

Utility Regulation and Competition Office

Financial Statements

31 December 2017

Utility Regulation and Competition Office

**FINANCIAL STATEMENTS
31 December 2017**

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Utility Regulation and Competition Office
Statement of Responsibility for the Financial Statements
31 December 2017

These financial statements have been prepared by the Utility Regulation and Competition Office in accordance with the provisions of the *Public Management and Finance Law (2017 Revision)*. The financial statements comply with generally accepted accounting practice as defined in 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 Law (2017 Revision)*.

As Chair and Chief Executive Officer, we are 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 Utility Regulation and Competition.

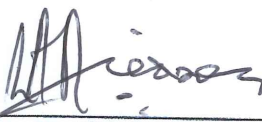
As Chair and Chief Executive Officer, we are responsible for the preparation of the Utility Regulation and Competition Office's financial statements and for the judgements made in them.

The financial statements fairly present the statement of financial position, comprehensive income and cash flows for the financial period ended 31 December 2017.

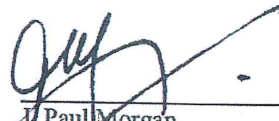
To the best of our knowledge we represent that these financial statements:

- (a) completely and reliably reflect the financial transactions of the Utility Regulation and Competition Office for the period ended 31 December 2017;
- (b) fairly reflect the financial position as at 31 December 2017 and comprehensive income for the period ended 31 December 2017; and
- (c) comply with International Financial Reporting Standards under the responsibility of International Accounting Standards Board.

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.


Dr. the Hon. Linford Pierson, OBE, JP
Chair

Date: 30 April 2018


J. Paul Morgan
Chief Executive Officer

Date: 30 April 2018

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Utility Regulation and Competition Office

Opinion

I have audited the financial statements of Utility Regulation and Competition Office (the "Office"), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flows statement for the 11.5 month period from 16 January 2017 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 23.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Office as at 31 December 2017 and its financial performance and its cash flows for the 11.5 month period from 16 January 2017 to 31 December 2017 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 Office 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.

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

Management is responsible for the preparation 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 Office'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 Office or to cease operations, or has no realistic alternative but to do so.

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

AUDITOR GENERAL'S REPORT (continued)

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 Office'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 Office'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 Office 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)(ii) of the Public Management and Finance Law (2017 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.



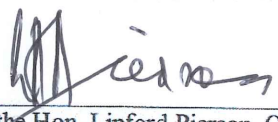
Sue Winspear, CPFA
Auditor General

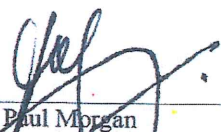
30 April 2018
Cayman Islands

Utility Regulation and Competition Office
Statement of Financial Position
As at 31 December 2017
(stated in Cayman Islands dollars)

CURRENT ASSETS	Notes	Dec 31, 2017	Jan 15, 2017
Cash and cash equivalents	3,11	\$ 2,980,184	\$ 2,785,373
Accounts receivable	4,7,11	1,208,700	782,527
Prepaid expenses		69,743	111,344
		<u>4,258,627</u>	<u>3,679,244</u>
NON-CURRENT ASSETS			
Property, plant and equipment	5	324,493	286,163
TOTAL ASSETS		<u>\$ 4,583,120</u>	<u>\$ 3,965,407</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	6	2,606,747	524,946
Defined benefit pension liability	2,9	49,000	48,000
		<u>\$ 2,655,747</u>	<u>\$ 572,946</u>
EQUITY			
Contributed capital		1,468,461	1,468,461
General reserve	8	1,924,000	1,924,000
Accumulated (deficit)/surplus		(1,465,088)	-
		<u>1,927,373</u>	<u>3,392,461</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 4,583,120</u>	<u>\$ 3,965,407</u>

Approved on behalf of the Board of Directors on the 30 of April 2018


 Dr. the Hon. Linford Pierson, OBE, JP
 Chair


 J. Paul Morgan
 Chief Executive Officer

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

Utility Regulation and Competition Office
Statement of Comprehensive Income
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

