

Financial Statements of

**CAYMAN ISLANDS HEALTH
SERVICES AUTHORITY**

31 December 2020



CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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Office of the
Chief Executive Officer

95 Hospital Road · P.O. Box 915
Grand Cayman KY1-1103 · Cayman Islands
Tel: (345) 244 2602 · Fax: (345) 244 2595

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Cayman Islands Health Services Authority (“Health Authority”) in accordance with the provisions of the *Public Management and Finance Act (2020 Revision)*, and *International Financial Reporting Standards*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Act (2020 Revision)*, and *International Financial Reporting Standards*.

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

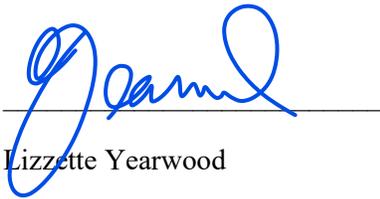
As Chief Executive officer and Chief Financial Officer, we are responsible for the preparation of the Health Authority’s financial statements and for the judgements and estimates made in them.

We confirm that these financial statements fairly present the financial position, comprehensive income and cash flows of the Health Authority for the year ended 31 December 2020.

To the best of our knowledge, we represent that these financial statements:

- (a) completely and reliably reflect the financial transactions of Health Authority for the year ended 31 December 2020;
- (b) fairly reflect the financial position as at 31 December 2020 and comprehensive income for the year ended 31 December 2020; and
- (c) comply with the provisions of the *Public Management and Finance Act (2020 Revision)* and *International Financial Reporting Standards*.

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



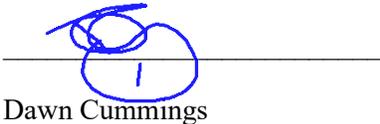
Lizzette Yearwood
Chief Executive Officer

Date: 30 April 2021



Jonathan Tibbetts
Chairman

Date: 30 April 2021



Dawn Cummings
Chief Financial Officer

Date: 30 April 2021

AUDITOR GENERAL'S REPORT

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

Opinion

I have audited the financial statements of the Cayman Islands Health Services Authority (the "Authority" or the "HSA"), which comprise the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2020, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 11 to 59.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Cayman Islands Health Services Authority as at 31 December 2020 and its financial performance and its cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Emphasis of Matters

I draw attention to note 25 of the financial statements, which states that the recognition of post-retirement health liability resulted in a net liability of \$63.1 million in the statement of financial position. This event raised a substantial doubt about the Heath Authority's ability to continue as a going concern. The note also describes the series of action plans taken by management to alleviate this concern. My opinion is not modified in respect of this matter.

As outlined in note 22(c) of the financial statements, *The Public Authorities Act (2020 Revision)*, Section 47 - *Terms and conditions and remuneration of staff* came into effect at 1 June 2019 and required all Statutory Authorities and Government Companies to comply with its requirements to standardize salaries and benefits. At the date of this report, the process to complete this standardization has not been completed. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

AUDITOR GENERAL'S REPORT (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

I have undertaken the audit in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Act (2020 Revision)* and Section 24(1) of the *Health Services Authority Act (2010 Revision)*. I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Sue Winspear
Auditor General

30 April 2021
Cayman Islands

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Financial Position

As at 31 December 2020

(stated in Cayman Islands dollars)

	Note	December 31, 2020	Budget	<i>December 31, 2019</i>
Current assets				
Cash and cash equivalents	4	46,527,507	38,416,279	\$41,329,749
Short-term investments	5	-	-	5,063,674
Accounts receivable - net	6	25,682,776	24,170,726	19,204,447
Other receivables - net	7	3,555,382	57,093	1,745,138
Inventory - net	8	15,026,443	5,543,908	6,953,938
Advances to suppliers		3,066,495	387,656	1,263,889
Prepaid expenses		171,646	-	44,792
Total current assets		94,030,249	68,575,662	75,605,627
Non-current assets				
Fixed assets	9	78,890,270	83,149,220	76,039,108
Right-of-use assets	10	2,504,792	-	2,032,954
Total Non-current assets		81,395,062	83,149,220	78,072,062
Total assets		175,425,311	151,724,882	153,677,689
Current liabilities				
Accounts payable and accrued expenses	11	12,581,236	4,939,355	6,498,319
Lease liability	10	531,682	-	307,540
Total current liabilities		13,112,918	4,939,355	6,805,859
Non-current liabilities				
Unfunded employee healthcare benefits, net	20	209,820,000	161,336,000	167,301,000
Employee pension benefits, net	19	13,550,000	8,939,000	8,112,000
Lease liability	10	2,119,027	-	1,803,395
Total non-current liabilities		225,489,027	170,275,000	177,216,396
Total liabilities		238,601,945	175,214,355	184,022,254
Net liabilities		(63,176,634)	(23,489,473)	(30,344,565)
Represented by:				
Contributed capital		141,983,402	140,805,201	140,805,201
Accumulated deficit		(209,285,574)	(181,008,201)	(210,497,304)
Other comprehensive income		(23,457,000)		11,765,000
Asset revaluation		27,582,538	27,582,539	27,582,538
Net deficit		(\$63,176,634)	(\$12,620,462)	(\$30,344,565)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Comprehensive Income

For the year ended 31 December 2020

(stated in Cayman Islands dollars)

	Note	December 31, 2020	Budget	December 31, 2019
Revenue				
Patient services fees	12	107,969,357	114,882,987	\$108,895,813
Government programme	13	16,200,689	16,266,615	14,394,290
Other income	14	21,256,056	1,127,438	1,957,442
		145,426,102	132,277,039	125,247,545
Operating expenses				
Staff costs	15	89,321,091	97,430,460	82,788,031
Supplies and materials	16	19,028,993	17,803,436	17,060,809
Other operating expense	17	14,771,884	8,906,206	8,032,166
Provision for doubtful debts	6, 7	9,585,372	135,006	9,423,242
Depreciation	9, 10	4,322,461	6,073,422	3,731,915
Utilities		3,088,242	3,197,493	2,939,819
Legal and professional fees	18	1,354,328	589,796	931,416
Insurance		1,669,979	2,683,562	1,972,314
Security services		667,083	-	397,883
Travel and subsistence		245,422	317,982	474,459
Training		149,851	1,658,003	237,724
Reference materials		70,212	405,300	29,076
Inventory adjustment	8	(60,546)	-	208,714
		144,214,372	139,200,668	128,227,568
Net income (loss) for the year		1,211,730	(6,923,628)	(2,980,023)
Other comprehensive income				
Re-measurement of defined pension benefit	19	(3,696,000)	-	(697,000)
Re-measurement of defined healthcare benefit	20	(31,526,000)	-	(19,330,000)
		(35,222,000)	-	(20,027,000)
Total comprehensive loss for the year		(\$34,010,270)	(\$6,923,628)	(\$23,007,023)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Changes in Equity

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

	Note	Contributed capital	Accumulated deficit	Other comprehensive (loss) income	Asset revaluation	Total
Balance, 31 December 2018		\$140,805,201	(\$207,517,281)	\$31,792,000	\$27,582,538	(7,337,542)
Net loss for the year		-	(2,980,023)	-	-	(2,980,023)
Other comprehensive loss for the year		-	-	(20,027,000)	-	(20,027,000)
Capital contribution during the year	23	-	-	-	-	-
Balance, 31 December 2019		140,805,201	(210,497,304)	11,765,000	27,582,538	(\$30,344,565)
Net income for the year		-	1,211,730	-	-	1,211,730
Other comprehensive loss for the year		-	-	(35,222,000)	-	(35,222,000)
Capital contribution during the year	23	1,178,201	-	-	-	1,178,201
Balance, 31 December 2020		\$141,983,402	(\$209,285,574)	(\$23,457,000)	\$27,582,538	(\$63,176,634)

