

**BRITISH VIRGIN ISLANDS
HEALTH SERVICES AUTHORITY**

FINANCIAL STATEMENTS

FOR

YEAR ENDED

SEPTEMBER 30, 2012



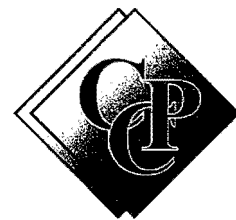
**CCP ACCOUNTANCY SERVICES LIMITED
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BRITISH VIRGIN ISLANDS**



BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY

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INDEPENDENT AUDITORS' 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, 2012, 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.

Auditors' 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

We were not appointed as auditors of the Authority until after September 30, 2011. Hence, we did not observe the physical counting of inventories at the beginning of the year. Furthermore, we did not observe the physical counting of inventories at the end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at September 30, 2012 and 2011. Since opening inventories enter into the determination of financial performance and cash flows, we were unable to determine whether any adjustments might have been necessary in respect of recorded or unrecorded inventories, and profits reported in the statement of comprehensive income and net cash flows from operating activities reported in the statement of cash flows. Inventories were presented in the statements of financial position at US\$1,187,517 and US\$1,070,469, respectively, as at September 30, 2012 and 2011.

Basis for Qualified Opinion (Continued)

As at and for the year ended September 30, 2012, the Authority's property and equipment is carried at \$11,245,174 in the statement of financial position, and depreciation expense is recognized in the statement of comprehensive income at \$1,527,668. We were unable to obtain sufficient appropriate audit evidence about the gross valuation of property and equipment, particularly land, buildings, and medical equipment as at September 30, 2012. 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, 2012, and the related elements making up the statements of comprehensive income, changes in equity, and cash flows for the year ended September 30, 2012.

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, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

We had been engaged to audit the Authority's accompanying financial statements as of and for the year ended September 30, 2011; but a disclaimer of opinion was rendered because the Authority did not have in place appropriate systems for recording and maintenance of all accounting transactions and balances.

Although the comparative figures reported in the accompanying statements of financial position, comprehensive income, and changes in equity have been restated, these amounts are not audited.

CCP Accountancy Services Limited

CCP Accountancy Services Limited

August 1, 2013

Road Town, Tortola, B.V.I.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Notes</u>	2012 <u>US\$</u>	Unaudited 2011 <u>US\$</u>
REVENUES			
Government subvention	14	21,224,271	17,041,105
Service fees	10	10,634,882	10,221,195
Sales		1,052,476	1,235,732
Other income		582,448	851,056
		<u>33,494,077</u>	<u>29,349,088</u>
COSTS AND EXPENSES			
Costs of sales and services	11	2,755,136	5,448,285
Salaries and employee benefits	12	21,211,618	16,780,694
Depreciation and amortization	7, 8	1,538,878	1,633,080
Provision for impairment loss	5	76,965	3,076,953
Utilities		1,451,963	1,338,287
General expenses		295,918	383,149
Repairs and maintenance		175,130	237,610
Insurance expense		569,516	434,222
Legal and professional fees	17	867,112	92,610
Travel and entertainment		124,813	134,150
Rent	13	441,508	444,935
Board expenses	14	12,178	17,406
Vehicular expenses		101,320	106,429
Contracted labor		160,561	68,573
Provision for obsolescence	6	30,772	-
Miscellaneous expenses		193,795	164,400
		<u>30,007,183</u>	<u>30,360,783</u>
Comprehensive income (loss)		<u>3,486,894</u>	<u>(1,011,695)</u>

The accompanying notes form an integral part of these financial statements.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2012

	<u>Notes</u>	<u>2012</u> <u>US\$</u>	<u>Unaudited</u> <u>2011</u> <u>US\$</u>
ASSETS			
Current Assets			
Cash and bank balances		1,044,929	1,403,637
Trade and other receivables	5	9,817,766	3,061,638
Inventories	6	1,187,517	1,070,469
		12,050,212	5,535,744
Noncurrent Assets			
Property and equipment	7	11,245,174	12,721,591
Intangible assets	8	10,176	21,386
		11,255,350	12,742,977
TOTAL ASSETS		23,305,562	18,278,721
 LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	9	3,564,148	3,245,931
Provision for loss on litigation	17	87,396	-
		3,651,544	3,245,931
Noncurrent Liability			
Accrued post-employment benefits	15	4,567,933	3,433,599
		8,219,477	6,679,530
Equity			
Contributed capital	16	31,621,258	31,621,258
Deficit		(16,535,173)	(20,022,067)
		15,086,085	11,599,191
TOTAL LIABILITIES AND EQUITY		23,305,562	18,278,721

Approved on Behalf of the Board of Directors :

Director : _____

Date : _____

The accompanying notes form an integral part of these financial statements.

**BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Contributed capital <u>US\$</u>	Deficit <u>US\$</u>	Total <u>US\$</u>
Balance at September 30, 2010	31,621,258	(19,010,372)	12,610,886
Comprehensive income for the year	<u>-</u>	<u>(1,011,695)</u>	<u>(1,011,695)</u>
Balance at September 30, 2011	31,621,258	(20,022,067)	11,599,191
Comprehensive income for the year	<u>-</u>	<u>3,486,894</u>	<u>3,486,894</u>
Balance at September 30, 2012	<u>31,621,258</u>	<u>(16,535,173)</u>	<u>15,086,085</u>

The accompanying notes form an integral part of these financial statements.

**BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	2012 <u>US\$</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Comprehensive income	3,486,894
Adjustments to reconcile net income to net cash flow from operating activities	
Depreciation and amortization	1,538,878
Provision for impairment loss	76,965
Provision for obsolescence	<u>30,772</u>
	5,133,509
Increase in trade and other receivables	(6,760,886)
Increase in inventories	(117,048)
Increase in trade and other payables	302,634
Increase in accrued post-employment benefits	<u>1,134,334</u>
Net cash used in operating activities	<u>(307,457)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(51,251)</u>
Net cash used in investing activities	<u>(51,251)</u>
NET DECREASE IN CASH	(358,708)
Cash balance at beginning of year	<u>1,403,637</u>
Cash balance at end of year	<u><u>1,044,929</u></u>

The accompanying notes form an integral part of these financial statements.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

1. GENERAL INFORMATION

The British Virgin Islands (BVI) Health Services Authority (hereinafter referred to as the Authority) has been established in 2004, through the BVI Health Services Authority Act, 2004 (hereinafter referred to as 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, 2012 were authorized for issue by the Chairman of Finance Committee on behalf of the Board of Directors (BOD) on October 10, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), which comprise standards issued or adopted by the International Accounting Standards and interpretations by the Standing Interpretations Committee. These financial statements have been prepared on the historical cost convention.

Use of Estimates

The Authority's financial statements prepared in accordance with IFRS require the BOD to make judgments and estimates that affect amounts reported in the financial statements and their related notes. Judgments and estimates are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

Financial Instruments

Cash - Cash is carried in the balance sheet at face amount. For purposes of cash flows, cash consists of cash on hand and deposits held at call with banks.

Trade receivables - Trade receivables arise from hospital- and community health-related services rendered, and are recognized at original invoice amount less any provision for impairment loss. 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".

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade and other payables - Trade payables are recognized 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.

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 carried at acquisition cost less accumulated depreciation and any impairment in value. Cost includes purchase price and directly-attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized whereas expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis using the following rates:

Computer and office equipment	25%
Furniture and fittings	10% - 15%
Machinery and equipment	5% - 15%
Medical equipment	10% - 15%
Motor vehicles	20%
Buildings and improvements	5%

Since no finite useful lives can be determined for land, the related carrying amounts are not depreciated.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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.

Revenue and Cost Recognition

a. Government Subvention

Government grants are recognized as revenue as they are received.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Service Fee Revenues

Service fees comprise the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Authority's activities.

The Authority recognizes revenue when the amount of revenue can be readily measured, and it is probable that future economic benefits will flow to the entity, and specific recognition criteria have been met.

c. Sales

Sale 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).

d. Costs and Expenses

Costs and expenses are recognized upon utilization of goods or services, or at the date they are incurred.

Leases

Leases which do not transfer to the Authority substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Related Party Transactions and Relationships

Related party relationship exists 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 a relationship exists between and/or among the reporting enterprise and its key management personnel, directors and shareholders, if any. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Functional and Presentation Currency

Functional currency is the currency of the primary economic environment in which the entity operates while presentation currency is the currency in which the financial statements are presented.

The financial statements are presented in the 'United States Dollar' ('US\$') which is the Authority's functional and presentation currency.

Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The following represent the summary of the critical accounting estimates, assumptions and judgments and their related impact and associated risks in the financial statements. These estimates, assumptions 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.

Determining 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.

Estimated Useful Lives

The useful life of each of the Authority's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluations and experiences with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by the changes in the factors mentioned above. An increase in the estimated useful life of any item of property, leasehold improvements and equipment would decrease the recorded general and administrative expenses.

