

Electricity Regulatory Authority

FINANCIAL STATEMENTS

For the Year Ended 30 June 2010

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Electricity Regulatory Authority
Financial Statements
30 June 2010

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 (2005 Revision)**.

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 (2005 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.

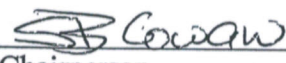
As Chairperson and Managing Director we are responsible for the preparation of the Electricity Regulatory Authority financial statements and for the judgements made in them.

The financial statements fairly present the financial position, financial performance and cash flows of the Electricity Regulatory Authority for the financial year ended 30 June 2010.

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

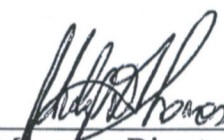
- (a) completely and reliably reflect the financial transactions of Electricity Regulatory Authority for the year ended 30 June 2010;
- (b) fairly reflect the financial position as at 30th June 2010 and performance for the Year ended 30th June 2010;
- (c) comply with International Financial Reporting 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 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 of Auditing.



Chairperson
Ms. Sherri Bodden Cowan

Date: October 20th 2010



Managing Director
Mr. Philip Thomas

Date: October 19th 2010



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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 2010, the statement of comprehensive income, the statement of changes in equity and the 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 14 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 (2005 Revision)*.

Responsibilities of Management

Management is responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2010, and 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 19, 2010

Electricity Regulatory Authority
Statement of Financial Position
As at 30 June 2010
(in Cayman Islands Dollars)

CURRENT ASSETS	<u>NOTES</u>	<u>2010</u>	<u>2009</u>
		\$	\$
Cash & Cash Equivalents	2(e)	483,661	430,221
Accounts Receivable		182,785	151,312
Deposits & Prepayments		8,690	3,377
Total Current Assets		<u>675,136</u>	<u>584,910</u>
 NON CURRENT ASSETS			
Property, and equipment	3	<u>14,883</u>	<u>15,132</u>
TOTAL ASSETS		<u>690,019</u>	<u>600,042</u>
 CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities		33,364	115,345
Dividends Payable		<u>150,000</u>	-
Total Current Liabilities		<u>183,364</u>	<u>115,345</u>
 TOTAL NET ASSETS		<u>506,655</u>	<u>484,697</u>
 EQUITY:			
Contributed Capital		-	146,400
Accumulated Surplus		<u>506,655</u>	<u>338,297</u>
 Total Equity		<u>506,655</u>	<u>484,697</u>

Approved on behalf of the Board on the 20th of Oct, 2010


 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 2010
(in Cayman Islands Dollars)

	<u>NOTES</u>	<u>2010</u>	<u>2009</u>
INCOME		\$	\$
Services provided to Cabinet	4	67,061	143,201
Regulatory Fees	2(f)	726,177	790,948
Other Income		52	989
Total Income		<u>793,290</u>	<u>935,138</u>
 OPERATING EXPENSES			
Personnel Costs		247,092	173,757
Consultancy Fees	7	106,847	318,161
Leases	6	39,659	29,925
Profession Fees		23,893	48,917
Recruitment and Work Permit		22,909	-
Employee Travel & Conference		8,490	5,511
Telephone		7,413	6,456
Depreciation		4,907	3,410
Printing and Stationary & Supplies		3,781	2,899
Repairs and Maintenance		2,643	397
Insurance		2,024	2,422
Training		1,450	-
Postage		1,157	1,687
Subscriptions		1,089	834
Miscellaneous		817	-
Bank Charges		662	598
Advertising		99	11,710
Total Operating Expenses		<u>474,932</u>	<u>606,684</u>
 Net Income		<u>318,358</u>	<u>328,454</u>

**Electricity Regulatory Authority
Statement of Changes in Equity
For the Year Ended 30 June 2010
(in Cayman Islands Dollars)**