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Statement of Cash Flows

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

	Note	December 31, 2020	Budget	December 31, 2019
Cash provided by/(applied in):				
Operating activities				
Net income (loss) for the year		\$1,211,730	(10,869,564)	(\$2,980,023)
Add item not affecting working capital:				
Provision for doubtful debts	6, 7	9,585,372		9,423,242
Depreciation	9, 10	4,322,461	3,945,382	3,731,915
Inventory (write-up) write-downs	8	(60,546)	317,982	208,714
Loss on disposal of fixed assets		-		12,873
Net changes in non-cash working capital balances relating to operations:				
Accounts receivable, net, (increase)		(16,063,701)		(9,167,025)
Other receivables, (increase) decrease		(1,810,244)		858,296
Inventory, net, (increase) decrease		(8,011,959)		181,863
Advances to suppliers, (increase) decrease		(1,802,606)		(1,113,048)
Prepaid expenses, (increase) decrease		(126,854)		211,677
Accounts payable and accrued expenses, increase (decrease)		6,082,917		(18,880)
Right of use asset, (increase) decrease		(471,838)		-
Lease Liability, increase (decrease)		315,632		-
Employee pension benefits, net, increase (decrease)	19	1,742,000		670,000
Employee healthcare benefits, net, increase (decrease)	20	10,993,000	10,390,031	10,555,000
Net cash generated from operating activities		5,905,364	3,783,831	12,574,604
Investing activities				
Cost of fixed assets purchased	9	(6,707,506)	(7,984,200)	(8,666,959)
Short-term investments	5	5,063,674	-	14,936,326
Net cash provided by (used in) investing activities		(1,643,832)	(7,984,200)	6,269,367
Financing activities				
Capital contributions		1,178,201		-
Finance interest on Operating Leases	10	78,424	-	40,659
Lease Liabilities - Long-term, (decrease) increase	10	(320,399)	-	(171,529)
Net cash used in financing activities		936,226	-	(130,870)
Increase (Decrease) in cash during the year		5,197,758	(4,200,369)	18,713,101
Cash and cash equivalents at beginning of year		41,329,749	42,616,648	22,616,648
Cash and cash equivalents at end of year		\$46,527,507	\$38,416,279	\$41,329,749
Operating Cash Flows from Interests				
Interest received		14,403	-	811,864

See accompanying notes to financial statements.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

1. Background information

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

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

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

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

2. Adoption of new and revised Standards

A) Relevant standards and amendments that are effective 1 January 2020:

The Health Authority has adopted and applied *Amendments to IAS 1 and IAS 8 Definition of Material* during the financial year ended 31 December 2020. A number of other new standards are also effective from 1 January 2020, but they do not apply or have a material effect on the Health Authority's financial statements.

B) Relevant standards and amendments issued prior to 1 January 2020 but not effective until future periods and are predicted to have an impact on Health Authority:

Certain new accounting standards have been published that are not mandatory for the 31 December 2020 reporting period and have not been early adopted by the Health Authority. The Health Authority's assessment of the impact of these new standards is set out below:

- (i) *IAS 1 – Classification of Liabilities as Current or Non-current (including Amendment to IAS 1 – Classification of Liabilities as Current or Non-current (Effective for annual periods beginning on or after 1 January 2023))*

In January 2020, the IASB issued amendments to IAS 1 which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. It is anticipated that IAS 1 will not have a significant impact on the Health Authority's financial statements. This will be assessed more fully closer to the effective date of adoption.

- (ii) *IFRS 17 Insurance Contracts and Amendments (Effective for annual periods beginning on or after 1 January 2023)*

In June 2020, the IASB issued amendments to IFRS 17 which creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS. IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. Insurance contracts are required to be measured based only on the obligations created by the contracts and an entity will be required to recognize profits as an insurance service is delivered, rather than on receipt of premiums. It is anticipated that IFRS 17 will not have a significant impact on the Health Authority's financial statements. This will be assessed more fully closer to the effective date of adoption.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

3. Significant accounting policies

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

(a) *Basis of accounting*

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

Changes in accounting policies

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

(b) *Use of estimates*

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

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

(c) *Financial instruments*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) *Financial assets*

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Health Authority's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. All debt instruments are classified as "Hold to collect and sell" and recognized as fair value through OCI. The debt instruments were previously classified as available for sale under IAS 39. Accounts receivables are measured at the transaction price determined under IFRS 15.

Cash and Cash Equivalents classified as loans and receivables under IAS 39 have been reclassified to amortized cost at the adoption date of the standard.

The Health Authority's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Health Authority commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

All debt instruments are subsequently measured at fair value with gains and losses arising due to change in the fair value recognized in OCI. Interest income and foreign change gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortised cost.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

Derecognition

The Health Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Health Authority has transferred substantially all the risks and rewards of the asset, or (b) the Health Authority has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Impairment of financial assets

The Authority recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For accounts receivables, the Authority applies a general approach in calculating ECLs.

For debt instruments at fair value through OCI, the Authority applies the low credit risk simplification. At every reporting date, the Authority evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Authority reassesses the credit rating of the debt instrument. In addition, the Authority considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) *Financial instruments (continued)*

(ii) *Financial liabilities*

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities comprise accounts payable and accrued expenses.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

(iii) *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

(d) *Fixed assets and depreciation*

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the statement of financial position date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in net worth to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the statement of comprehensive income, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(d) Fixed assets and depreciation (continued)

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the statement of financial position date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in net worth to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the statement of comprehensive income, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged.

A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to the statement of comprehensive income to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

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

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

Depreciation is charged to recognize the consumption of an asset, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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3. Significant accounting policies (continued)

(d) Fixed assets and depreciation (continued)

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

Buildings	up to 60 years
Medical equipment	8 – 15 years
Other fixed assets	3 – 15 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

(e) Leases

(a) The Health Authority assesses whether a contract is or contains a lease, at inception of the contract. The right-of-use asset and a corresponding lease liability is recognised with respect to all lease arrangements in which the Health Authority is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as any monthly lease payment \$5,000 or less). For these leases, the lease payments are recognised as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the organization's incremental borrowing rate is used (US prime rate + 0.25%).

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- The amount expected to be payable by the lessee under residual value guarantees.
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

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Notes to financial statements

For the year ended 31 December 2020
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3. Significant accounting policies (continued)

(e) Leases (continued)

- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

No such adjustments were made during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever an obligation is incurred for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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3. Significant accounting policies (continued)

(e) Leases (continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the organization expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

IAS 36 is applied to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss (see Note 17).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

The Health Authority has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Health Authority has allocated the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(f) Impairment

The carrying amount of the Health Authority's assets other than inventory (see Note 3(j)) is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(g) Assets Under Construction

Assets under construction or development are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant, and equipment when completed and ready for intended use. Depreciation of these assets (on the same basis as the asset category) commences when the assets are ready for their intended use.

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Notes to financial statements

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3. Significant accounting policies (continued)

(h) Foreign currency translation

Transactions in foreign currencies are translated at the prevailing foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Cayman Islands dollars at the prevailing exchange rate at the statement of financial position date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Cayman Islands dollars at the prevailing foreign currency exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the Cayman Islands dollars at the prevailing foreign exchange rates at the dates that the values were determined.

(i) Allowance for doubtful debts

Health Authority uses the allowance method to record its estimated annual expense for doubtful debts. Under the allowance method, receivables are written off against the allowance for doubtful debts (a contra asset account) when management believes that the collectability of the account is unlikely. The allowance is an amount that management believes will be adequate to cover any doubtful debts, based on an evaluation of collectability and prior doubtful debts experience.

(j) Inventory

Inventory is valued at the lower of net realisable value or cost, on a moving average basis. Inventory is recorded net of obsolete and expired items.

(k) Revenue recognition

Health Authority adopted IFRS 15 (Revenue from Contracts with Customers) from January 1st, 2018. Patient revenue including government programme is recognized upon transfer of promised goods or services to customers in an amount that reflects the consideration to which the Health Authority expects to be entitled in exchange of goods or services. This core principle is delivered in a five-step model framework which are: (1) Identify the contract with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; and (5) Recognize revenue when the Health Authority satisfies a performance obligation.

Other income such as donation, interest on deposits, rental and other miscellaneous income are recognized when the condition (if any) relating to a donation is met, or the agreed criteria for interest revenue has been settled or when services are provided. Grants received or receivable in recognition of specific expenses are recognized in the statement of comprehensive income in the period received.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(l) *Employee benefits*

The Health Authority employees and their dependants receive free medical benefits of which a portion is provided by the Health Authority. The portion provided by the Health Authority within its facility is valued at \$5,821,470 (2019: \$5,837,135). This amount is netted against revenue as this is considered as contractual adjustments.

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

Defined benefit plans

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

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

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(l) *Employee benefits (continued)*

Defined benefit plans (continued)

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

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

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

Defined Contribution Plans:

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

(m) *Provisions*

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, considering the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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4. Cash and cash equivalents

	2020	2019
Petty cash	\$9,500	\$9,500
Bank accounts	46,518,007	41,320,249
	<u>\$46,527,507</u>	<u>\$41,329,749</u>

The Health Authority has an unsecured bank overdraft in the amount of \$4 million with CIBC First Caribbean International Bank (Cayman) Ltd. (“CIBC”) as 31 December 2020. The amount utilized was nil (2019: nil).