INCOME	<u>Notes</u>	<u>2017</u>
Regulatory fees		\$ 1,774,250
Services provided to Government	7	698,487
Licensing fees		270,411
KY Domain fees		175,439
Import permit		80,500
Other income		12,210
Total income		<u>3,011,297</u>
 EXPENSES		
Salaries and employee benefits	7, 9	2,228,992
Professional and consultancy fees		1,052,451
Legal fees		243,752
Official travel and conferences		234,233
Depreciation and amortisation	5	130,685
Directors' fees		113,268
Other expense		101,193
Lease of office space	10	94,613
Utilities		73,781
IT expense		86,296
Training		54,031
Subscription and contributions		28,615
Bank charges		14,746
Supplies and materials		10,562
Insurance		9,167
Total expenses		<u>4,476,385</u>
Net loss for the period		<u>(1,465,088)</u>
Other comprehensive loss for the period		
Re-measurement of defined benefit pension		19,000
Total comprehensive loss for the period		<u>\$ (1,446,088)</u>

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

Utility Regulation and Competition Office
Statement of Changes in Equity
For the Year Ended 31 December 2017
(stated in Cayman Islands dollars)

	Notes	Contributed capital	General reserve	Accumulated deficit	Total equity
Balance at Jan 16, 2017		\$ 1,468,461	\$ 1,924,000	-	\$ 3,392,461
Net comprehensive loss for the year		-	-	(1,465,088)	(1,465,088)
Balance at December 31, 2017		\$ 1,468,461	\$ 1,924,000	(\$ 1,465,088)	\$ 1,927,373

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

Utility Regulation and Competition Office
Statement of Cash Flows
For the Year Ended 31 December 2017
(stated in Cayman Islands dollars)

	<u>Notes</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net comprehensive loss for the period		(\$ 1,465,088)
Adjustment for non-cash transactions:		
Depreciation and amortisation	5	<u>130,685</u>
		(1,334,403)
Net changes in non-cash operating balances:		
(Increase)/decrease in:		
Accounts receivable		(426,174)
Prepaid expenses		41,601
Accounts payable and accrued liabilities		<u>2,082,802</u>
Net cash provided by/(used in) operating activities		<u>363,826</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	5	<u>(169,015)</u>
Net cash (used in) investing activities		<u>(169,015)</u>
 Net increase in cash and cash equivalents during the period		194,811
Cash and cash equivalents at the beginning of the period		<u>2,785,373</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u><u>\$ 2,980,184</u></u>

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

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

1. Establishment and principal activities

The Utility Regulation and Competition Office (*the 'Office'*) is an independent multisector authority established by the enactment of the Utility Regulation and Competition Law, 2016 (URC Law) and commenced operations on January 16, 2017. The Office was established pursuant to section 4(1) of the URC Law.

The Office is an amalgamation of the Information and Communications Technology Authority ('ICTA'), the Electricity Regulatory Authority ('ERA') and the Petroleum Inspectorate, which hitherto had been a Department of the Government of the Cayman Islands.

On January 16, 2017, ICTA and ERA were amalgamated to start the Office in accordance with section 100A (1) of the Information and Communications Law, 2017 (ICTA Law) and section 92A of the Electricity Regulatory Authority Law, 2016 (ERA Law). In February 2017, the Petroleum Inspectorate, was effectively transferred to the Office and in May 2017 the regulatory functions for the Water Sector were transferred to the Office, with the passing of the Water Sector Regulatory Law, 2017 (WSR Law). Effective 16 January 2017 all assets, liabilities, and net assets/equity were transferred at the carrying value of ICTA, ERA and Petroleum Inspectorate into the office of the Utility Regulation and Competition Office.

In each of sectors for which it has responsibility, the Office derives its authority and functions through a variety of Sectoral Laws, the principal ones being the Electricity Sector Regulation Law, 2016 (ESR Law), the Information and Communication Technology Law (2017 Revision) (ICTA Law), the Dangerous Substances Law (2017 Revision) (DS Law), the Fuels Sector Regulation Law, 2017 (FSR Law) and the Water Sector Regulation Law, 2017 (WSR Law).

