

ELECTRICITY REGULATORY AUTHORITY

FINANCIAL STATEMENTS

30 JUNE 2012

The Ministry of District Administration, Works, Lands and Agriculture

Electricity Regulatory Authority

FINANCIAL STATEMENTS

For the Year Ended 30 June 2012

Table of Contents

Statement of Responsibility For Financial Statements	Page 2
Auditor General's Report	Page 3-4
Statement of Financial Position	Page 5
Statement of Comprehensive Income	Page 6
Statement of Changes in Equity	Page 7
Statement of Cash Flow	Page 8
Notes to the Financial Statements	Page 9-13

Electricity Regulatory Authority
Financial Statements
30 June 2012

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, (2012 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 (2012 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 2012.

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 2012;
- (b) fairly reflect the financial position as at 30 June 2012 and performance for the Year ended 30 June 2012; and
- (c) comply with International Financial Reporting Standards (IFRS) as set out by International Public Sector 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 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 Auditing.


Ms. Sherri Bodden Cowan
Chairperson


Mr. Louis Boucher
Deputy Managing Director

Date: 31/10/12

Date: 31/10/12

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 2012, the statement of changes in equity, the statement of comprehensive income and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Section 60(1) (a) of the *Public Management and Finance Law (2012 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 our audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2012 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read 'A. Swarbrick', with a stylized flourish at the end.

Alastair Swarbrick, MA (Hons), CPFA
Auditor General

Cayman Islands
October 31, 2012

Electricity Regulatory Authority
Statement of Financial Position
As At 30 June 2012
(Stated in Cayman Islands Dollars)

CURRENT ASSETS	NOTES	2012	2011
		\$	\$
Cash & Cash Equivalents	4	907,119	603,563
Accounts Receivable		258,993	230,877
Deposits & Prepayments		11,118	23,924
Total Current Assets		1,177,231	858,364
 NON CURRENT ASSETS			
Property, and equipment	3	9,615	12,916
 TOTAL ASSETS		1,186,846	871,280
 CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities		23,402	38,023
Dividends Payable	9	150,000	150,000
TOTAL LIABILITIES		173,402	188,024
		1,013,444	683,257
 EQUITY:			
Accumulated surplus		1,013,444	683,257
Total Equity		1,013,444	683,257

Approved on behalf of the Board on the 31 of October, 2012


 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 2012
(Stated in Cayman Islands Dollars)

	<u>NOTES</u>	<u>2012</u>	<u>2011</u>
		\$	\$
INCOME			
Income of the Authority for the period			
Services provided to Cabinet	4	120,000	37,017
Regulatory Fees		955,726	825,087
Other Income		1,344	55
Total Income		<u>1,077,070</u>	<u>862,159</u>
 OPERATING EXPENSES			
Personnel Costs		252,254	302,175
Consultancy Fees		194,495	99,321
Leases		52,257	47,432
Profession Fees		41,237	42,022
Recruitment and Work Permit		25,895	15,990
Employee Travel & Conference		12,330	7,834
Telephone		5,992	6,987
Depreciation		5,299	4,917
National Energy Policy Committee		1,979	380
Insurance		1,422	1,893
Printing and Stationary & Supplies		1,005	2,380
Bank Charges		966	784
Repairs and Maintenance		714	327
Postage		562	1,461
Subscriptions		455	1,050
Miscellaneous		21	603
Total Expenses		<u>596,883</u>	<u>535,557</u>
 Net Income		<u>480,187</u>	<u>326,602</u>

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 2012
(Stated in Cayman Islands Dollars)**

	<u>NOTES</u>	Accumulated Surplus	Contributed Capital	Total
		\$	\$	\$
BALANCE AT 1 JULY 2011		683,257	-	683,257
Net Income for the year		480,187	-	480,187
Provision for Dividend Payable to Cayman Island Government	9	-150,000	-	-150,000
BALANCE AT 30 JUNE 2012		<u>1,013,444</u>	<u>-</u>	<u>1,013,444</u>

The accompanying notes form an integral part of these financial statements

Electricity Regulatory Authority
Statement of Cash Flow
For the Year Ended 30 June 2012
(Stated in Cayman Islands Dollars)