5. Short-term investments

	2020	2019
6-month fixed deposits	\$ -	\$5,063,674
	<u>\$ -</u>	<u>\$5,063,674</u>

The fixed deposit held on 31 December 2019 at Cayman National Bank matured in June 2020. The Health Authority made the decision not to renew the fixed deposit due to the worldwide pandemic and its need to remain liquid to cover COVID-19 expenditures. The Health Authority placed \$8 million on three-month fixed deposit with an annual interest rate of 0.25% with CIBC, and \$8 million on monthly fixed deposit with Cayman National Bank in January 2021.

6. Accounts receivable - net

	2020	2019
Gross accounts receivable	\$41,341,744	\$28,490,108
Allowance for doubtful debts	(15,658,968)	(9,285,661)
	<u>\$25,682,776</u>	<u>\$19,204,447</u>

Allowance for doubtful debts movement:

	2020	2019
Balance at beginning of the year	\$9,285,661	\$18,393,086
Additional provisions	9,472,782	9,525,818
Additional contractual adjustments	2,000,922	1,450,441
Write-offs	(5,100,397)	(20,083,684)
	<u>\$15,658,968</u>	<u>\$9,285,661</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020

(stated in Cayman Islands dollars)

6. Accounts receivable – net (continued)

Below is the aging profile of accounts receivable as at 31 December 2020 and 31 December 2019:

	2020	2019
1 – 30 days	\$13,127,438	\$11,390,247
31 – 90 days	8,494,260	7,302,678
91 – 365 days	12,831,255	9,797,183
Over 365 days	6,888,791	-
	<u>\$41,341,744</u>	<u>\$28,490,108</u>

7. Other receivables - net

	2020	2019
Cabinet receivable	\$2,537,507	\$1,199,524
Other accounts receivable	1,251,996	681,261
Salary advance	73,726	59,610
	<u>3,863,229</u>	<u>1,940,395</u>
Less allowance for doubtful debts	<u>307,847</u>	<u>195,257</u>
	<u>\$3,555,382</u>	<u>\$1,745,138</u>

Allowance for doubtful debts movement:

	2020	2019
Balance at beginning of the year	\$195,257	\$297,833
Additional provisions (recovery)	112,590	(102,576)
Additional contractual adjustment (Note 3(1))	5,821,470	5,837,135
Write-offs	(5,821,470)	(5,837,135)
	<u>\$307,847</u>	<u>\$195,257</u>

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

The Accounts Receivable balance related to health services provided to Health Authority employees and their dependents are 100 percent provided for further to adjudication by British Caymanian. Additional disclosure is presented as part of Note 15 - Staff Costs.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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8. Inventory - net

	2020	2019
Pharmaceutical supplies	\$4,763,573	\$3,421,361
Medical supplies	10,293,367	3,953,722
Other supplies	525,551	348,286
	15,582,491	7,723,369
Less allowance for inventory impairment	556,048	769,431
	\$15,026,443	\$6,953,938

The cost of inventories recognized as operating expenses during the year was \$19,028,993 (2019: \$17,060,809).

The inventory adjustment presented in the Statement of comprehensive income for the year ended 31 December 2020 amounts to \$60,546 (2019: \$208,714 write down) and this represent the write-off for expired drugs and inventory adjustments following the year end count.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020

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9. Fixed assets

For the year ended 31 December 2020	Land	Buildings	Medical equipment	Other assets	Total
Cost:					
At beginning of year	8,298,000	64,849,985	19,117,219	18,148,581	110,413,785
Additions during year	-	2,085,044	2,449,850	2,172,612	6,707,506
Disposals during year	-	-	(57,963)	(115,566)	(173,529)
At end of year	8,298,000	66,935,029	21,509,106	20,205,627	116,947,762
Accumulated depreciation:					
At beginning of year	-	5,625,131	15,176,952	13,572,594	34,374,677
Charge for year	-	1,824,611	1,012,457	1,019,276	3,856,344
Disposals during year	-	-	(57,963)	(115,566)	(173,529)
At end of year	-	7,449,742	16,131,446	14,476,304	38,057,492
Carrying value:					
At 31 December 2020	8,298,000	59,485,287	5,377,660	5,729,323	78,890,270

For the year ended 31 December 2019	Land	Buildings	Medical equipment	Other assets	Total
Cost:					
At beginning of year	8,298,000	58,666,785	18,480,439	16,475,974	101,921,198
Additions during year	-	6,183,200	760,592	1,723,167	8,666,959
Disposals during year	-	-	(123,812)	(50,560)	(174,372)
At end of year	8,298,000	64,849,985	19,117,219	18,148,581	110,413,785
Accumulated depreciation:					
At beginning of year	-	3,918,076	14,329,661	12,765,375	31,013,112
Charge for year	-	1,707,055	958,842	857,167	3,523,064
Disposals during year	-	-	(111,551)	(49,948)	(161,499)
At end of year	-	5,625,131	15,176,952	13,572,594	34,374,677
Carrying value:					
At 31 December 2019	8,298,000	59,224,854	3,940,267	4,575,987	76,039,108

Included in other fixed assets are cost of buildings under construction, computer hardware & software, furniture & fittings, motor vehicles and office equipment. The cost of buildings under construction as at 31 December 2020 amounts to \$1,751,388 (2019: \$583,069).

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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9. Fixed assets (continued)

Under the Health Services Authority Act, the Cayman Islands Government vested various health care facilities in the Cayman Islands into the Health Services Authority. These properties were valued on 1 January 2001, 17 June 2011, and 5 July 2016 by the Department of Lands & Survey and DDL Studio Ltd., an independent appraiser, respectively on depreciated replacement cost basis. The next valuation is scheduled for July 2021.

The Health Authority received a donation of a hyperbaric chamber which is located at Faith Hospital in Cayman Brac, in exchange for \$1. There were no restrictions attached to the donation. Due to the age of the equipment the asset was fully depreciated at the time of the donation, therefore the HSA has recorded the equipment at a book value of zero.

10. Leases

This note provides information for leases where the Health Authority is a lessee.

(i) Amounts recognised in the statement of financial position

	2020	2019
Right-of-use assets:		
Buildings	\$2,504,792	\$2,032,954
Equipment	-	-
Total	2,504,792	2,032,954
Lease Liability:		
Current	531,682	307,540
Non-Current	2,119,027	1,803,395
Total	\$2,650,709	\$2,110,935

(ii) Amounts recognised in the statement of comprehensive income

The depreciation expense on statement of comprehensive income includes the following amounts relating to leases:

	2020	2019
Depreciation charge of right-of-use assets		
Buildings	\$466,117	\$208,851
Equipment	-	-
	\$466,117	208,851

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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10. Leases (continued)

Interest Expense relating to the finance cost portion of the lease liability is \$78,424, (2019: \$40,659). Expense relating to short-term leases and leases of low-value assets that are not shown above are included in other operating expenses. The total cash outflow for leases in 2020 was \$471,093 (2019: \$546,390).

(iii) The Health Authority's leasing activities and how these are accounted for

The Health Authority has lease contracts for various offices, and equipment used in its operations. Leases contracts are typically made for fixed periods of 6 months to 5 years but may have an extension option as described in (iv) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of buildings and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Health Authority.

The Health Authority also has certain leases of buildings and equipment with lease terms of 12 months or less and with low value. The Health Authority applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

(iv) Extension and termination options are included in several property and equipment leases across the Health Authority. These are used to maximise operational flexibility in terms of managing the assets used in the Health Authority's operations. Most of the extension and termination options held are exercisable only by the Health Authority and not by the respective lessor.

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Notes to financial statements

For the year ended 31 December 2020
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11. Accounts payable and accrued expenses

	2020	2019
Accounts payable	\$(1,047)	\$6,500
Accrued expenses	6,991,012	3,664,486
Other payable	4,172,689	2,603,709
Employee benefits (Note 3(1))	1,418,582	223,624
	<u>\$12,581,236</u>	<u>\$6,498,319</u>

12. Patient services fees

	2020	2019
Fees from the rendering of services-net	\$91,625,113	\$83,106,995
Fees from sale of goods	16,344,244	25,788,818
	<u>\$107,969,357</u>	<u>\$108,895,813</u>

Patient services fees include fees earned from medical care for 'beyond insurance coverage', indigent, and other services sold to the Government under a Purchase Agreement.

