
		<u>33,746,393</u>	<u>30,007,183</u>
Net Income (Loss)		(4,624,427)	3,486,894
Other Comprehensive Income			
Revaluation Surplus		427,242	-
Total Comprehensive Income (Loss)		(4,197,185)	3,486,894

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2013

	<u>Notes</u>	<u>2013</u> <u>US\$</u>	<u>2012</u> <u>US\$</u>
ASSETS			
Current Assets			
Cash and Bank Balances	5	1,486,167	1,044,929
Trade and Other Receivables	6	9,575,853	9,805,651
Prepaid Expenses	7	70,587	12,115
Inventories	8	1,428,543	1,187,517
		12,561,150	12,050,212
Noncurrent Assets			
Property and Equipment	9	10,891,759	11,245,174
Intangible Assets	10	400,080	10,176
		11,291,839	11,255,350
TOTAL ASSETS		23,852,989	23,305,562
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and Other Payables	11	7,481,698	3,564,148
Government loan	12	608,333	-
Provision for Loss on Litigation	20	60,000	87,396
		8,150,031	3,651,544
Noncurrent Liabilities			
Accrued Post-employment Benefits	18	5,241,300	4,567,933
		13,391,331	8,219,477
Equity			
Contributed Capital	19	31,621,258	31,621,258
Accumulated Deficit		(21,586,842)	(16,535,173)
Revaluation Surplus		427,242	-
		10,461,658	15,086,085
TOTAL LIABILITIES AND EQUITY		23,852,989	23,305,562

Approved on Behalf of the Board of Directors :

Director : _____ 

Date : _____ 19th January 2016

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Contributed Capital <u>US\$</u>	Deficit <u>US\$</u>	Revaluation Surplus <u>US\$</u>	Total <u>US\$</u>
Balance at September 30, 2011	31,621,258	(20,022,067)	-	11,599,191
Net comprehensive income for the year	-	3,486,894	-	3,486,894
Balance at September 30, 2012	31,621,258	(16,535,173)	-	15,086,085
Net comprehensive loss for the year		(4,624,427)	-	(4,624,427)
Reclassification		(427,242)	427,242	-
Balance at September 30, 2013	31,621,258	(21,586,842)	427,242	10,461,658

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	2013	2012
	<u>US\$</u>	<u>US\$</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive income(loss)	(4,624,427)	3,486,894
Adjustments to reconcile net income(loss) to net cash flow from operating activities		
Depreciation and amortization	1,695,148	1,538,878
Revaluation/impairment of PPE	(427,242)	-
Provision for impairment loss on receivables	2,165,282	76,965
Provision for loss on litigation	20 60,000	-
Settlement of legal expenses by insurers	20 (87,396)	-
Provision for obsolescence	13,156	30,772
Operating income(loss) before working capital changes	<u>(1,205,479)</u>	<u>5,133,509</u>
 Decrease (increase) in:		
Trade and other receivables	(1,935,484)	(6,760,886)
Prepaid expenses	(58,472)	-
Inventories	(254,182)	(117,048)
 Increase in:		
Trade and other payables	3,917,550	302,634
Accrued post-employment benefits	673,367	1,134,334
Net cash used in operating activities	<u>1,137,300</u>	<u>(307,457)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(829,441)	(51,251)
Purchase of intangible assets	(474,954)	-
Net cash used in investing activities	<u>(1,304,395)</u>	<u>(51,251)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of loan from government	700,000	-
Payment of loan	(91,667)	-
Net cash provided in financing activities	<u>608,333</u>	<u>-</u>
 NET INCREASE (DECREASE) IN CASH	441,238	(358,708)
CASH AT THE BEGINNING OF THE YEAR	<u>1,044,929</u>	<u>1,403,637</u>
CASH AT THE END OF THE YEAR	<u>1,486,167</u>	<u>1,044,929</u>

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

1. GENERAL INFORMATION

The British Virgin Islands (BVI) Health Services Authority (the "Authority") has been established in 2004, through the BVI Health Services Authority Act, 2004 (the "Act"), for the purpose of administering (a) the Peebles Hospital, which is the only hospital in existence in the BVI, and (b) community health services throughout the territory. The Authority oversees operations in ten community clinics - one each in Anegada and Jost van Dyke, two in Virgin Gorda, and six in Tortola. The Peebles Hospital is situated in Road Town.

The Authority is a body corporate with perpetual succession and a common seal, capable of suing and being sued in its corporate name. It also has the capacity to hold and dispose of property, enter into contracts, and perform such acts as a body corporate may legally perform.

