ELECTRICITY REGULATORY AUTHORITY

FINANCIAL STATEMENTS

For the Year ended 30 June 2011

The Ministry of District Administration, Works, Lands and Agriculture

Electricity Regulatory Authority

FINANCIAL STATEMENTS

For the Year Ended 30 June 2011

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STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements have been prepared by the Electricity Regulatory Authority in accordance with the provisions of the *Public Management and Finance Law, (2010 Revision).*

We accept responsibility for the accuracy and integrity of the financial information in these statements and their compliance with the *Public Management and Finance Law (2010 Revision).*

As Chairperson, I am responsible for establishing; and have established and maintain 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 Electricity Regulatory Authority.

As Chairperson and Deputy Managing Director we are responsible for the preparation of the Electricity Regulatory Authority financial statements and for the judgements made in them

The financial statements fairly represent the financial position, financial performance and cash flows of the Electricity Regulatory Authority for the financial year ended 30 June 2011.

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

(a) Complete and reliably reflect the financial transactions of the Electricity Regulatory Authority for the year ended 30 June 2011;

(b) Fairly reflect the financial position as at 30 June 2011 and performance for the Year ended 30 June 2011; and

(c) Comply with International Financial Reporting Standards (IFRS) as set out by International Accounting Standards Board under the responsibility of the International Federation of Accountants.

The office of the Auditor General conducts an independent audit and expresses 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.

SBCowan	
Chairperson	Deputy Managing Director
Ms. Sherri Bodden Cowan	Mr. Louis Boucher
Date: OCT. 31, 2011.	Date: OCT. 31, 2011.

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CAYMAN ISLANDS

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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Electricity Regulatory Authority

I have audited the accompanying financial statements of the Electricity Regulatory Authority which comprise of the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 9 to 13 in accordance with the provisions of Section 20 (2) of the *Electricity Regulatory Authority Law (2008 Revision)*, and Section 52(3) of the *Public Management and Finance Law (2010 Revision).*

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Electricity Regulatory Authority as at 30 June 2011, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Alastair Swarbrick, MA (Hons), CPFA
Auditor General

Cayman Islands
October 31, 2011

Electricity Regulatory Authority
Statement of Financial Position
As at 30 June 2011
(in Cayman Islands Dollars)

CURRENT ASSETS	NOTES	2011	2010
		$	$
Cash & Cash Equivalents	2(d)	603,563	483,661
Accounts Receivable		230,877	182,785
Deposits & Prepayments		23,924	8,690
Total Current Assets		**858,364**	**675,136**
NON CURRENT ASSETS			
Property, and equipment	2(b); 3	12,916	14,883
TOTAL ASSETS		**871,280**	**690,019**
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities		38,023	33,364
Dividends Payable		150,000	150,000
Total Current Liabilities		**188,023**	**183,364**
TOTAL NET ASSETS		**683,257**	**506,655**
EQUITY:			
Accumulative surplus		683,257	506,655
Total Equity		**683,257**	**506,655**

Approved on behalf of the Board on the 31 of Oct. 2011

SB Cowan

Ms. Sherri Bodden Cowan
Chairperson

The accompanying notes form an integral part of these financial statements

Electricity Regulatory Authority
Statement of Comprehensive Income
For the Year Ended 30 June 2011
(In Cayman Islands Dollars)

	NOTES	2011	2010
INCOME		$	$
Services provided to Cabinet	4	37,017	67,061
Regulatory Fees	2(e)	825,087	726,177
Other Income		55	52
Total Income		**862,159**	**793,290**
OPERATING EXPENSES			
Personnel costs		302,175	247,092
Consultancy fees	7	99,322	106,847
Leases	6	47,432	39,659
Professional fees		42,022	23,893
Recruitment and work permit		15,990	22,909
Employee travel & conference		7,834	8,490
Telephone		6,987	7,413
Depreciation	3	4,917	4,907
Printing and stationary & supplies		2,380	3,781
Insurance		1,893	2,024
Postage		1,461	1,157
Subscriptions		1,050	1,089
Bank Charges		784	662
Miscellaneous		603	817
National energy policy committee		380	-
Repairs and maintenance		327	2,643
Training		-	1,450
Advertising		-	99
Total Expenses		**535,557**	**474,932**
Net Income		**326,602**	**318,358**

The accompanying notes form an integral part of these financial statements

Electricity Regulatory Authority
Statement of Changes in Equity
For the Year Ended 30 June 2011
(In Cayman Islands Dollars)

	NOTES	Accumulated Surplus	Contributed Capital	Total
		$	$	$
BALANCE AT 1 JULY 2010		506,655	-	506,655
Net income for 2010/11		326,602	-	326,602
Dividend payable to Cayman Islands Government	9	(150,000)	-	(150,000)
BALANCE AT 30 JUNE 2011		**683,257**	-	**683,257**

The accompanying notes form an integral part of these financial statements

Electricity Regulatory Authority
Statement of Cash Flows
For the Year Ended 30 June 2011
(In Cayman Islands Dollars)

	NOTES	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		**$**	$
Net income for year		326,602	318,358
Adjustment for:			
Depreciation		4,917	4,907
(Increase) / decrease in receivable		(48,092)	(31,473)
(Increase) /decrease in prepaid expenses and deposits		(15,234)	(5,313)
(Decrease) /increase in accounts payable and accrued liabilities		4,659	(81,981)
Net Cash from Operating Activities		**272,852**	**204,498**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets net of disposals	**3**	(2,950)	(4,658)
Net Cash Used in Investing Activities		**(2,950)**	**(4,658)**
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid to Government/repayment of equity to CIG		(150,000)	(146,400)
Net Cash Used in Financing Activities		**(150,000)**	**(146,000)**
Net increase in cash and cash Equivalents		119,902	53,440
Cash and cash equivalents at beginning of the year		483,661	430,221
Cash and Cash Equivalents at End of Year		**603,563**	**483,661**