The Health Authority recorded a shortfall on the indigent output in the amount of \$10,846,644 (2019: \$11,577,135). This was ultimately funded through Segregated Insurance Fund (SIF) in the amount of \$4,500,000 (2019: \$4,500,000). The remaining amount will be funded through supplement request to Cabinet. Also, an additional shortfall in the amount of \$7,440,877 (2019: 2,112,698) was noted on the outputs for Un-Insured Children, Underinsured Pregnant Women and Prenatal Care, Under-Insured Caymanians, Geriatric Services, Public Health Communicable Diseases, and Medical Care for Chronic Ailments.

Fees from the rendering of service-net represent fees from all patient services provided (other than those sold to the Government under the Purchase Agreement), net of medical benefit of employees and their dependents provided by the Health Authority.

Fees from sale of goods are derived from the sale of drugs at pharmacy stores, district clinics, wards, and all other locations.

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Notes to financial statements

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13. Government programmes

	2020	2019
Faith Hospital	\$3,783,158	\$3,783,158
Mental Health	3,481,204	2,731,204
Ambulance	2,547,293	2,547,293
District Clinics	2,242,947	2,242,947
Public Health	1,353,576	1,330,576
Special Needs	901,660	781,660
School Health	818,785	688,785
COVID-19 Contingency	783,399	-
Medical Internship	150,000	150,000
Child Abuse Program	100,000	100,000
Cancer Registrar	38,667	38,667
	\$16,200,689	\$14,394,290

The amount reported as government programmes as stated above had no budget shortfall for both years ended 31 December 2020 and 31 December 2019.

The COVID-19 Output was approved by Cabinet in February 2020 in order to fund contingency planning for the pandemic. This was funded by the Ministry of Health.

14. Other Income

	2020	2019
Grant from Shareholder	\$19,275,850	\$-
Other Income - general	1,980,206	\$1,957,442
	\$21,256,056	\$1,957,442

The amounts shown above for Grant from Shareholder represent funding received from the Cayman Islands Government to cover the rendering of services required of the Health Authority, further to the COVID-19 pandemic.

As Public Health demands on the Health Authority's service to combat COVID implications increased, the Health Authority paid for the cost of emergency supplies, medical services, testing, setup of a temporary field hospital, equipment, additional staffing, etc. These costs were reimbursed to the Health Authority by CIG, which they have recorded as a Grant reflected above. In addition, the cost of fixed assets purchased for addressing COVID needs were reimbursed to the Health Authority and have been recorded as an equity injection of \$1,178,201.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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14. Other Income (continued)

The Health Authority's accounting treatment reflects the substance of the transaction with CIG in that the revenue has been recognized in Other Income and is consistent with the accounting treatment by CIG. Any items utilized or medical services provided during the period are included in Other Operating Expenses (\$7,969,152), and any inventory items on hand at the end of the fiscal period are included in inventory (\$5,930,820).

15. Staff costs

	2020	2019
Salaries & Wages (including overtime)	\$65,056,365	\$58,724,587
Health Care – Overseas/Local	4,030,183	5,005,285
Pension Contribution	3,506,759	3,490,119
Allowances	3,153,130	2,036,136
Other Staff Cost	839,654	2,306,904
Defined Benefit Healthcare and Pension, net of re-measurement (Notes 19 & 20)	12,735,000	11,225,000
	<u>\$89,321,091</u>	<u>\$82,788,031</u>

The Health Authority employees and their dependants receive free medical benefits within the Authority's facilities and is valued at \$5,821,470 (31 December 2019: \$5,837,135), as discussed in Note 3(l) this is netted against revenue. The total health care cost of employees and their dependants amounts to \$9,851,653 (2019: \$10,842,420) excluding the unfunded defined benefit portion of healthcare cost for current and future retirees.

16. Supplies and materials

	2020	2019
Pharmaceuticals	\$11,289,116	\$9,202,347
Medical, dental and health supplies	4,396,715	5,064,735
Laboratory supplies	1,900,277	1,542,883
Cleaning supplies	451,531	376,564
Food and dietary	231,460	222,447
Attractive assets	189,169	54,929
Primary Health vaccines	182,572	159,739
Office consumables	162,847	199,971
Vehicle and maintenance supplies	120,542	190,298
Other supplies	104,764	46,897
	<u>\$19,028,993</u>	<u>\$17,060,810</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

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16. Supplies and materials (continued)

Supplies and materials relate to inventory supplies used during the year. It also includes attractive assets which are small assets that do not meet the Health Authority's minimum cost for capitalisation. Due to their nature and vulnerability to loss, attractive assets are expensed when purchased.

17. Other operating expenses

	2020	2019
COVID-19 expenditure	\$7,969,152	\$ -
Repairs and maintenance	1,248,563	1,703,086
Software licensing fees	1,954,092	2,359,559
Overseas laboratory tests	1,172,038	1,068,702
Freight and shipping	460,950	1,042,485
Leases and Common Area Maintenance	888,035	784,614
Mail courier service	196,775	183,226
Public relations and publicity	171,900	171,451
Contracted services	148,764	130,593
Advertising	148,217	153,204
Miscellaneous medical expenses	127,613	78,559
Bank charges	89,085	103,188
Finance charges	78,424	40,659
Computer maintenance	67,734	130,244
Loss on disposal of fixed assets	-	14,634
Custom duties	-	(152)
Miscellaneous	286,816	321,042
Exchange rate net gain	(236,274)	(252,928)
	\$14,771,884	\$8,032,166

18. Legal and professional fees

	2020	2019
Professional fees	\$797,231	\$723,018
Legal fees	426,825	72,485
Audit services	130,372	138,513
Others	(100)	(2,600)
	\$1,354,328	\$931,416

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

19. Employee pension benefits, net

(a) Defined Benefit Plan

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

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

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

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

The Health Authority recognizes changes in the past service funding liability, adjusted for funding payments made, as an expense or gain in the period in which such changes are incurred.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020

(stated in Cayman Islands dollars)

19. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

To determine the defined benefit obligation of the Health Authority under the Plan, a professional actuary of PSPB was engaged to conduct annual studies. The most recent provisional actuarial estimate performed as of 31 December 2020 by the PSPB indicated a plan deficit attributable to the Health Authority of \$13,550,000 (2019: \$8,112,000).

Pension Expense and Reconciliation of Defined Pension Liability

	<u>31.12.20</u>	<u>31.12.19</u>
	CI\$(000)	CI\$(000)
Provision at the beginning of the year	8,112	6,745
Pension expense for the year	5,801	1,794
Employer contributions	(363)	(427)
Provision at end of year	<u>13,550</u>	<u>8,112</u>

Reconciliation of Funded Status:

Company's share of defined benefit obligation	27,094	20,555
Less: Fair value of plan assets	(13,544)	(12,443)
Defined benefit liability	<u>13,550</u>	<u>8,112</u>

Components of Defined Benefit Cost for the year:

Current service cost	880	827
Total net interest cost	246	270
Defined benefit cost included in P&L	<u>1,126</u>	<u>1,097</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

19. Employee pension benefits, net (continued)

(a) *Defined Benefit Plan (continued)*

	<u>31.12.20</u>	<u>31.12.19</u>
	CI\$(000)	CI\$(000)
Remeasurement Included in Other Comprehensive Income (OCI):		
Demographic assumptions change	(663)	(77)
Financial assumptions change	4,731	3,698
Experience adjustments	1,038	(650)
Return on plan asset (excluding interest)	(1,410)	(2,274)
Total remeasurement included in OCI	3,696	697
Pension Expense for the year	4,822	1,794

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

	<u>31.12.20</u>	<u>31.12.19</u>
	CI\$(000)	CI\$(000)
Fair value of plan assets at beginning of year (negative)	12,443	10,883
Interest income	401	470
Cash flows		
Employer and participant contributions	580	646
Benefit payments from plan	(104)	(581)
Transfers between other participating employers	(207)	(1,249)
Other significant event – decrease due to the effect of any business combinations/divestitures/transfers	(979)	-
Remeasurements – return on plan assets (excluding interest income)	1,410	2,274
Fair value of plan assets at end of year (negative)	13,544	12,443

The defined benefit liability reconciliation is as follows:

	<u>31.12.20</u>	<u>31.12.19</u>
	CI\$(000)	CI\$(000)
Defined benefit obligation at beginning of year	20,555	17,628
Current service cost	880	827
Interest expense	647	740
Effect of changes in demographic assumptions	(663)	(77)
Effect of changes in financial assumptions	4,731	3,698
Effect of changes in experience adjustments	1,038	(650)
Cash flows	(94)	(1,611)
Defined benefit obligation at end of year	27,094	20,555