The financial statements of the Authority for the year ended September 30, 2013 were authorized for issue by the Chairman of Finance Committee on behalf of the Board of Directors (BOD) on January 19, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements of the Authority have been prepared on a historical cost basis. The financial statements are presented in United States Dollars (US\$), which is the Authority's functional and presentation currency. All amounts are rounded to the nearest dollar, except when otherwise indicated.

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards issued or adopted by the International Accounting Standards Board and interpretations by the Standing Interpretations Committee. IFRS includes statements named IFRS and International Accounting Standards (IAS), and interpretations of the International Interpretations Committee (IIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following standards, amendments and Interpretations based on the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) effective 2013.

• Amendments to IFRS 7, "*Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*"

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with International Accounting Standard (IAS) 32, "Financial Instruments: Presentation". These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with IAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a. The gross amounts of those recognized financial assets and recognized financial liabilities;
- b. The amounts that are set off in accordance with the criteria in IAS 32 when determining the net amounts presented in the statement of financial position;
- c. The net amounts presented in the statement of financial position;

**BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

- d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
- i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in IAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Authority's financial position or performance.

• IFRS 13, "*Fair Value Measurement*"

This standard establishes a single source of guidance for fair value measurement. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

As a result of the guidance in IFRS 13, the Authority reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The application of IFRS 13 did not have a material impact on the fair value measurements of the Authority. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

• Amendment to IFRS 1, "Government Loans"

Current IFRS requires entities to measure government loans with below-market interest rates at fair value, with the benefit accounted for as a government grant. Amendment to IFRS 1 requires a first-time adopter to apply this requirement prospectively to government loans existing at the date of transition to IFRS. A first-time adopter may choose to apply these requirements retrospectively to any government loan, if the information needed had been obtained at the time of initially accounting for the loan.

The Authority availed Government loans and is payable based on the agreed terms.

• IFRS 10, "*Consolidated Financial Statements*" and IAS 27, "*Separate Financial Statements*"

IFRS 10 replaces the portion of IAS 27, Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes issues raised in SIC 12, Consolidation for Special Purpose Entities, resulting in SIC 12 being withdrawn.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by the parent, compared with the requirements of IAS 27.

This is not applicable to the Authority.

• IFRS 11, "*Joint Arrangements*" and IAS 28, "*Investments in Associates and Joint Ventures*"

IFRS 11 replaces IAS 31, Interest in Joint Ventures and SIC-13, Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using equity method.

This is not applicable to the Authority.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

• IFRS 12, "*Disclosure of Interest in Other Entities*"

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all the disclosures that were previously in IAS 31 and IAS 28. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

This is not applicable to the Authority.

• Amendment to IAS 1, "*Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income*"

The amendment to IAS 1 changes the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. Income tax on items of other comprehensive income is required to be allocated on the same basis – amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

The application of amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

• Amendments to IAS 19, "*Employee Benefits*"

The International Accounting Standards Board has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns from plan assets to simple clarifications and re-wording. For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains or losses are recognized in the other comprehensive income when incurred. Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit or loss.

• IAS 27, "*Separate Financial Statements*" (as revised in 2011)

As a consequence of the new IFRS 10 and 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly-controlled entities and associates in separate financial statements.

This is not applicable to the Authority.

• IAS 28, "*Investments in Associates and Joint Ventures*" (as revised in 2011)

As a consequence of the new IFRS 10 and 12, IAS 28 has been renamed IAS 28, Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

This is not applicable to the Authority.

• International Interpretation IFRIC 20, "*Stripping Costs in the Production Phase of a Surface Mine*"

This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a noncurrent asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part.

This is not applicable to the Authority.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Annual Improvements to IFRS (2009 to 2011 cycle)

The Annual Improvements to IFRS (2009 to 2011 cycle) contain non-urgent but necessary amendments to IFRS.

• IFRS 1, "*Repeated Application of IFRS 1*"

This amendment clarifies that an entity that stopped applying IFRS in the past and chooses, or is required to apply IFRS again, has the option to re-apply IFRS 1. If IFRS is not reapplied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS. This is not applicable to the Authority.

• IFRS 1, "*First-time Adoption of IFRS - Borrowing Costs*"

The amendment clarifies that, upon adoption of IFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of IFRS, borrowing costs are recognized in accordance with IAS 23, "Borrowing Costs". The amendment does not apply to the Authority as it is not a first-time adopter of IFRS.