While many of the functions previously carried out by the ICTA and ERA will continue as usual, in addition, the Office is endowed with strengthened competition and consumer protection powers, as well as a duty to promote innovation in the sectors for which it has responsibility.

The Office's financial year end is December 31st each year.

The Cayman Islands Government appoints the Chair and Members to the Office's Board of Directors.

As at 31 December 2017, the Office had 22 employees. The Office is located at 85 North Sound Way, 3rd floor of Alissta Tower, P.O. Box 2502 George Town, Grand Cayman, KY1-1104, 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), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The significant accounting policies adopted by the Office in these financial statements are as follows:

(a) Basis of preparation

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

(b) Use of estimates

The preparation of financial statements in accordance with International Financial Reporting 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 as well as the reported amounts of income and expenses during the year. The estimates and associated assumptions are based on

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(b) Use of estimates (continued)

historical experience and various other factors that are believed to be reasonable under the circumstances. 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 reporting period and in any future periods that are affected by those revisions.

(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 statements date. Income and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates 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) Accounts receivable

Accounts receivable are recognised initially at fair value and are subsequently reviewed for impairment. Where there is objective evidence that a debt will not be collectible by the Office according to the agreed terms a provision for bad debt is established.

(f) Property, plant and equipment/depreciation and amortisation

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

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the property, plant and equipment except for leasehold improvements which are amortised over the shorter of the life of the lease or the term of the lease.

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

Plant	15 Years
Office equipment and furniture	5 - 12 Years
IT equipment	3 Years
Computer Software	3 Years
Motor Vehicles	3 Years
Leasehold improvements	5 Years

Management reviews the depreciation and amortisation method and useful life at each reporting period to ensure that they are consistent with the expected economic benefits from property, plant and equipment.

(g) Income recognition

Services provided to Cabinet are recognised when the services agreed in the purchase agreement are performed and the Government is invoiced. Services are billed at cost to the Government (see also Related Party Note 7).

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(g) Income recognition (continued)

Regulatory and licensing fees are recognised as revenue when they are due to the Office. Radio licence fees are recognised when received by the Office. Application and licence fees are non-refundable.

(h) Operating lease

Lease payments are recognised as an expense on a straight-line basis over the lease term.

(i) 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 are comprised of cash and cash equivalents and receivables.

(ii) Classification

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 are comprised of accounts payables and accrued expenses.

(iii) Recognition

The Office 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 comprehensive income.

(iv) 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.

(v) Derecognition

A financial asset is derecognised when the Office 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.

(j) Provisions and contingencies

Provisions are recognised when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(j) Provisions and contingencies (continued)

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

(k) Employee benefits

Employee entitlements such as, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of comprehensive income when they are earned by employees. Employee entitlements to be settled within one year following the year end outstanding at that date are reported as current liabilities at the amount expected to be paid.

Retirement benefits are provided to employees through a defined contribution plan, as well as a defined benefit plan (note 9).

Defined Contribution Plan

The Office 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. The Office makes monthly contributions at a rate of 12%, whereby the employer pays both the employer and employee contributions. In addition, the Office is also required to contribute to the Public Service Pension Plan, an extra 1% of each employee's monthly salary. This 1% is a Past Service Liability (PSL) cost to cover a deficiency in the Fund.

Defined Benefit Plan

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each financial position date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Office's defined obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability comprises the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(k) Subsequent Events

Post-year-end events that provide additional information about the Office's position at the financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

(l) Changes in International Financial Reporting Standards

Below are several new standards and amendments that have been issued but are not yet effective. They do not impact the annual financial statements of the Office. The nature and impact of each new standard/amendment is described below:

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

IFRS 9 Financial Instruments (replacement of IAS 39) (Effective for annual periods beginning on or after 1 January 2018). (continued)

The International Accounting Standards Board (the Board) completed the final element of its comprehensive response to the financial crisis with the publication of IFRS 9 Financial Instruments in July 2014.

The Package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is

held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments removing a source of complexity associated with previous accounting requirements.