The accompanying notes form an integral part of these financial statements

1. Establishment and Principal Activity

The Electricity Regulatory Authority (ERA) is an independent Statutory Authority. The Electricity Regulatory Authority Law (2008 Revision) was issued on the 8th February 2008. The Electricity Regulatory Authority is responsible for the following:

- Monitoring of licenses granted to Caribbean Utilities Company Ltd and Cayman Brac Power and Light
- Encouraging the introduction of competition within the electricity generation industry within the Cayman Islands with new licenses to be issued to new entrants to the market especially in the use of renewable resources
- Managing the solicitation for new generation capacity
- Ensuring that all licence and regulatory fees are collected in a timely fashion
- Ensuring that the ERA works closely with licensees and the Department of the Environment to ensure that all Licensees comply with environmental laws

As at 30 June 2011 the ERA had 3 full time employees and 1 part time employee and is located at Suite 2, Grand Pavilion, West Bay Road, P.O. Box 10189 George Town, KY1-1002 Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as required under Section 20 (1) of the ERA Law (2008 Revision), and interpretations issued by the Standing Interpretations Committee of the IASB. The significant accounting policies adopted by the ERA in these financial statements are as follows:

(a) *Basis of preparation*

The financial statements of the ERA are presented in Cayman Island dollars and are prepared on the accrual basis under the historical cost convention.

(b) Property and equipment/depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the property and equipment and other assets that are accounted for separately.

The estimated useful lives of the other property and equipment are as follows:

Computer Equipment	5 Years
Office Equipment	10 Years

2. Significant Accounting Policies (continued)

(c) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands Dollars are translated at exchange rates in effect at the financial position date. Revenue and expense transactions denominated in currencies other than Cayman Islands Dollars are translated at exchange rates ruling at the date of those transactions. Gains and losses arising on translation are included in the statement of comprehensive income.

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(e) Revenue recognition

The ERA derived its income during the year from:
(1) Services provided to the Cabinet of the Government of the Cayman Islands which were billed on a monthly basis, under a purchase agreement signed with Cabinet.
(2) Regulatory Fees are in accordance with the Transmission and Distribution licence issued to CUC in April 2008 are calculated based on the gross revenues of transmission and distribution electrical companies licensed in the Cayman Islands and subject to the ERA Law.

(f) Employees benefits

The ERA participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the *Cayman Islands National Pension Law*. Contributions are charged to expenses as they are incurred based on set contribution rates.

2 Significant Accounting Policies (continued)

(h) Financial Instruments

(i) Classification

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

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise accounts payables and accrued expenses. Financial liabilities comprise of accounts payables and of accrued expenses.

(ii) Recognition

The ERA recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statement of comprehsive income.

(iii) Measurement

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

(iv) Derecognition

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

3. Property and equipment

Cost	Computer Equipment	Office Equipment	Total 2011
	$	$	
Balance at 1 July 2010	22,297	4,033	26,330
Additions during the year	2,950	-	2,950
Disposals	-	-	-
Balance at 30 June 2011	25,247	4,033	29,280
Accumulated depreciation			
Balance at 1 July 2010	9,766	1,681	11,447
Charge for Period	4,352	565	4,917
Disposals	-	-	-
Balance at end of year	14,118	2,246	16,364
Net Book Value at 30 June 2011	11,129	1,787	12,916
Net Book Value at 30 June 2010	$ 12,531	$ 2,352	$ 14,883

4. Related Party Transactions

The ERA provided services to the Cabinet of the Cayman Islands during the year in the amount of $ 37,017 (2010 $ 67,061).

The ERA engages the services of other government departments of the Cayman Islands Government. Such services are provided at prevailing market prices on an arm's length basis. Services to the value of $ NIL were provided by other Cayman Islands Government departments (2010 $38).

Key management personnel
The Managing Director is considered as key management personnel of the ERA. The amount paid to the Managing Director for salary and other short term benefits (including pension) was $ 148,536 (2010 $ 143,037).

5. Pensions

The pension contributions of two employees of the ERA are paid directly to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both the employer and employee contributions.

The ERA paid contributions of $ 25,792 to the Public Service Pensions Fund during the year (2010 $17,739).

Both the Managing Director and the Administrator having attained the age of 60 are unable to make further contributions to the Public Service Pensions Board. However the ERA continues to make pension contributions for them that are paid into private pension schemes.

6. Leases

The ERA leases an office at Suites 2, 4 and 5, Grand Pavilion Suites, West Bay Road under lease agreement with the Grand Pavilion Suites. The lease for units 2 and 4 was signed on the 5th day of November 2007, and the lease for unit 5 was signed on January 20, 2010. Total lease payments are currently CI $ 3,861 per month, and totaled $ 39,048 in the period (2010 $ 39,048). The ERA is now leasing on a month to month basis, with the option of signing a new lease.

7. Consultancy Fees

The ERA retains the services of a number of consultants specialising in the electrical utility field and these consultants assisted the ERA in on-going discussions with Licensees. Amount spent on this service was $99,321 (2010 $106,847).

8. Financial Instruments

Fair values. The carrying amount of cash deposits, prepayments, and accounts payables and accrued liabilities approximate their fair value due to their short-term maturities. Fair values are made at specific points 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 judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

9. Subsequent Events

In accordance with Section 14 (5) of the ERA Law (2008 Revision), the ERA paid $150,000 to the Cayman Islands Government as a dividend in July 2011.