• IAS 1, "*Presentation of Financial Statements - Clarification of the Requirements for Comparative Presentation*"

The Authority has applied the amendments to IAS 1 which states that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required to be presented. The amendments specify that a third statement of financial position is required when (a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and (b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of the financial position. The amendments specify that related notes are not required to accompany the third statement of financial position. The amendment did not have any impact on the Authority's financial position or performance.

• IAS 16, "*Property, Plant and Equipment - Classification of Servicing Equipment*"

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment did not have any impact on the Authority's financial position or performance.

• IAS 32, "*Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*"

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with IAS 12, "Income Taxes". The amendment did not have any impact on the Authority's financial position or performance.

Future Changes in Accounting Policies

The standards, amendments and interpretations which have been issued but not yet effective as at September 30, 2013 are disclosed below. Except as otherwise indicated, the Authority does not expect the adoption of the applicable new and amended IFRS to have a significant impact on the financial position or performance. The Authority did not early adopt these amendments.

Effective in 2014

• Amendments to IFRS 10, "*Consolidated Financial Statements*", IFRS 11, "*Joint Arrangements*" and IAS 27, "*Separate Financial Statements: Investment Entities*"

The amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). This is not currently applicable to the Authority.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

• Amendments to IAS 32, "*Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*"
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments will affect presentation only and will have no significant impact on the Authority's financial position or performance.

• Amendments to IAS 36, "*Impairment of Assets - Recoverable Amount Disclosures for Nonfinancial Assets*"
The amendments remove the unintended consequence of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided IFRS 13 is applied. These amendments will affect disclosures only and will have no impact on the Authority's financial position or performance.

• IAS 39, "*Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*"
The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amendments are not expected to have an impact on the Authority's financial position or performance.

• International Interpretation IFRIC 21, "Levies"
The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Authority does not expect that the interpretation will have a material financial impact on its future financial statements.

Effective in 2015

• Amendments to IAS 19, "*Employee Benefits - Defined Benefit Plans: Employee Contributions*"
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the re-measurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

Annual Improvements to IFRS (2010 to 2012 cycle)

The Annual Improvements to IFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards. The Authority did not early adopt these improvements.

• IFRS 2, "*Share-based Payment - Definition of Vesting Condition*"
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Authority as it currently has no share-based payments.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

• *IFRS 3, "Business Combinations - Accounting for Contingent Consideration in a Business Combination"*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with IAS 32, Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of IFRS 9 (or IAS 39, if IFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Authority shall consider this amendment for future business combinations if become applicable.

• *IFRS 8, "Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets"*

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and will not have an impact on the Authority's financial position or performance if become applicable.

• *IFRS 13, "Fair Value Measurement - Short-term Receivables and Payables"*

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment is effective immediately.

• *IAS 16, "Property, Plant and Equipment: Revaluation Method - Proportionate Restatement of Accumulated Depreciation"*

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment will have no impact on the Authority's financial position or performance.

• *IAS 24, "Related Party Disclosures - Key Management Personnel"*

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and will have no impact on the Authority's financial position or performance.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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• IAS 38, "*Intangible Assets: Revaluation Method - Proportionate Restatement of Accumulated Amortization*"

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. These amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments will have no impact on the Authority's financial position or performance.

Annual Improvements to IFRS (2011 to 2013 cycle)

The Annual Improvements to IFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards. The Authority did not early adopt these improvements.

• IFRS 1, "*First-time Adoption of Philippine Financial Reporting Standards - Meaning of Effective IFRS*"

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment is not applicable to the Authority as it is not a first-time adopter of IFRS.

• IFRS 3, "*Business Combinations - Scope Exceptions for Joint Arrangements*"

The amendment clarifies that IFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Authority's financial position or performance.

• IFRS 13, "*Fair Value Measurement - Portfolio Exception*"

The amendment clarifies that the portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Authority's financial position or performance.

• IAS 40, "*Investment Property*"

The amendment clarifies the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of IFRS 3. This judgment is based on the guidance of IFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Authority's financial position or performance.

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New Standard with No Mandatory Effective Date

• IFRS 9, "Financial Instruments: Classification and Measurement"

IFRS 9, as issued, reflects the first and third phases of the project to replace IAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace IAS 39 in its entirety. IFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward to IFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Authority's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, IFRS 9 replaces the rules-based hedge accounting model of IAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for nonfinancial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. IFRS 9 also requires more extensive disclosures for hedge accounting.