IFRS 15 Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2017).

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue.

The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model: 1. Identify the contract(s) 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 5. Recognise revenue when (or as) the entity satisfies a performance obligation the standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019.)

In January 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single lessee accounting model while maintaining the classification of either an operating or financing lease for the lessor similar to IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Utility Regulation and Competition Authority is currently assessing the impact of the new standard.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

3. Cash and cash equivalents

	Dec 2017
Checking accounts	\$1,493,865
Fixed deposits	1,486,319
	<u>\$ 2,980,184</u>

4. Accounts receivable

Management estimates that accounts receivable of \$1,208,700 as of 31 December 2017 are fully collectible. During the period, there were no bad debts written off.

5. Property, plant and equipment

As at 31 December 2017

	Office equipment and furniture	IT equipment	Leasehold improvements	Computer software	Motor vehicles	Plant and other Equipment	Other Equipment	Total
Net book values at 16 January 2017	12,602	90,318	-	3,588	90,786	74,784	14,085	286,163
Additions	12,845	69,570	-	4,200	82,400	-	-	169,015
Balance at end of period	25,447	159,888	-	7,788	173,186	74,784	14,085	455,178
Accumulated depreciation 16 January 2017	-	-	-	-	-	-	-	-
Charge for period	9,782	63,316	-	3,005	47,104	4,778	2,700	130,685
Balance at end of period	9,782	63,316	-	3,005	47,104	4,778	2,700	130,685
Net Book Value 31 December 2017	\$ 15,665	\$ 96,572	\$ -	\$ 4,783	\$ 126,082	70,006	11,385	\$324,493

6. Accounts payable and accrued liabilities

	2017
Accounts payable	\$ 2,271,747
Accruals	384,000
	<u>\$ 2,606,747</u>

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

7. Related party balances and transactions

The following balances and transactions occurred during the period between the Office and Cayman Islands Government.

	<u>2017</u>
Accounts Receivable – Government	-
Services provided to Cabinet	<u>698,487</u>
	<u>\$ 698,487</u>

During the year, the Cayman Islands Government engaged the Office to provide, a number of Utility Regulation and Competition Office related services. The provision of these services (or “Outputs”) is formalised in a purchase agreement which includes the collection and verification of royalties paid by Office’s Licensees, policy advice on utility regulation matters and drafting instructions for legislation and regulations. Additionally, in lieu of subsidies, the Government pays the Office for services such as the management of the Electromagnetic Spectrum.

As detailed in Note 9, the Office on behalf of its eligible employees paid contributions of \$217,370 to the Public Service Pensions Plan during the period.

Salaries and other short-term employee benefits for key management of \$569,875 are included within salaries and employee benefits.

As part of the services provided to Government, the Office collected, verified and remitted the 6% Royalty Fee from ICTA Licensees, as follows.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	2017
Balance at beginning of period	\$ -	\$ -	\$ -	\$ -	\$ -
Amount collected	1,951,060	2,043,218	1,970,859	1,966,721	7,931,858
Amount paid	(1,951,060)	(2,043,218)	(1,970,859)	-	(5,965,137)
Balance at end of period	\$ -	\$ -	\$ -	\$ -	\$ 1,966,721

On the 29 December 2016 Cabinet approved the following fixed stipend for non-executive Board members:

Chair	\$4,500 per month
Deputy Chair	\$2,500 per month
Member	\$2,000 per month

8. General reserve

The Utility Regulation and Competition Law require the Office to maintain a reserve fund; the management of such fund being at the discretion of the Office. The Law requires the fund to be applied only for the purposes of the Office. The current reserve account represents approximately five to six times the monthly operating requirements.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Period Ended 31 December 2017
(stated in Cayman Islands dollars)

9. Pensions

Contributions to Public Service Pensions Plan

During the current year, the Office recognised pension expenses under salaries and employee benefits of \$ 217,370 paid to the Public Service Pensions Fund.

Public Service Defined Benefit Plan

The Office has one employee who is an active participant in the Public Service defined benefit plan. During the year, the Office recognised pension expense under salaries and employee benefits of \$ nil.