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Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

19. Employee pension benefits, net (continued)

(a) *Defined Benefit Plan (continued)*

The sensitivity analysis on defined benefit obligation is shown below:

	<u>31.12.20</u>	<u>31.12.19</u>
1. Discount rate		
a. Discount rate - 25 basis points	28,647	21,658
b. Discount rate + 25 basis points	25,653	19,529
2. Inflation rate		
a. Inflation rate - 25 basis points	25,672	19,571
b. Inflation rate + 25 basis points	28,618	21,607
3. Mortality		
a. Mortality - 10% of current rates	27,883	21,070
b. Mortality +10% of current rates	26,382	20,086

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

	<u>31.12.20</u>	<u>31.12.19</u>
	<u>\$000</u>	<u>\$000</u>
Expected employer contributions	513	386

The significant actuarial assumptions are presented below:

<i>Weighted-average assumptions to determine benefit obligations</i>	<u>31.12.20</u>	<u>31.12.19</u>
1. Discount rate	2.60%	3.50%
2. Rate of salary increase	2.50%	2.50%
3. Rate of price inflation	2.00%	2.00%
4. Rate of pension increases	2.00%	2.00%
5. Post-retirement mortality table	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected using Scale MP-2020	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected using Scale MP-2019
6. Cost Method	Projected Unit Credit	Projected Unit Credit
7. Asset valuation method	Market Value	Market Value

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Notes to financial statements

For the year ended 31 December 2020

(stated in Cayman Islands dollars)

19. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

<i>Weighted-average assumptions to determine defined benefit cost</i>	<u>31.12.20</u>	<u>31.12.19</u>
1. Discount rate used to determine:		
Current service cost	3.60%	4.55%
Interest on current service cost	3.40%	4.40%
Net interest cost	3.15%	4.20%
2. Rate of salary increase	2.50%	2.50%
3. Rate of price inflation	2.00%	2.00%
4. Rate of pension increases	2.00%	2.00%
5. Post-retirement mortality table	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2019	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2018

Plan Assets

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

The assets are notionally allocated to each of the three participating pension plans through an international accounting mechanism that tracks, for each accounting period, actual cash flows and allocates investment income based on the rate of return earned by the Fund. Based on the data provided, the gross rate of return earned by the Fund over the 12-month period, January 1, 2020 to December 31, 2020, was 15.61% per annum (2019: 22.66%). Similar internal accounting is used for developing each participating entity's share of the asset portfolio of the Fund.

The valuations are based on the asset values as at 31 December 2020 provided by the PSPB, along with cash flow and other supplemental asset information provided by PSPB. The assets are held in trust by CIBC Mellon. The data provided by the PSPB has been relied upon without further audit.

The Fund currently has investment policy with a target asset mix of 80% equities and 20% bonds. As at 31 December 2020 and 31 December 2019, the Fund was invested as follows:

Plan Assets by Asset Category	<u>31.12.20</u>		<u>31.12.19</u>	
	(\$000)	Percentage	(\$000)	Percentage
Global equities securities	816,513	82%	680,288	79%
Debt securities	177,719	18%	167,692	20%
Cash	3,398	0%	10,444	1%
Total	<u>997,630</u>	<u>100%</u>	<u>858,424</u>	<u>100%</u>

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

19. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

The share of the Fund that has been notionally allocated to the Health Authority with regards to its participation in the Defined Benefit Part of the Plan is \$13,544,000 as at 31 December 2020 (2019: \$12,443,000).

The Actuarial Assumptions

The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the defined benefit cost of the following year using the actuarial assumptions approved by the Cabinet. The principal financial and demographic assumptions used at 31 December 2020 and 31 December 2019 are shown in the table below.

Measurement Date	31.12.20	31.12.19
Discount rate		
- BOY disclosure and current year expense	3.50% per year	4.50% per year
- EOY disclosure	2.60% per year	3.50% per year
- Following year current service cost	2.70% per year	3.60% per year
Increases in pensionable earnings	2.50% per year	2.50% per year
Rate of Pension Increases	2.00% per year	2.00% per year
Mortality		
- BOY disclosure and current year expense	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2019	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2018
- EOY disclosure and following year expense	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2020	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2019
Disability	None	None
Turnover Rates	Age related table	Age related table

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

19. Employee pension benefits, net (continued)

(a) *Defined Benefit Plan (continued)*

Measurement Date	31.12.20	31.12.19
Retirement	Age-related retirement used. See table below	<i>Age-related retirement used. See table below</i>
Assumed life expectations on retirement	Retiring today (member age 57): 28.45	<i>Retiring today (member age 57): 28.66</i>
	Retiring in 25 years (at age 57): 30.61	<i>Retiring in 25 years (at age 57): 30.93</i>
Liability Cost Method	Projected unit credit method	<i>Projected unit credit method</i>
Asset Value Method	Market Value of Assets	<i>Market Value of Assets</i>
Commutation of pension	All members commute 25% at retirement	<i>All members commute 25% at retirement</i>

Turnover Rates at sample ages:

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

Retirement Rates:

Age	
Below 55	0%
55-59	8%
60-64	15%
65	100%

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

19. Employee pension benefits, net (continued)

(a) Defined Benefit Plan (continued)

Participant Data

The defined benefit obligation at 31 December 2020 of the Health Authority as it relates to its participation in the Plan is based on the member data as at 30 September 2020 (61 active members). The data was updated from that used for the calculation of the defined benefit obligation as at 31 December 2019 (30 September 2019: 64 active members).

b) Defined contribution plan

Employees who are not participants in the defined benefit part of the Plan are enrolled in defined contribution part of the Plan. The total number of employees enrolled in the defined contribution with the PSPB at 31 December 2020 is 901 (2019: 760).

During the year ended 31 December 2020, the Authority and its employees contributed to the fund 6% and 6%, respectively (2019: 6.4% and 6%, respectively).

The total amount recognised as a pension expense for the year ended 31 December 2020, inclusive of both defined benefit and defined contribution parts, was \$5,010,759 (2019: \$4,160,119).

20. Employee healthcare benefits, net

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

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

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

20. Employee healthcare benefits, net (continued)

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

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

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

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

The Authority commissioned Mercer Actuaries to provide this service and the results of their assessment are included hereunder. The Health Authority has a present value net defined benefit obligation of \$209,820,000 as at 31 December 2020 (2019: \$167,301,000). The details of the valuation and the assumptions used are reproduced hereunder in accordance with IAS 19.

The Health Authority has not contributed to any fund in order to meet future post-retirement health care obligations. Consequently, the entire \$209,820,000 is currently unfunded. Management's plan to address this unfunded post-retirement health liability is discussed in Note 25.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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For the year ended 31 December 2020
(stated in Cayman Islands dollars)

20. Employee healthcare benefits, net (continued)

Disclosure Information:

Financial year ending on	<u>31 December 2020</u> CI\$(000)	<u>31 December 2019</u> CI\$(000)
A. Change in defined benefit obligation		
1. Defined benefit obligation at end of prior year	167,301	137,416
2. Service cost		
a. Current service cost	6,378	6,013
b. Past service cost	258	-
c. (Gain)/loss on settlements	-	-
3. Interest expense	5,579	5,947
4. Cash flows		
a. Benefit payments from plan assets	-	-
b. Benefit payment from employer	(1,222)	(1,405)
5. Other significant events	-	-
6. Remeasurements		
a. Effect of changes in demographic assumptions	(5,771)	(9,891)
b. Effect of changes in financial assumptions	37,784	30,661
c. Effect of experience adjustments	(487)	(1,440)
7. Effect of changes in foreign exchange rates	-	-
8. Defined benefit obligation at end of year	209,820	167,301
B. Change in fair value of plan assets		
1. Fair value of plan assets at end of prior year	-	-
2. Interest income	-	-
3. Cash flows		
a. Total employer contributions		
(i) Employer contributions	-	-
(ii) Employer direct benefit payments	1,222	1,405
(iii) Employer direct settlement payments	-	-
b. Participant contributions	-	-
c. Benefit payments from plan assets	-	-
d. Benefit payments from employer	(1,222)	(1,405)
e. Settlement payments from plan assets	-	-
f. Settlement payments from employer	-	-
4. Other significant events	-	-
5. Remeasurements	-	-
6. Effect of changes in foreign exchange rates	-	-
7. Fair value of plan assets at end of year	-	-

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

20. Employee healthcare benefits, net (continued)

Disclosure Information: (continued)