IFRS 9 currently has no mandatory effective date. IFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Authority will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Deferred

• International Interpretation IFRIC 15, "*Agreements for the Construction of Real Estate*"

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The International SEC and the Financial Reporting Standards Council (FRSC) have deferred the affectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the International real estate industry is completed. The adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Authority.

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Financial Instruments

Financial assets and liabilities are recognized when the Authority becomes a party to the contracts. Basic financial instruments are initially measured at their transaction price including transaction costs. Subsequently, debt instruments are carried at amortized cost using the effective interest method. The amortized cost of the financial asset (liability) is the present value of future cash receipts (payments) discounted at effective interest rate. Debt instruments that are classified as current assets and current liabilities are measured at their undiscounted amount of cash or other considerations expected to be paid or received. Other financial instruments are initially carried at transaction price and subsequently, at fair value through profit or loss. Where the future cash flows or fair value of financial instruments including debt instruments are not readily determinable nor can be measured reliably, the financial instruments are measured at cost less any impairment.

Specifically, the following financial assets and liabilities of the Authority are measured in accordance with the preceding policy as follows:

- Cash are carried in the statement of financial position at face amount. For purposes of cash flows, cash consists of cash on hand and deposits in banks.
- Trade and other receivables including receivables from related parties are measured at the expected cash considerations to be received.
- Trade and other payables are recognised in the period in which the related money, goods or services are received, or when legally enforceable claim against the Authority is established, or when the corresponding assets or expenses are recognized.
- The Authority has no financial instruments that are carried at fair value through profit or loss.

At the end of each financial reporting period, the carrying amounts of financial assets are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss, and allowance for impairment is deducted from the related asset that is carried at cost or amortized cost.

Financial asset is derecognized in the financial statements when the contractual rights to cash flows expire or are settled, or when the Authority transfers to another party substantially all of the risks and rewards of ownerships of asset. Financial liability is derecognized when it is extinguished.

Prepayments

Prepayments are costs which are paid in advance of actually incurring them and regularly recurring in the normal course of the business. Prepayments are amortized as the benefits of the payments are received by the Authority and are charged to expense in the applicable period of expiration.

Prepayments that will subsequently expire and be charged to related expense within the next year is classified under current assets. Thus, amounts which will be amortized beyond the following year are classified under noncurrent assets.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories includes all costs directly attributable to acquisition, such as the purchase price and import duties. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Net realizable value of inventories is the current replacement cost.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

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The initial cost of property and equipment comprises its purchase price or construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the property and equipment have been put into operations, such as repairs and maintenance are normally charged to operations or profit or loss in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization commences once the assets are available for use and is computed using the straight-line method over the following estimated useful lives except for leasehold improvements, which are amortized over their estimated lives or term of the lease with consideration to probable renewal, whichever is shorter.

Land is not depreciated because it is considered to have an infinite useful life.

	Yearly depreciation rate
Buildings and improvements	5%
Furniture and fittings	10% - 15%
Computer and office equipment	25%
Motor vehicles	20%
Machinery and equipment	5% - 15%
Medical equipment	10% - 15%
Software	25%
HIS Software	25%

The useful life and depreciation and amortization methods are reviewed and adjusted, if appropriate, periodically to ensure the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment. The carrying values of the property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the value may not be recoverable.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss.

Intangible Assets

Intangible assets include acquired software licenses, and are accounted for under the cost model. The cost of the asset is the amount of cash paid to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful life of four (4) years.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

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Related Party Transactions

Related party transactions exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party, or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among the reporting enterprise and its key management personnel, directors and shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Authority and the amount of the revenue can be reliably measured. The Authority assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Authority has conducted that it is acting as a principal in all of its revenue arrangements. Revenue is measured at the fair value of consideration received or receivable, excluding discounts. The following specific recognition criteria must also be met before revenue is recognized:

- *Government grants* are recognized as revenue as they are received.
- *Service Fee Revenues* comprise the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Authority's activities.
- *Sales of goods* is recognized when the risks and rewards of ownership of the goods have passed to the buyer (i.e. when the customer has acknowledged delivery or receipt of goods).
- *Interest Income* is recognized as the interest accrues, taking into account the effective yield on the asset.

Cost and Expense Recognition

Cost and expenses are recognized in the Statement of Comprehensive Income upon utilization of the goods or services or at the date they are incurred. Interest and similar expenses are reported on accrual basis.

Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfilment is dependent on a specified asset;
- d. there is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the date of renewal or extension period for the second scenario.