Allowance for Impairment of Trade Receivables

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.

4. FINANCIAL RISK MANAGEMENT

Credit Risk

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

The Authority manages its liquidity needs by carefully monitoring cash outflows due on a day-to-day basis.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

5. TRADE AND OTHER RECEIVABLES

The fair values of trade and other receivables at September 30 are as follows:

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Receivables from non-exempt patients	23,677,988	17,110,067
Receivables from overseas patients	5,462,134	5,605,457
Receivables from insurance companies	1,060,663	675,740
Advances to officers and employees	5,667	4,606
Prepaid expenses and suspense account	12,115	(5,967)
	<u>30,218,567</u>	<u>23,389,903</u>
Less: Allowance for impairment losses	<u>(20,400,801)</u>	<u>(20,328,265)</u>
	<u>9,817,766</u>	<u>3,061,638</u>

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

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Allowance for impairment losses at the beginning of year	20,328,265	17,251,312
Provision for impairment loss recognized during the year	76,965	3,076,953
Less: Accounts written off during the year	(4,429)	-
Allowance for impairment losses at the end of year	<u>20,400,801</u>	<u>20,328,265</u>

6. INVENTORIES

Details of inventories held at the end of each year are as follows:

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Prescription, drugs and pharmaceutical supplies	557,414	541,422
Medical and other related supplies	666,763	563,218
Office supplies	36,314	8,031
	<u>1,260,491</u>	<u>1,112,671</u>
Less: Allowance for obsolescence	<u>(72,974)</u>	<u>(42,202)</u>
	<u>1,187,517</u>	<u>1,070,469</u>

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

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Allowance for obsolescence at the beginning of year	42,202	42,202
Provision for obsolescence recognized during the year	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	<u>72,974</u>	<u>42,202</u>

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

7. PROPERTY AND EQUIPMENT

Property and equipment at September 30 consist of:

	<u>Land, Buildings and Improvements</u>	<u>Furniture and Fittings</u>	<u>Computer and Office Equipment</u>	<u>Motor Vehicles</u>	<u>Machinery and Equipment</u>	<u>Medical Equipment</u>	<u>Total</u>
Cost							
At September 30, 2010	22,023,391	572,775	386,400	786,799	565,475	3,319,502	27,654,342
Additions	-	8,420	1,400	30,170	30,640	-	70,630
Disposals	-	-	-	-	-	-	-
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
Accumulated Depreciation							
At September 30, 2010	9,857,539	435,923	352,309	525,608	267,900	1,942,232	13,381,511
Depreciation	1,059,862	75,591	24,705	67,599	100,023	294,090	1,621,870
Disposals	-	-	-	-	-	-	-
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
NBV at September 30, 2012	10,046,128	68,546	4,813	162,595	133,461	829,631	11,245,174
NBV at September 30, 2011	11,105,990	69,681	10,786	223,762	228,192	1,083,180	12,721,591
NBV at September 30, 2010	12,165,852	136,852	34,091	261,191	297,575	1,377,270	14,272,831

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

8. INTANGIBLE ASSETS

Intangible assets comprise acquired software licenses as follows:

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Cost	44,840	44,840
Accumulated amortization	<u>(34,664)</u>	<u>(23,454)</u>
	<u>10,176</u>	<u>21,386</u>

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

9. TRADE AND OTHER PAYABLES

Trade and other payables at September 30 consist of:

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Trade payables	2,288,556	2,989,699
Accrued professional fees	341,669	44,300
Accrued medical insurance	628,650	-
Other accruals	8,868	17,813
Social security payable	96,573	171,617
Payroll tax liability	<u>199,832</u>	<u>22,502</u>
	<u>3,564,148</u>	<u>3,245,931</u>

10. SERVICE FEES

The breakdown of service fees earned during both years are shown below:

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Dialysis fees	7,594,843	6,027,166
Overseas medical care fees	15,613	419,696
Laboratory- and other related fees	751,504	967,461
Radiology services fees	801,512	851,869
Accommodation-related fees	265,577	371,126
Dental fees	146,434	278,007
Medical supplies fees	289,214	457,532
General consultation and specialist fees	572,020	660,204
Others	<u>198,165</u>	<u>188,134</u>
	<u>10,634,882</u>	<u>10,221,195</u>

The Authority has adopted a new policy in accounting for sales and services rendered to patients who are, by virtue of law and legislation, entitled to free healthcare in the territory (hereinafter referred to as exempt patients). Revenues arising from the sale of goods and services to exempt patients are no longer recognized in the books of accounts and, consequently, in the financial statements, because it is not probable that economic benefits associated with the transactions will flow to the Authority.