	<u>NOTES</u>	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES		\$	\$
Net Income for period		480,187	326,602
Adjustment for:			
Depreciation		5,299	4,917
Increase in Accounts Receivable		(28,116)	(48,092)
Decrease/(Increase) in Prepaid Expenses & Deposits		12,806	(15,235)
(Decrease)/Increase in Accounts Payable and Accrued Liabilities		(14,621)	4,659
Net Cash from Operating Activities		<u>455,555</u>	<u>272,852</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, plant and equipment	3	(1,999)	(2,950)
Net Cash Used in Investing Activities		<u>(1,999)</u>	<u>(2,950)</u>
Cash Flow From Financing Activities			
Dividend Paid to Government/Repayment of Equity to Cayman Islands Government		(150,000)	(150,000)
Net increase in Cash and Cash Equivalents during		303,556	119,902
Cash and Cash Equivalents at the Beginning of the Year		603,563	483,661
Cash and Cash Equivalents at End of Year		<u>907,119</u>	<u>603,563</u>

The accompanying notes form an integral part of these financial statements

**Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2012
(Stated in Cayman Islands Dollars)**

1. Establishment and Principal Activity

The Electricity Regulatory Authority ("the Authority") is an independent Statutory Authority. The Electricity Regulatory Authority Law (2010 Revision) was issued on the 12th day of October 2010.

The Electricity Regulatory Authority is responsible for the following:

- Monitoring of licenses granted to Caribbean Utilities Company Ltd ("CUC") 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;
- Encouraging the implementation and use of Renewable Energy by Consumers and Licensees;
- Ensuring that all licence and regulatory fees are collected in a timely fashion; and
- 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 2012 the ERA had 3 full time employees and is located at Suite 14, 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 (IFRS) issued by the International Accounting Standards Board (IASB) as required under Section 20 (1) of the ERA Law (2010 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, plant and equipment/depreciation

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

**Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2012
(Stated in Cayman Islands Dollars)**

2. Significant Accounting Policies (continued)

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

The estimated useful lives of the other fixed assets are as follows:

Computer Equipment	5 Years
Office Equipment	5- 10 Years

(c) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands Dollars are translated at exchange rates in effect at the balance sheet 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 & 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 are 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

Being required to provide pension for employees under the National Pension Law, the Authority participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the *Public Service Pension Law*. Contributions are charged to expenses as they are incurred based on set contribution rates.

Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2012
(Stated in Cayman Islands Dollars)

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 accounts receivable.

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 of accounts payables and accrued expenses. Financial liabilities comprise of accounts payables and accrued expenses, as well as dividends payable.

(ii) Recognition

The Authority 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 statements of comprehensive 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 Authority 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 expires.

Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2012
(Stated in Cayman Islands Dollars)

3. Property and Equipment

Cost	Computer Equipment	Office Equipment	Total 2012
	\$	\$	
Balance at 1 July 2011	25,247	4,033	29,280
Additions during the year	799	1,200	1,999
Disposals	-	-	-
Balance at 30 June 2012	26,046	5,233	31,279
Accumulated Depreciation			
Balance at 1 July 2011	14,118	2,246	16,364
Charge for Period	4,734	566	5,300
Disposals	-	-	-
Balance at 30 June 2012	18,850	2,812	21,664
Net Book Value at 30 June 2012	7,195	2,420	9,615
Net Book Value at 30 June 2011	\$ 11,129	\$ 1,787	\$ 12,916

4. Related Party Transactions

The ERA provided services to the Cabinet of the Cayman Islands during the period in the amount of \$ 90,486 (2011 \$ 37,017). At 30 June 2012 \$29,513.95 is owing to the ERA from Cabinet, being part of accounts receivable.

ERA engages the services of other government departments of the Cayman Islands Government. Based on Government wide policy such services are not subject to inter-agency charging beginning 1 July 2009

The amount paid to the Acting Managing Director for salary and other short term benefits (including pension) was \$ 129,235 (2011 \$ 148,536 Managing Director), recorded under personnel costs.

Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2012
(Stated in Cayman Islands Dollars)

5. Pensions

The defined contribution pension of two employees of the Authority 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 \$ 23,436 to the Public Service Pensions Fund during the period (2011 \$ 25,792).

6. Leases

The Authority leases an office at Suites 12, 14 and 15, Grand Pavilion Suites, West Bay Road under lease agreement with the Grand Pavilion Suites. The lease was signed on August 24, 2011 with a November 1, 2011 commencement date. Lease payments are currently CI \$ 4,293.32 per month, and totaled \$ 47,965 in the period (2011 \$ 39,048).

7. Consultancy & Legal Fees

The Electricity Regulatory Authority retains the services of a number of consultants specialising in the electrical utility field and these consultants assist the ERA in on-going discussions with Licensees. The Authority also retains the services of Legal Advisors, who assist the Authority in legal matters.

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 determined 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 Electricity Regulatory Law (2010 Revision), the ERA paid \$ 150,000 to the Cayman Islands Government as a dividend in August 2012, which was reported as dividends payable at 30 June 2012 (2011: \$150,000).