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Authority as a lessee

Leases of assets under which the lessor effectively retains all the risks and reward of ownership are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a monthly basis at monthly rental rate as stipulated in the contractual arrangement. The Authority considers such recognition of lease expense as systematic basis and is representative of the time pattern of the Authority's benefit. Associated costs such as repairs and maintenance are expense when incurred.

Provisions

Provisions are recognized only when the following conditions are met: a) there exists a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and c) reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each end of financial reporting period and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefit is probable.

Events After End of Financial Reporting Period

Post year-end events that provide additional information about the Authority's position at the end of financial reporting period, if any, are reflected in the financial statements. However, post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Authority's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates. The effect of any changes in estimates will be recorded in the Authority's financial statements when determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following presents a summary of these significant estimates and judgments and the related impact and associated risks on the financial statements:

Judgments

In the process of applying the Authority's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

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• *Classification of Financial Instruments*

The Authority classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of the financial instrument, rather than its legal form, governs its classification in the statements of financial position.

• *Assessment whether the Lease Agreement is a Finance or Operating Lease*

Management assesses at the inception of the lease whether the arrangement is a finance or operating lease based on who bears substantially all the risks and benefits incidental to ownership of the leased item. The Authority as a lessee has entered into a lease contract for its office where it has determined that the risks and rewards related to the property are retained by the lessor. As such, the agreement is accounted for as operating lease.

• *Impairment of Nonfinancial Assets*

The Authority determines whether there are indicators of impairment of the Authority's property and equipment. Indicators of impairment include significant change in usage, decline in the asset's fair value or underperformance relative to expected historical or projected future results. Determining the fair value of the assets requires the determination of future economic benefit or cash flows expected to be generated from the continued use and ultimate disposition of such assets. It requires the Authority to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Authority's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgments and estimation.

Determining the fair value of assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Authority to make estimates and assumptions. Future event could cause the Authority to conclude that property and equipment are impaired. An increase in allowance for impairment losses would increase operating expenses and decrease the related assets.

No impairment of nonfinancial asset is recognized in the Authority's financial statements in 2013 and 2012.

Estimates

The key assumptions concerning future and other sources of estimating uncertainty at the end of the reporting period that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

• *Estimation of Allowance for Doubtful Accounts*

A provision for impairment of trade receivables is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the patients, probability that the patients have left the territory, and default or delinquency in payments (more than twelve months overdue) are considered indicators that the trade receivable may be uncollectible. A review of the receivables, designed to identify accounts to be provided with allowance, is made by the Authority on a continuous basis. The amount of the provision is the difference between the asset's carrying amount and the recoverable amount and is recognized in the statement of comprehensive income as "provision for impairment loss".

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Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Authority evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Authority's relationship with the patients, the patients' current credit status based on average age of accounts, collection experience and historical loss experience.

The Authority has \$20,400,801 and \$22,550,650 allowance for doubtful accounts recognized in the financial statements as of September 30, 2013 and 2012.

• *Estimation of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, the BOD takes into account the most reliable evidence available at the times the estimates are made. The Authority's core operations are continuously subject to rapid scientific and technological changes, which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of pharmaceutical drugs. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Authority's inventories within the next financial year.

• *Estimation of Useful Lives of Property and Equipment*

Useful lives of property and equipment are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment differ from previous estimate due to physical wear and tear. Any reduction in the estimated useful lives of property and equipment would increase the Authority's recorded operating expenses and decrease property and equipment.

There are no changes in the estimated useful lives of property and equipment in 2013 and 2012.

• *Estimation of Provisions*

The estimate of the probable costs for possible third party claims, if any, has been developed based on management's analysis of potential results. When management believes that the eventual liabilities under these claims, if any, will not have a material effect on the Authority's financial statements, no provision for probable losses is recognized.

4. FINANCIAL RISK MANAGEMENT

Credit Risk

Credit risk is the risk that a counterparty fails to discharge obligation to the Authority. Financial assets which potentially expose the entity to concentrations of credit risk comprise, principally, bank accounts and trade and other receivables. Bank accounts are placed with a high quality financial institution. Trade and other receivables are stated net of allowance for impairment.

Liquidity Risk

Liquidity risk is the potential inability to meet payment obligations as they come due without incurring unacceptable losses. The Authority manages its liquidity needs by carefully monitoring cash outflows due on a day-to-day basis.

Interest Rate Risk

The financial instruments exposed to interest rate risk comprise of cash and long-term debt. The Authority is exposed to interest rate cash flow risk to the extent that the prevailing interest rates on these may fluctuate from time to time.