Financial year ending on	<u>31 December 2020</u>	<u>31 December 2019</u>
	CI\$(000)	CI\$(000)
C. Amounts recognized in the statement of financial position		
1. Defined benefit obligation	209,820	167,301
2. Fair value of plan assets	-	-
3. Funded status	<u>209,820</u>	<u>167,301</u>
4. Effect of asset ceiling/onerous liability	-	-
5. Net defined benefit liability (asset)	<u>209,820</u>	<u>167,301</u>
D. Components of defined benefit cost		
1. Service cost		
a. Current service cost	6,378	6,013
b. Reimbursement service cost	-	-
c. Past service cost	258	-
d. (Gain)/loss of settlements	-	-
e. Total service cost	<u>6,636</u>	<u>6,013</u>
2. Net interest cost		
a. Interest expense on DBO	5,579	5,947
b. Interest (income) on plan assets	-	-
c. Interest (income) on reimbursement rights	-	-
d. Interest expense on effect of (asset ceiling)/onerous liability	-	-
e. Total net interest cost	<u>5,579</u>	<u>5,947</u>
3. Remeasurements of Other Long Term Benefits	-	-
4. Administrative expenses and/or taxes (not reserved within DBO)	-	-
5. Defined benefit cost included in P&L	<u>12,215</u>	<u>11,960</u>
6. Remeasurements (recognized in other comprehensive income)		
a. Effect of changes in demographic assumptions	(5,771)	(9,891)
b. Effect of changes in financial assumptions	37,784	30,661
c. Effect of experience adjustments	(487)	(1,440)
d. Total remeasurements included in OCI	<u>31,526</u>	<u>19,330</u>
7. Total defined benefit cost recognized in P&L and OCI	<u>43,741</u>	<u>31,290</u>

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Notes to financial statements

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20. Employee healthcare benefits, net (continued)

Disclosure Information: (continued)

Financial year ending on	<u>31 December 2020</u>	<u>31 December 2019</u>
	CI\$(000)	CI\$(000)
E. Net defined benefit liability (asset) reconciliation		
1. Net defined benefit liability (asset)	167,301	137,416
2. Defined benefit cost included in P&L	12,215	11,960
3. Total remeasurements included in OCI	31,526	19,330
4. Other significant events	-	-
5. Cash flows	-	-
a. Employer contributions	-	-
b. Employer direct benefit payments	(1,222)	(1,405)
c. Employer direct settlement payments	-	-
6. Credit to reimbursements	-	-
7. Effect of changes in foreign exchange rates	-	-
8. Net defined benefit liability (asset) as of end of year	209,820	167,301
F. Defined benefit obligation		
1. Defined benefit obligation by participant status		
a. Actives	170,958	142,341
b. Vested deferreds	-	-
c. Retirees	38,862	24,960
d. Total	209,820	167,301
G. Significant actuarial assumptions		
<i>Weighted-average assumptions to determine defined benefit obligation</i>		
Effective discount rate for defined benefit obligation	2.70%	3.60%
Health care cost trend rates		
Immediate trend rate	5.00%	5.00%
Ultimate trend rate	5.00%	5.00%
Year rate reaches ultimate trend rate	N/A	N/A
Mortality assumption	RP-2014 projected with MP-2020	RP-2014 projected with MP-2019

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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20. Employee healthcare benefits, net (continued)

Disclosure Information: (continued)

Financial year ending on	<u>31 December 2020</u> CIS\$(000)	<u>31 December 2019</u> CIS\$(000)
G. Significant actuarial assumptions		
<i>Weighted-average assumptions to determine defined benefit cost</i>		
Effective discount rate for defined benefit obligation	3.60%	4.55%
Effective rate for net interest cost	3.35%	4.35%
Effective discount rate for service cost	3.70%	4.60%
Effective rate for interest on service cost	3.65%	4.60%
Health care cost trend rates		
Immediate trend rate	5.00%	5.00%
Ultimate trend rate	5.00%	5.00%
Year rate reaches ultimate trend rate	N/A	N/A
Mortality assumption	RP-2014 projected with MP-2019	RP-2014 projected with MP-2018
H. Sensitivity analysis		
<i>Change in the defined benefit obligation</i>		
Effective discount rates - 25 basis points	12,409	9,569
Effective discount rate + 25 basis points	(11,520)	(8,895)
Health care cost trend rates - 100 basis points	(401,033)	(31,402)
Health care cost trend rates + 100 basis points	52,459	41,018
Mortality assumption + 10%	(10,185)	(7,700)
I. Expected cash flows for following year		
1. Expected employer contributions	1,817	1,524
2. Expected contributions to reimbursement rights	-	-
3. Expected total benefit payments		
Year 1	1,817	1,524
Year 2	2,193	1,871
Year 3	2,516	2,250
Year 4	2,951	2,652
Year 5	3,345	3,090
Next 5 years	23,207	21,902

Participant data:

The defined benefit obligation at 31 December 2020 of the Health Authority as it relates to its participation in the plan were based on the data provided as at 31 December 2020 (405 active participants and 83 retired not employed).

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
(stated in Cayman Islands dollars)

20. Employee healthcare benefits, net (continued)

Actuarial Assumptions:

The assumptions as at the reporting date are used to determine the present value of the defined benefit obligation (DBO) as at that date and the defined benefit cost for the following year. Mercer have used the actuarial assumptions selected by Health Authority. The assumptions, other than the claims cost and the future healthcare coverage assumptions, are consistent with the assumptions used to determine the results for the CIG's post-retirement healthcare program. The principal financial and demographic assumptions used at 31 December 2020 and 31 December 2019 are shown in the table below:

Economic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Discount rate for benefit obligation (p.a.) . 31 December 2019 . 31 December 2020	3.60% 2.70%	Per IAS 19 para. 83, determined by reference to market yields on high quality corporate bonds (consistent with the term of the benefit obligations) at the fiscal year end date. Mercer US Above Mean Yield Curve (referencing US corporate bond yields) used to determine discount rates due to strong economic and currency links between the US and Cayman Islands.
Discount rate for the following year's current service cost (p.a.) . 31 December 2019 . 31 December 2020	3.70% 2.75%	
Rate of Medical Inflation (p.a.)	5.00%	

Demographic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Current mortality rates	RP-2014 Mortality Table scaled back to 2006 using MP-2014	Recent mortality studies in the U.S. and Canada show that people are living longer. New mortality tables have been issued by U.S. and Canada. The mortality table has been updated to better reflect actual mortality improvement rates experienced in the US over the last 20 years.
Mortality improvements . 31 December 2019 . 31 December 2020	Scale MP-2019 Scale MP-2020	Broad consensus amongst longevity experts that mortality improvement will continue in the future. Scale MP-2014 was released October 2014. In the U.S., the latest future mortality improvement scale issued by the Society of Actuaries is Scale MP-2020. The prior valuation used scale MP-2019.

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Notes to financial statements

For the year ended 31 December 2020
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20. Employee healthcare benefits, net (continued)

Actuarial Assumptions: (continued)

Demographic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Turnover rates	Rate	
	<u>Age</u> <u>Male</u> <u>Female</u>	
	20-24 7.5% 12.5%	
	25-29 5.0% 12.5%	
	30-34 3.5% 7.5%	
	35-39 2.5% 4.5%	
	40-44 1.5% 2.5%	
	45-49 0.5% 0.5%	
50+ 0.0% 0.0%		
Disability rates	None	
Retirement age	Age 57 & 10 years of service	Based on 2017 experience study
	<u>Age</u> <u>Rate</u>	
	<55 0.0%	
	55-59 8.0%	
	60-64 15.0%	
65 100.0%		
Marital assumption	80% married, wife 3 years younger	
Demographic Assumptions	Post-retirement Healthcare	Basis of Development - Accounting Specific Assumptions
Current healthcare claims cost assumption at age 65 (at 1 December 2017)	Health - \$6,300 per participant per year Dental - \$660 per participant per year Administrative expenses - \$120.92 per retiree per month	Based on retiree claims experience from 1 July 2014 to 31 May 2017 (converted to KYD)
Current healthcare claims cost assumption at age 65 (at 1 March 2020)	Health - \$7,330 per participant per year Dental - \$155 per participant per year Vision - Prior to plan amendment \$50 per participant per year Vision - After plan amendment \$78 per participant per year Vision - \$50 per participant per year Administrative expenses - \$101.20 per retiree per month	Based on active and retiree claims experience and 2020 renewal (converted to KYD)
Healthcare coverage-future pensioners	Male - 50% single, 50% family Female - 60% single, 40% family	Based on Health Services Authority experience.
Healthcare utilization changes due to age	Mercer standard healthcare aging assumptions for medical and dental	Based on analysis of healthcare utilization for Mercer clients in Canada and US and by reference to Society of Actuaries studies.
Proportion of death occurring off-island and requiring repatriation for 31 December 2020 disclosure	5.00%	Repatriation of body benefit added starting 1 January 2021

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

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21. Provision

The Health Authority is a defendant to several claims that have been brought against it by patients and employees resulting from its medical and business operations. Estimated liability for the lawsuits as of 31 December 2020 is \$150,000 (2019: \$50,000). As of 31 December 2020, nil (2019: nil) was paid out as settlement for medical malpractice claims and nil (2019: \$122,460) for employee claim, respectively.