IAS 19R became effective January 1, 2013. All unamortized gains and losses and past service costs under IAS 19 will be immediately recognized as a one-off transition adjustment to equity. Administration costs that are not investment related will be recognized in profit or loss as an operating charge under IAS 19R. This differs from the current approach under IAS 19, where all administration costs are allowed for within the expected rate of return of assets. Under IAS 19R, the expected return on assets is no longer used in the determination of the defined benefit cost, but it continues to be used in the determination of the asset limit under IFRIC 14. The expected return on assets assumption continues to be management best estimate.

Pension contributions for eligible employees of the Office are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer plan. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after 1 January 2000 becoming members of the defined contribution element only.

Benefit obligations are estimated using the Projected Unit Credit method. Under this method, each participant's benefits under the plan are attributed to years of service, taking into consideration future salary increases and the plan's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The Fund has been valued by the Actuary (Mercer) to the Pensions Board. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein. The Office paid both the employee and employers contributions. The actual amount of pension expense relating to the defined benefits for staff also includes the effect of the changes in the actuarial determined liability.

The amounts recognized in the statement of financial position is as follows:

	2017
	\$'000
Defined benefit obligation	277
Fair value of plan assets	228
Funded status	49
Net liability	49

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9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

The change in defined benefit obligation is as follows:

	2017
	\$000
Defined benefit obligation at end of prior year	-
Service Cost	19
Interest expense	8
Cash flows	12
Other significant events	220
Remeasurements	18
Effect of changes in foreign exchange rates	-
Defined benefit obligation at end of year	<u>277</u>

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

	2017
	\$000
Fair value of plan assets at end of prior year	-
Interest Income	7
Cash flows – employer and participant contributions	24
Other significant events	172
Remeasurements	25
Effect of changes in foreign exchange rates	-
Fair value of plan assets at end of year	<u>228</u>

The net defined benefit liability (asset) reconciliation:

	2017
	\$000
Net defined benefit liability as of beginning of year	-
Defined benefit cost included in P&L	20
Total remeasurements included in OCI	(7)
Other significant events	48
Cash flows	(12)
Credit to reimbursements	-
Effect of changes in foreign exchange rates	-
Net defined benefit liability as of end of year	<u>49</u>

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9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

The components of defined benefit cost is as follows:

	2017
	\$000
Service Cost	19
Net interest cost	
Interest expense on DBO	8
Interest (income) on plan assets	(7)
Total net interest cost	1
Remeasurements of Other Long Term Benefits	-
Administrative expenses and taxes	-
Defined benefit cost included in P & L	20
Remeasurements (recognized in other comprehensive income)	
Effect of changes in demographic assumptions	(33)
Effect of changes in financial assumptions	(9)
Effect of experience adjustments	60
(Return) on plan assets (excluding interest income)	(25)
(Return) on reimbursement rights (excluding interest income)	-
Changes in asset ceiling/onerous liability (excluding interest income)	-
Total remeasurements included in OCI	-
Total defined benefit cost recognized in P&L and OCI	13

The sensitivity analysis on defined benefit obligation is shown below:

	2017
1. Discount rate	
a. Discount rate – 25 basis points	300
b. Discount rate + 25 basis points	256
2. Inflation rate	
a. Inflation rate – 25 basis points	256
b. Inflation rate + 25 basis points	300
3. Mortality	
a. Mortality - 10% of current rates	283
b. Mortality + 10% of current rates	271

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

	Amount
	(\$000)
Expected employer contributions	6

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9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

The significant actuarial assumptions are presented below:

	2017
1. Discount rate	3.80%
2. Rate of salary increase	2.50%
3. Rate of price inflation	2.00%
4. Rate of pension increases	2.00%
5. Post-retirement mortality table	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected using Scale MP-2016
6. Cost Method	Projected Unit Credit
7. Asset valuation method	Market Value
	2017
1. Discount rate	4.60%
2. Rate of salary increase	3.50%
3. Rate of price inflation	2.50%
4. Rate of pension increases	2.50%
5. Post-retirement mortality table	RP-2014 projected on a generational basis using Scale MP-2014