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5. CASH AND BANK BALANCES

Cash and bank balances consist of:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Cash in banks	1,474,490	1,040,130
Cash on hand	5,208	4,799
Project Account	3,007	-
Pension Fund Account	3,462	-
	<u>1,486,167</u>	<u>1,044,929</u>

Cash in banks earns interest at respective bank deposit rates.

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Receivables from non-exempt patients	30,431,627	29,140,122
Advances to officers and employees	12,236	5,667
Receivables from insurance companies	1,682,640	1,060,663
	<u>32,126,503</u>	<u>30,206,452</u>
Less: Allowance for impairment losses	<u>(22,550,650)</u>	<u>(20,400,801)</u>
	<u>9,575,853</u>	<u>9,805,651</u>

A reconciliation of allowance for impairment losses as at beginning and end of each year is shown below:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Allowance for impairment losses at the beginning of year	20,400,801	20,328,265
Provision for impairment loss recognized during the year	2,165,282	76,965
Less: Accounts written off during the year	(15,433)	(4,429)
Allowance for impairment losses at the end of year	<u>22,550,650</u>	<u>20,400,801</u>

7. PREPAID EXPENSES

Prepaid expenses includes building and health insurances.

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8. INVENTORIES

Inventories consist of:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Prescription, drugs and pharmaceutical supplies	804,809	557,414
Medical and other related supplies	621,882	666,763
Office supplies	87,982	36,314
	1,514,673	1,260,491
Less: Allowance for obsolescence	(86,130)	(72,974)
	1,428,543	1,187,517

A reconciliation of allowance for obsolescence as at beginning and end of each year is shown below:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Allowance for obsolescence at the beginning of year	72,974	42,202
Provision for obsolescence recognized during the year	13,156	30,772
Less: Inventories disposed off during the year	-	-
Less: Recovery of provision for obsolescence previously recognized	-	-
Allowance for obsolescence at the end of year	86,130	72,974

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9. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	Land, Buildings and Improvements	Furniture and Fittings	Computer and Office Equipment	Motor Vehicles	Machinery and Equipment	Medical Equipment	HIS Equipment	Total
Cost								
At September 30, 2011	22,023,391	581,195	387,800	816,969	596,115	3,319,502	-	27,724,972
Additions	-	50,166	-	-	-	1,085	-	51,251
Disposals	-	-	-	-	-	-	-	-
At September 30, 2012	22,023,391	631,361	387,800	816,969	596,115	3,320,587	-	27,776,223
Additions	-	9,006	232,663	174,600.00	-	236,948	176,224	829,441
Reclassification	-	31,304	387,052	-	-	(416,654)	(1,702)	-
Revaluation	-	666,019	-	-	-	-	2,429	668,448
Impairment	-	-	(79,900)	-	(38,389)	(30,527)	-	(148,816)
Disposals	-	-	-	-	-	-	-	-
At September 30, 2013	22,023,391	1,337,690	927,615	991,569	557,726	3,110,354	176,951	29,125,296
Accumulated Depreciation								
At September 30, 2011	10,917,401	511,514	377,014	593,207	367,923	2,236,322	-	15,003,381
Depreciation	1,059,862	51,301	5,973	61,167	94,731	254,634	-	1,527,668
Disposals	-	-	-	-	-	-	-	-
At September 30, 2012	11,977,263	562,815	382,987	654,374	462,654	2,490,956	-	16,531,049
Depreciation	1,059,862	125,179	17,109	62,629	14,253	292,648	38,418	1,610,098
Revaluation/Impairment	-	240,490	311,652	26,008	(366,257)	(119,503)	-	92,390
Disposals	-	-	-	-	-	-	-	-
At September 30, 2013	13,037,125	928,484	711,748	743,011	110,650	2,664,101	38,418	18,233,537
NBV at September 30, 2013	8,986,266	409,206	215,867	248,558	447,076	446,253	138,533	10,891,759
NBV at September 30, 2012	10,046,128	68,546	4,813	162,595	133,461	829,631	-	11,245,174

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10. INTANGIBLE ASSETS

Intangible assets pertains to acquired software licenses which is accounted as follows:

	<u>Software</u>	<u>HIS Software</u>	<u>Total</u>
Cost			
At September 30, 2011	-	-	-
Additions	44,840	-	44,840
At September 30, 2012	44,840	-	44,840
Additions	-	474,954	474,954
Revaluation	4,000	-	4,000
At September 30, 2013	48,840	474,954	523,794
Accumulated Depreciation			
At September 30, 2011	23,454	-	23,454
Depreciation	11,210	-	11,210
At September 30, 2012	34,664	-	34,664
Depreciation	10,176	74,874	85,050
Revaluation	4,000	-	4,000
At September 30, 2013	48,840	74,874	123,714
NBV at September 30, 2013	-	400,080	400,080
NBV at September 30, 2012	10,176	-	10,176

Any adjustments to amortization expense during the year is shown under Depreciation and Amortization in the Statement of Comprehensive Income.