BRITISH VIRGIN ISLANDS HEALTH SERVICES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

11. COSTS OF SALES AND SERVICES

Costs associated with provision of medical services and goods are broken down as follows:

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Cost of sales	179,484	1,858,372
Specialist medical services	75,903	120,858
Prescriptions and drugs	484,844	840,588
Laboratory services	518,604	497,009
Heamodialysis services	449,304	518,484
Overseas patients expense	30,245	361,455
Dietary services	137,929	168,933
Housekeeping services	127,685	130,077
Medical gases and supplies	378,656	552,448
Radiology services	199,241	199,873
Others	173,241	200,188
	<u>2,755,136</u>	<u>5,448,285</u>

Before the change in accounting policy as noted in Note 10, the Authority would annually write off as Exempt Patients Expense the total amount invoiced to exempt patients during the financial year. This accounting practice is no longer required as a result of the change in accounting policy. All adjustments necessary to conform with the new policy have been adopted retrospectively.

12. SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the year ended September 30 are as follows:

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Salaries and wages	15,971,131	13,003,282
Allowances	1,204,335	883,374
Gratuities and pension	1,928,020	1,115,302
Social security contributions	592,937	413,509
Housing assistance	293,514	273,567
Health insurance	429,549	342,203
Payroll tax expense	746,639	621,218
Overtime pay	-	46,930
Study leave	45,421	72,712
Others	72	8,597
	<u>21,211,618</u>	<u>16,780,694</u>

13. LEASES

As of the beginning of current fiscal year, the Authority entered into six (6) different lease agreements for the rental of office space, residential space, and a warehouse in Road Town and Pockwood Pond, Tortola.

The lease of warehouse was terminated in August 2012.

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13. LEASES (Continued)

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

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Not later than 1 year	303,760	484,648
Later than 1 year and not more than 5 years	<u>643,343</u>	<u>947,103</u>
	<u>947,103</u>	<u>1,431,751</u>

14. 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.

15. 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.

The Authority has not yet established a formal pension plan for its employees, and currently 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.

Whilst the Authority has not yet established its own formal pension plan for its employees, the BOD has committed to establishing a defined contribution plan.

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15. ACCRUED POST-EMPLOYMENT BENEFITS (Continued)

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Compassionate gratuities	2,993,780	2,855,545
Retirement gratuities	1,031,532	319,764
Monthly reduced pension	247,568	76,743
Other post-employment benefits accrued for employees with tenure of less than ten (10) years	295,053	181,547
	<u>4,567,933</u>	<u>3,433,599</u>

16. CONTRIBUTED CAPITAL

	2012	2011
	<u>US\$</u>	<u>US\$</u>
Contributed capital comprises:	31,621,258	31,621,258
	<u>31,621,258</u>	<u>31,621,258</u>

17. COMMITMENTS, CONTINGENCIES, AND EVENTS AFTER REPORTING PERIOD

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 is seeking damages from the Authority and her attending physician (hereinafter referred to as the defendants) in the amount of US\$173,627. Based on the case proceedings and medical opinions gathered, however, it is unlikely that the defendants will be held liable to the claimant for damages. Consequently, no corresponding provision for losses on litigation is recognized. In the unlikely event, however, that the claimant is able to prove her case successfully in court, joint liability to be borne by the defendants is estimated not to exceed US\$75,000.

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 damages for loss in the amount of US\$300,000. The matter is expected to come to trial some time during the last quarter of 2013. The Claimant, however, has not filed any expert medical evidence to support his case. Consequently, the legal counsel is of the opinion that the Claimant will not succeed on his claim.

Also, on May 17, 2012, the Authority has received a letter from a Peebles Hospital patient seeking unspecified amount of compensation for damages following a surgical procedure that has been performed on her. The claim is statute-barred as it appears to have been brought outside the statutory period permitted by the Public Authorities Protection Act Cap 62, Revised Laws of the Virgin Islands. Consequently, no contingent liability is anticipated with respect to the said claim.

Lastly, the Authority is defendant to a claim filed by a couple alleging negligence of its servants at the Peebles Hospital in accidentally disposing of their baby's body. The claimants are seeking compensation for damages in the amount of US\$120,000. An assessment of damages has already taken place on May 22, 2013. Damages, costs, and interest amounting to US\$87,396 has been awarded in favor of the claimants. The corresponding liability is presented as Provision for Loss on Litigation under current liabilities in the Statement of Financial Position.

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