22. Contingencies and commitments

(a) Contingent legal claims

The Health Authority believes that the outflow of funds for the malpractice and employee related legal claims amounting to \$825,000 and nil (2019: \$910,000 and nil), respectively are less than probable to be successful and are covered by insurance in excess of deductible; accordingly, no provisions were recognized for possible losses.

There are several claims outstanding that relate to services provided prior to the establishment of the Health Authority or prior to 1 July 2002. Neither provision nor contingent liability has been made for these claims in the financial statements, as the Health Authority believes any costs encountered (that are not covered by insurance) will be met by the Ministry of Health, Environment, Culture & Housing.

(b) Capital and operating commitments

Type	One year or less	One to five years	Over five years	Total
Capital Commitments				
Land and buildings	\$ -	\$ -	\$ -	\$ -
Other fixed assets	1,559,163	-	-	1,559,163
Total Capital Commitments	1,559,163	-	-	1,559,163
Operating Commitments				
Non-cancellable contracts for the supply of goods and services	4,495,495	3,612,491	1,065,360	9,173,346
Total Operating Commitments	4,495,495	3,612,491	1,065,360	9,173,346
Total Commitments	\$ 6,054,657	\$ 3,612,491	\$ 1,065,360	\$ 10,732,508

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22. Contingencies and commitments (continued)

(b) Capital and operating commitments (continued)

The outstanding capital commitments are for the payments related to construction in progress at Faith Hospital located in Cayman Brac \$111,988 (2019: \$395,088) and improvements at the Health Authority main campus \$447,175 (2019: nil) and the Bodden Town Health Centre \$1,000,000 (2019: nil).

In addition, the Health Authority has entered various operating commitments with terms less than one year to over five years term amounting to \$9,173,346 (2019: \$4,195,693). A substantial part of this amount pertains to the contract with Cerner Corporation for the off-site storage and management of clinical and financial electronic data which was US\$4 million (2019: US\$3.3 million). The contract will expire on 31 December 2023. The Health Authority has also contracted with their landlord for improvements at Smith Road Centre in the amount of \$1,277,093 (2019: nil).

(c) Section 47 of The Public Authorities Act, 2017, (the "PAL"):

Section 47 of the PAL came into effect on 1 June 2019. The section requires public authorities to use the same salary scale as determined by the Cayman Islands' Cabinet and requires the remuneration of employees of a public authority to be adjusted to reduce any differences between the public authorities' and public service's pay grades.

The Cayman Islands Government's Portfolio of the Civil Service has not yet completed its evaluation of Authority's salary grade versus that of the public service. As such, management could not adjust for the impact of section 47 of the PAL in these financial statements. Management is also unable to derive an estimate of the potential impact of the evaluation on its financial statements and as such, no resultant provisions have been made in these financial statements.

(d) Sections 39(2) and 39(3) of the PAL:

Under Section 39(2) of the Public Authority Act (2020 Revision), any surplus cash exceeding three month's reserve should be paid over to core government, unless directed otherwise by Cabinet. In meeting No 131/20 on 8th December 2020, Cabinet exempted the Public Authorities from paying over cash reserves as at 31 December 2020.

Under Section 39(3) of the Public Authorities Act (2020 Revision), the Health Authority is required to pay dividends in accordance with the formula established by the Minister of Finance.

Pursuant to Section 19 (d) of the "Policy for the payment of annual dividends by statutory authorities and government companies (SAGCs)" (the "Dividend Payment Policy") approved by Cabinet on 11 February 2020 and based on the long-term liabilities of the Health Authority, the payment of a dividend will prejudice the HSA's ability to meet its financial obligations as and when they fall due for payment. The Health Authority is also exempted per Section 19 (b) due to sustaining an Operating loss for the 2020 financial year and under section 19 (e).

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23. Related party transactions

The Health Authority is directly controlled by the Government and has transactions with entities directly or indirectly controlled by the Government through its government authorities, agencies, affiliations, and other organizations (collectively referred to as “government-related entities”). The Health Authority has transactions with other government-related entities including the sale and purchase of goods and ancillary materials, rendering and receiving services, lease of assets, depositing money, and use of public utilities.

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

For the year ended 31 December 2020, management estimates that the aggregate amount of Health Authority’s transactions with government-related entities are at least 69% (2019: 71%) of its revenue and between 5-10% (2019:5-10%) of its operating expenditures. Significant transactions with the government-related entities are discussed as follows:

- The Health Authority provides health care for a large portion of the employees of the Government and their dependants including other ancillary services to other government related entities and reported this as revenue in the amount of \$52,978,083 (2019: \$52,075,957). The Health Authority is reimbursed by Cayman Islands National Insurance Company (CINICO) for the services provided to the employees of the Government and their dependants.
- The Health Authority received an equity injection of \$1,178,201 in 2020 (2019: nil) from the Cayman Islands Government. This amount relates to fixed assets purchased for COVID-19 preparedness.
- Pursuant to the general and supplemental appropriation for the year ended 31 December 2020, the Health Authority billed the Government \$47,557,649 (2019: \$38,884,618) during the year for the outputs that have been purchased by the Government to provide medical care for indigent persons and under/un-insured children (included in patient services fees) and other government programmes totalling \$15,417,290 (2019: \$14,394,290) and the maintenance of Faith Hospital in the amount of \$3,783,158 (2019: \$3,783,158). The amount outstanding as Cabinet receivable relating to other government programmes as of 31 December 2020 amounts to \$2,537,507 (2019: \$1,199,524) and this is presented as other receivables.

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Notes to financial statements

For the year ended 31 December 2020
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23. Related party transactions (continued)

- Below is the cost incurred by Health Authority for the other government programmes delivered to the Government and the budget amount:

	Billed	Budget
Faith Hospital	\$3,783,158	\$3,783,158
Ambulance	2,547,293	2,547,293
District Clinics	2,242,947	2,242,947
Mental Health	3,481,204	3,481,204
Public Health	1,353,576	1,353,576
Special Needs	901,660	901,660
School Health	818,785	818,785
Covid-19	783,399	-
Medical Internship	150,000	150,000
Child Abuse Program	100,000	100,000
Cancer Registrar	38,667	38,667
	<u>\$16,200,689</u>	<u>\$15,417,290</u>

There were 16 personnel categorized in 2020 as related parties. These are broken down as 10 key management personnel and 6 Board of Directors (2019: 11 key management personnel and 7 Directors). The remuneration of directors and other members of key management mainly included as staff costs including pension during the year was as follows:

	2020	2019
Short-term benefits:		
Senior management	\$1,952,769	\$2,069,304
Board of directors	82,215	42,925
	<u>\$2,034,984</u>	<u>\$2,112,229</u>

For the 12-month period ended 31 December 2020 the Health Authority incurred medical costs for its key management and their dependants in the amount of \$80,988 (2019: \$66,815) including the cost provided in its own facility.

The Health Authority also had transactions with members of key management or with their family such as official travel reimbursements et al with an annual disbursement of \$11,132 (2019: \$28,321) and remuneration of other related party amounting to \$571,975 (2019: \$786,222).

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For the year ended 31 December 2020
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24. Financial instruments and associated risks

The carrying amounts of Health Authority's financial instruments, including cash and cash equivalents, short-term investments, other receivables, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the immediate or short-term nature of these financial instruments.

IFRS 9 became effective for reporting periods beginning on or after 1 January 2018. The Health Authority assessed the potential impact of IFRS 9 on the operations of the Health Authority and determined them to be minimal.

The Authority applied the Expected Credit Losses model, on the basis that (a) future cash flows from qualifying financial instruments (i.e. accounts receivable) are solely payments of principal and interest; and (b) receivables are held with the objective to collect future contractual cash flows and not for sale. The impact to accounts receivables is further outlined below.