11. TRADE AND OTHER PAYABLES

Trade and other payables consist of:

	<u>2013</u>	<u>2012</u>
	<u>US\$</u>	<u>US\$</u>
Trade payables	5,582,111	2,288,556
Accrued medical insurance	1,284,481	628,650
Accrued fees and liabilities	303,499	341,669
Payroll tax liability	203,701	199,832
Social security payable	100,514	96,573
Other accruals	7,392	8,868
	<u>7,481,698</u>	<u>3,564,148</u>

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12. GOVERNMENT LOAN

On November 1, 2012, BVIHSA entered into Loan Agreement with the Government of BVI to purchase IT Equipment for a total amount of \$1,700,000 at 6% interest per annum. As at September 30, 2013 total cash received from the Government as part of the loan amounted to \$700,000 while the remaining balance of the loan was provided in November 28, 2014.

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Total principal balance outstanding	608,333	-
Less: Current portion of the long-term debt	(65,758)	-
Noncurrent portion of the long-term debt	<u>542,575</u>	<u>-</u>

13. SERVICE FEES

Service fees consist of:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Dialysis fees	5,832,733	7,594,843
Community Clinic Fees	1,365,853	-
Accommodation-related fees	847,825	265,577
Laboratory- and other related fees	635,493	751,504
Accidents and Emergency	617,497	-
Radiology services fees	590,587	801,512
Others	493,823	487,379
Dental fees	349,518	146,434
Overseas medical care fees	337,764	15,613
General consultation and specialist fees	77,718	572,020
Adjustments	(6,068,960)	-
	<u>5,079,851</u>	<u>10,634,882</u>

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14. COSTS OF SALES AND SERVICES

Costs associated with provision of medical services and goods consist of:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Cost of sales	813,429	179,484
Specialist medical services	309,792	75,903
Prescriptions and drugs	595,226	484,844
Laboratory services	458,395	518,604
Hemodialysis services	643,350	449,304
Overseas patients expense	97,381	30,245
Dietary services	217,171	137,929
Housekeeping services	213,538	127,685
Medical gases and supplies	200,598	378,656
Radiology services	230,150	199,241
Others	173,547	173,241
	<u>3,952,577</u>	<u>2,755,136</u>

15. SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits consist of:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Salaries and wages	16,364,762	15,971,131
Gratuities and pension	1,421,237	1,928,020
Allowances	1,238,592	1,204,335
Social security contributions	623,498	592,937
Housing assistance	288,048	293,514
Health insurance	337,970	429,549
Payroll tax expense	766,935	746,639
Study leave	6,397	45,421
Uniforms	55,479	-
Staff accommodation	27,258	-
Training	94,243	72
	<u>21,224,419</u>	<u>21,211,618</u>

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16. LEASES

As at September 30, 2013, the Authority was committed to five (5) different lease agreements for the rental of office space and residential space. A warehouse lease was terminated in August 2012.

Total estimated future annual minimum rentals payable under the existing leases follows:

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Not later than 1 year	398,095	303,760
Later than 1 year and not more than 5 years	358,530	643,343
	756,625	947,103

17. RELATED PARTY TRANSACTIONS

a. Transactions with the Government of the Virgin Islands

The Authority receives grants from the Government of the Virgin Islands annually through the Ministry of Health and Social Development (hereinafter referred to as the Ministry). These are presented as Government Subvention in the Statement of Comprehensive Income. The Ministry also purchases property and equipment on behalf of the Authority as the need arises.

b. Transactions with the BOD

The Authority provides remuneration to directors in exchange for their expertise in overseeing the Authority's activities.

c. Transactions between the Ministry and the Authority's BOD

The Ministry pays monthly stipends to the Authority's board members.

18. ACCRUED POST-EMPLOYMENT BENEFITS

Upon establishment of the Authority and transfer of the assets and operations of the Peebles Hospital and community health clinics from the Ministry, the Authority is obligated to establish a pension plan for its employees that is no less favourable than that for employees in the public sector. The BVI Government offers post-employment benefits in the form of gratuities which are calculated according to set formulas based on length of service and salaries or wages in the final year of service. Depending on the length of service, employees may be entitled to one or more of the following:

- a. compassionate gratuities;
- b. reduced pension plus gratuities; and
- c. full pension.