Plan Assets

The Defined Benefit assets as well as Defined Contribution assets of the Plan are held as part of the Public Service Pensions Fund ("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 internal accounting mechanism that tracks, for each accounting period, actual cash flows and allocates investment income and expenses in proportion to the opening value of assets allocated. Based on the data provided, the gross rate of return earned by the Fund for the period ended January 2017 was 4.89%. 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 draft financial statements as at 31 December 2017 as well as asset value as at 31 December 2017 provided by PSPB, along with cash flow and other supplemental asset information. The assets are held in trust by CIBC Mellon.

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9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

The Fund currently has investment policy with a target asset mix of 80% equities and 20% bonds. As at 31 December 2017, the Fund was invested as follows:

Plan Assets by Asset Category	2017	
	(\$000)	Percentage
Global equities securities	547,500	80%
Debt securities	129,083	19%
Real estate / Infrastructure	-	-
Cash	9,000	1%
Total	685,583	100%

For the period ended December 2017, the Defined Contribution portion of the Fund totaled to \$303,457,800 as provided by PSPB. The share of the Fund that been notionally allocated to Office with regards to its participation in the Defined Benefit Part of the Plan is \$227,500 as at 31 December 2017.

The Actuarial Assumptions

The actuarial assumptions have been approved by the Financial Secretary, the main sponsor of the Plan. The principal financial and demographic assumptions used at 31 December 2017 are shown in the table below. The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the pension expense for the following year.

Measurement Date	2017
Discount rate	
- BOY disclosure and current year expense	4.50% per year
- EOY disclosure and following year expense	3.80% per year
Increases in pensionable earnings	3.50% per year
Rate of Pension Increases	2.00% per year
Rate of Indexation	2.00% per year
Expected long-term rate of return on assets (net of expenses) for purposes of IFRIC only	2.00% per year
Mortality	
- BOY disclosure and current year expense	RP-2014 generationally projected using scale MP-2014
- EOY disclosure and following year expense	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected using scale MP-2016
Disability	None
Turnover Rates	Age related table
Retirement	Age 57 and 10 years of service
Assumed life expectations on retirement	Retiring today (member age 57) 29.13 Retiring in 25 years (at age 57): 31.42
Liability Cost Method	Projected unit credit method
Asset Value Method	Market Value of Assets
Commutation of pension	All members commute 25% at retirement

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9. Pensions (continued)

Public Service Defined Benefit Plan (continued)

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%

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. The mortality assumption was updated to make allowance for future mortality improvements. In the addition, the mortality improvement scale has been updated from Scale AA to Scale BB. These are the same assumptions as approved by the PSPB for use in the 1 January 2014 funding valuation of the Plan.

The discount rate as at 31 January 2017 was determined in accordance with IAS 19. In accordance with IAS 19R paragraph 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. The Mercer US Above Mean Yield Curve (referencing US corporate bond yields) was used to determine discount rates due to strong economic and currency links between the US and the Cayman Islands.

10. Lease commitments

The Office leases the third floor of Alissta Towers under an operating lease. The Lease payments are \$6,139 per month. The Office also has a contractual arrangement with Rainbow Reality Limited for lease payments of \$17,186 per month. The Office's Future lease commitments are:

Period	Amount
1 January 2018 to 30 June 2018	\$139,950

At the termination of the lease, unless agreed between the Landlord and the Office in writing, the Office is to remove at its cost and expense any partitions, structures, additions or improvements erected by the Office and shall reinstate the premises to the condition they were in at the commencement of the term.