Accounts receivable are held at amortized cost. The Health Authority applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all accounts receivable. To measure expected credit losses, accounts receivable has been grouped based on shared risk characteristics and the days past due.

The expected loss rates are based on the payment profile for revenue over a period of 5 years prior to 31 December 2020, and the corresponding historical credit losses experienced within this period. The historical loss rates are then adjusted to reflect current and forward-looking information including the use of third-party debt collectors as a strategy to improve the Authority's recovery of past due amounts.

The Health Authority has determined the number of days outstanding to be the most relevant factor in determining the potential collectability of past due receivables.

CAYMAN ISLANDS HEALTH SERVICES AUTHORITY

Notes to financial statements

For the year ended 31 December 2020
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24. Financial instruments and associated risks (continued)

On that basis, the loss allowance as at 31 December 2020 was determined to be \$15,658,968 for accounts receivable. This was calculated as follows:

31-Dec-20	Current	More than 180 days	More than 365 days
Expected loss rate	8%	40%	0%
Gross carrying amount – Accounts receivables	\$ 13,127,438	\$ 21,325,515	\$ 6,888,791
Loss allowance	1,101,607	8,444,015	6,113,347

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

24.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. To reduce exposure to credit risk, the Health Authority performs ongoing credit evaluations of the financial condition of its customers but generally does not require collateral. Parties who default on their obligations despite repetitive collection efforts are referred to a collection agency or to legal counsel. The Health Authority is exposed to credit-related losses in the event of non-performance by counter parties to these financial instruments.

Accounts receivables consist of a large number of customers who would either have health insurance coverage with CINICO or with various commercial insurance, or no insurance coverage at all. Concentration of credit risk belongs to the group of customers known as "self-pay". These amounts are owed by customers who have neither insurance coverage nor sufficient coverage. These are estimated to be 40% - 100% (31 December 2019: 40% - 100%) uncollectible.

Accounts receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: age, balance outstanding, inability to contact debtor, means of debtor to make repayment, existence of a repayment plan or promissory note.

Impairment losses on accounts receivable are presented as provision for doubtful debts within the statement of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item.

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Notes to financial statements

For the year ended 31 December 2020
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24. Financial instruments and associated risks (continued)

24.1 Credit risk (continued)

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

	Less than 1 month	1-3 months	3 months to 1 year	1 year over	Total
	\$000	\$000	\$000	\$000	\$000
2020					
Gross accounts receivable	13,127	8,494	12,831	6,889	41,342
Allowance for bad debts	780	1,451	7,191	6,113	15,534
	<u>12,348</u>	<u>7,044</u>	<u>5,640</u>	<u>775</u>	<u>25,808</u>
	Less than 1 month	1-3 months	3 months to 1 year	1 year over	Total
	\$000	\$000	\$000	\$000	\$000
2019					
Gross accounts receivable	11,390	7,303	9,797	-	28,490
Allowance for bad debts	1,678	1,529	6,079	-	9,286
	<u>9,712</u>	<u>5,774</u>	<u>3,718</u>	<u>-</u>	<u>19,204</u>

24.2 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Health Authority’s funding and liquidity management requirements. The Health Authority manages liquidity risk by maintaining the \$4 million credit facility, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the financial statements as of 31 December 2020 and 31 December 2019.

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Notes to financial statements

For the year ended 31 December 2020
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24. Financial instruments and associated risks (continued)

24.2 Liquidity risk (continued)

	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
31 December 2020							
Financial assets							
Cash and cash equivalents	\$46,526,428		\$46,526,428	\$ -	\$ -	\$ -	\$ -
Short-term investments			-				
Accounts receivable, net	25,682,777		25,682,777				
Other receivables	3,935,062		3,935,062				
	76,144,267	-	\$76,144,267	-	-	-	-
Financial liabilities							
Accounts payable and accrued expenses	13,089,550		13,089,550				
Unfunded pension obligation	13,550,000		9,616,000				
	26,639,550	-	22,705,550	-	-	-	-
Difference in contractual flows	\$49,504,717	-	\$53,438,717	-	-	-	-
	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
31 December 2019							
Financial assets							
Cash and cash equivalents	\$41,329,749		\$41,329,749	\$ -	\$ -	\$ -	\$ -
Short-term investments	5,063,674		5,063,674				
Accounts receivable, net	19,204,447		19,204,447				
Other receivables	1,745,138		1,745,138				
	67,343,008	-	67,343,008	-	-	-	-
Financial liabilities							
Accounts payable and accrued expenses	6,498,319		6,498,319				
Unfunded pension obligation	8,112,000		8,112,000				
	14,610,319	-	14,610,319	-	-	-	-
Difference in contractual flows	\$52,732,689	-	\$52,732,689	-	-	-	-

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Notes to financial statements

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24. Financial instruments and associated risks (continued)

24.3 Interest risk

Interest rate risk – The Health Authority is exposed to interest rate risk for the \$4 million credit facility with CIBC at a rate of prime plus 0.25% per annum. This interest rate will fluctuate from time to time in line with the general level of interest rates. The risk is managed by the Health Authority by maintaining a short-term credit agreement that is renewable every year to have a negotiable and preferred rate. In addition, the Health Authority is limiting the usage of the credit facility by continuously monitoring the daily cash position which management views as likely to result into a bank preferred interest rate on the renewal of the agreement. The Health Authority has a minimal exposure on interest risk as none of the other financial instruments is exposed to this type of risk.

25. Going concern considerations

After the recognition of the post-retirement health care liability, Health Authority's financial position changed to a net deficit as at 31 December 2020 in the amount of \$63,176,634 (net deficit 2019: (\$30,444,565)) with a net gain for the year of \$1,211,730 (2019: net loss \$2,980,023) as presented in the statement of comprehensive income.

This event has raised a substantial doubt about the Health Authority's ability to continue as going concern as it relates to its ability to meet the post-retirement health care obligation to its eligible employees and retirees as it falls due. Management has considered this risk and have begun taking measures to mitigate any threats to the going concern of the Authority.

At present, Health Authority can fund the medical cost of its retirees as it falls due, the total medical cost paid as of 31 December 2020 amounts to \$1,222,000 (2019: \$1,405,000). In addition, stop loss insurance coverage is also in place to cover the acute cases of retirees thereby limiting the credit risk exposure of Health Authority. The overdraft facility amounts to \$4 million as additional buffer for any cash short fall in the future and this remain unused at present. As Health Authority is a health care facility, Management believes that the Authority can provide a proper health care to its retirees within its facility.

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

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. On 11 March 2020 the World Health Organization declared a global pandemic as a result of the outbreak of COVID-19. The Cayman Islands Government, on 16 March 2020 closed the country's borders, implemented shelter-in-place regulations, put curfews in place, and put restrictions on public gatherings. All local companies, unless they were designated as an essential public place or provide an essential service, were closed. Further to the measures put in place by CIG, the Health Authority

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Notes to financial statements

For the year ended 31 December 2020
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25. Going concern considerations (continued)

ceased all non-emergent services in April of 2020, until CIG began to ease the measures, at which point the Health Authority slowly re-opened services from the end of June and through to end of August before services were all fully back online.

The economic impact of the COVID-19 pandemic has created uncertainty in global markets, has had a significant impact on the local economy, which in turn has impacted the finances of the Health Authority.

Examples of the economic impact of COVID-19 which the Health Authority has experienced include:

- A decline in normal operating revenues for the period from April and through to September/October. This has already begun to recover during the last quarter of the year, however there remains uncertainty which will be driven by the effectiveness of the current vaccine program and other continuing safety measures;
- Impairment of receivables during the period from April through August 2020, during which time the Health Authority halted active collection efforts in order to ease the economic impact to the local community;
- Major supply chain disruption brought on by heavy global demand, panic purchasing, and increased pricing of medical and surgical supplies, and pharmaceuticals. In addition, there have been export restrictions placed on medical supplies by some of the larger countries which have been experiencing heavy COVID-19 caseloads, including the United States, the United Kingdom, and the European Union.
- Recruitment efforts have also been hampered by the pandemic, as most clinical

The Health Authority continues to seek alternative markets to acquire medical supplies,

While the Health Authority expects that the pandemic will continue to impact its operating results for an extended period, the related financial impact and duration cannot be reasonably estimated at this time.

Management continues to adopt the going concern basis of accounting in preparing the financial statements.

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26. Subsequent events

Management is not aware of any other events after the reporting date which will have an impact on the financial statements at 31 December 2020.