On September 3, 2013, the Authority engaged services of Pension Management Interactive, Inc. ("PMI" to develop an employee pension plan for members of the Authority. Trustees or Administrators of the plan appointed PMI to act as Pension Administration Service Provider. The Authority has established a Defined Contribution Plan and established under irrevocable trust by Trust Deed for purpose of securing pensions and other benefits for present and future employees as eligible under the plan.

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In prior years, the Authority uses the BVI Government's regime to accrue post-employment benefits for personnel employed for ten (10) years and more. In accruing post-employment benefits for personnel employed for less than ten (10) years, the Authority uses the provisions under Section 111 of the Labour Code as a guideline.

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Compassionate gratuities	3,052,307	2,993,780
Retirement gratuities	1,476,774	1,031,532
Monthly reduced pension	417,166	247,568
Other post-employment benefits accrued for employees with tenure of less than ten (10) years	295,053	295,053
	5,241,300	4,567,933

19. CONTRIBUTED CAPITAL

	2013	2012
	<u>US\$</u>	<u>US\$</u>
Contributed capital comprises:		
	31,621,258	31,621,258

20. COMMITMENTS AND CONTINGENCIES

On March 29, 2011, a maternity patient of the Peebles Hospital filed a case against the Authority for an incident that occurred on September 30, 2010. The claimant sought damages from the Authority and her attending physician (hereinafter referred to as the defendants) in the amount of US\$173,627. Settlement was reached in a July 21, 2014 trial whereby the insurers for the Authority agreed to pay the claimant on behalf of the Authority the sum of \$40,000 in full and final settlement of all her claims.

The Authority is defendant to a claim filed by a couple alleging negligence of employees at Peebles Hospital in accidentally disposing of their baby's body. The claimants were seeking compensation for damages in the amount of US\$120,000. While the Authority has accepted liability for the error committed, it was of the view that the claims filed were excessive. Assessment of damages took place in January 2013 and the claimants were awarded the sum of \$70,000 which has been paid by the insurers of the Authority.

A claim has been brought by a complainant on June 11, 2012 in his capacity as the widower of a patient who passed away at the Peebles Hospital on October 17, 2011, seeking general and special damages in the amount of \$300,000. The Authority filed a Defence denying the claim and contending treatment was proper and in keeping with acceptable medical standards. Trial took place in May 2014 after which judgment was reserved. As of report date, this judgement remains outstanding. It is estimated that the claimants chances of success is approximately 40% and the Authority's potential liability in this matter is therefore believed to be approximately \$75,000.

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A claim was filed by the personal representative of a patient who passed away in June 2013. The patient was involved in a car accident and treated in the hospital from May 18 to 22, 2013. They were discharged with instructions by the Authority's Physiotherapist on need for mobility, exercises and diet. On June 1, 2013, the patient unexpectedly collapsed and was eventually pronounced dead. On June 12, 2013, the post mortem examination concluded that cause of death was respiratory insufficiency stemming from a pulmonary embolism. The claimant filed a claim against the Authority alleging inter alia a failure of its staff to treat the patient with anticoagulation medication. The Authority denied the claim contending that medication was administered to the patient during her stay in the hospital. The parties reached settlement of the matter in November 2014 during a mediation hearing and it was agreed that the Authority would pay the Claimant \$20,000 in full and final settlement of all her claims against the Authority.

A claim was filed by the claimant against the Authority in June 2013 and contended that the employees of Peebles Hospital had been negligent in their treatment of his medical condition. The Authority filed a defence denying the claim and further contended that even if it had taken all precautions which the claimant has suggested it would not have made any difference because of the claimant's medical history. The claimant sought unspecified amount of general damages for pain and suffering and loss of amenities. During mediation, the claimant was seeking \$1,000,000 and as the matter progressed and the merits of his case become more doubtful he indicated a willing to accept \$100,000 in full and final settlement of all his claims. Both offers were rejected as the Authority is of the view that it has very good defence to the claim since the evidence of medical experts is that regardless of what steps had been taken by the Authority the medical outcome for the claimant would still have been the same. Should the claimant be ultimately successful on his claim it is estimated that the Court would award damages and costs approximately \$125,000. The matter is due on for trial on January 18, 2015.

21. EVENTS AFTER REPORTING PERIOD

The Authority is not aware of any other events occurring after reporting date that warrant adjustments or disclosure to the financial statements.