11. Financial risk management objectives and policies

The Office's principal financial assets are comprised of cash and cash equivalents and accounts receivables. Financial liabilities are solely Accounts payable and other liabilities. The Office's Board of Directors has overall responsibility for the establishment and oversight of its risk management policies which are designed to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

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11. Financial risk management objectives and policies (continued)

Risk management policies and systems are periodically reviewed to reflect changes in market conditions and Office's activities. The most important types of financial risk to which the Office is exposed are market risk, credit risk, liquidity risk and interest rate risk.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Office did not hold any financial instrument that was subject to market risk at 31 December 2017.

b) Credit Risk

Credit risk for the Office is the risk that counterparty will not meet its obligation under a financial instrument, leading to a financial loss. The Office is exposed to credit risk primarily from its receivables from licensees, and from its various deposits in its bank. The Office does not have the flexibility in refusing to transact with a licensee in accordance with the laws.

At year-end, the Office evaluates the financial capability of its licensees to determine any issues with collectability that can result in a financial loss. The Office also continues to monitor the financial soundness of its banking institution, and currently believes that there are no issues impacting the bank's ability to repay amounts in accordance with the respective terms of various deposits.

The Office's accounts receivable balance does not have any significant credit risk exposure to any single licensee, but is inherently exposed in its entirety to the telecommunications industry in the Cayman Islands. The Office's licensees include well-established local telecommunication and media companies and, at 31 December 2017, there have been no indications of any insolvency in those entities that impacts their ability to pay the Office. On the other hand, the Office's deposits are concentrated in a single banking institution based locally.

The maximum exposure to credit risk at 31 December 2017, is as follows:

	2017
Cash and cash equivalents	\$ 2,980,184
Accounts receivable	1,208,700
	<u>\$ 4,188,884</u>

c) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The liquidity risk management process ensures that the Office is able to honour all of its financial commitments when due. The Office manages liquidity risk by ensuring that it has sufficient cash on demand to meet expected operational expenses and servicing of financial obligations. To this end, the Office maintains a reserve, as is required by the Utility Regulation and Competition Law. The size and nature of the reserve are determined by Management. At the moment, the Office maintains a cash reserve equivalent to 6 months of operating expenses.

d) Interest Rate Risk

The Office is subject to interest rate risk on the cash placed with a local bank which attracts interest. Interest payments are charged to customers on late payments on accounts receivable. The Office is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call and available on demand.

Utility Regulation and Competition Office
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12. Financial instruments

Fair values. The carrying amount of cash deposits, prepayments, accounts receivable 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.

13. Judicial Review

A judicial review is currently ongoing between the Office and an ICTA Licensee. The case concerns an application for judicial review made by the ICTA Licensee against a determination made by the Office concerning the level of pole attachment reservation fees levied by the ICTA Licensee in the broadband internet provision sector against the named telecommunications providers. There is a possibility that the Office may be required to pay certain legal costs, if the defence of the application is not successful. The precise level of costs that the ICTA Licensee will seek if successful cannot be determined at this time. However, the lawyers estimate that the figure will be the order of \$250,000.

14. Segment Reporting

	ICT Sector	Energy and Utilities Sector	Fuel Sector	Water Sector	Consolidated
	2017	2017	2017	2017	2017
	\$	\$	\$	\$	\$
Revenue					
Outputs from Cabinet	311,927	28,750	357,810	-	698,487
Revenue from external sources	1,526,794	700,855	83,727	1,434	2,312,810
Total revenue	1,838,721	729,605	441,537	1,434	3,011,297
Expenses					
Personnel	941,418	604,790	667,551	15,233	2,228,992
Supplies and consumables	1,321,168	293,335	284,412	116,600	2,015,515
Depreciation	60,909	21,410	39,560	8,806	130,685
Other expenses	37,948	24,378	26,908	11,959	101,193
Total expenses	2,361,443	943,913	1,018,431	152,598	4,476,385
Surplus/(deficit) from operating activities	(522,722)	(214,308)	(576,894)	(151,164)	(1,465,088)
Assets					
Property, plant and equipment	94,461	65,800	150,614	13,618	324,493
Total assets	94,461	65,800	150,614	13,618	324,493
Liabilities					
Current liabilities	2,469,134	88,943	97,670	-	2,655,747
Total liabilities	2,469,134	88,943	97,670	-	2,655,747

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15. Subsequent events

Management is not aware of any occurrences subsequent to the reporting date which will have an impact on the financial statements at 31 December 2017.