	NOTES	Accumulated Surplus \$	Contributed Capital \$	Total \$
BALANCE AT 1 JULY 2008		9,843	146,400	156,243
Net Income for 2008/09		328,454	-	328,454
BALANCE AT 30 JUNE 2009		338,297	146,400	484,697
Net Income for 2009/10		318,358	-	318,358
Dividend payable to CIG	10	(150,000)	-	(150,000)
Equity repayment	9	-	(146,400)	(146,400)
BALANCE AT 30 JUNE 2010		506,655	-	506,655

Electricity Regulatory Authority
Statement of Cash Flow
For the Year Ended 30 June 2010
(Stated in Cayman Islands Dollars)

	<u>NOTES</u>	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES		\$	\$
Net Profit for period		318,358	328,453
Adjustment for:			
Depreciation		4,907	3,410
(Increase)/ Decrease in receivable		(31,473)	56,167
(Decrease) payable to CIG		-	(40,000)
(Increase)/Decrease in Prepaid Expenses & Deposits		(5,313)	386
(Decrease)/Increase in Accounts Payable and Accrued Liabilities		(81,981)	57,430
Net Cash from Operating Activities		<u>204,498</u>	<u>405,846</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Fixed Assets Net of Disposals	3	<u>(4,658)</u>	<u>(5,713)</u>
Net Cash Used in Investing Activities		<u>(4,658)</u>	<u>(5,713)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of Equity to CIG	9	<u>(146,400)</u>	-
Net Cash Used in Financing Activities		<u>(146,400)</u>	-
Net increase in Cash and Cash Equivalents		53,440	400,133
Cash and Cash Equivalents at the Beginning of the Year		430,221	30,088
Cash and Cash Equivalents at End of Year		<u>483,661</u>	<u>430,221</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 2010
(Stated in Cayman Islands Dollars)**

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 2010, the ERA had 2 full time employees and 1 part time employee (2009: 1 full time employee and 1 part time employee) and is located at Suites #2 & #4-5, 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) Fixed Assets/depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the fixed assets 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	10 Years

Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2010
(Stated in Cayman Islands Dollars)

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 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 Government of the Cayman Islands which were billed on 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 Authority 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.

Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2010
(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 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 of accounts payables and accrued expenses. Financial liabilities comprise of accounts payables and accrued expenses.

(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 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 2010
(Stated in Cayman Islands Dollars)

3. Property and Equipment

	Computer Equipment	Office Equipment	Total
Cost	\$	\$	\$
Balance at 1 July 2009	18,262	3,410	21,672
Additions during the year	4,035	623	4,658
Balance at 30 June 2010	22,297	4,033	26,330
Accumulated Depreciation			
Balance at 1 July 2009	5,427	1,113	6,540
Charge for Period	4,339	568	4,907
Balance at 30 June 2010	9,766	1,681	11,447
Net Book Value at 30 June 2010	\$ 12,531	\$ 2,352	\$ 14,883
Net Book Value at 30 June 2009	\$ 12,835	\$ 2,297	\$ 15,132

4. Related Party Transactions

The ERA provided services to the Government of the Cayman Islands during the period in the amount of \$ 67,061 (2009: \$143,201).

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 \$38 were provided by other Cayman Islands Government departments (2009: \$1,635).

The amount paid to the Managing Director for salary and short term benefits (including pension) was \$143,037 (2009: \$141,428).

**Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2010
(Stated in Cayman Islands Dollars)**

5. Pensions

The pension contributions of 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 \$17,739 to the Public Service Pensions Fund during the period (2009: \$18,058).

6. Leases

The Authority 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. Lease payments are currently CI \$3,861 per month, and totaled \$39,048 in the period (2009: \$28,853).

7. Consultancy Fees

The Electricity Regulatory Authority 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 \$106,847 (2009: \$318,161).

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. Contributed Capital

In accordance with Section 14 (5) of the ERA Law (2008 Revision). In July 2009, the ERA repaid the equity contributed by the Cayman Islands Government amounting to \$146,400.

**Electricity Regulatory Authority
Notes to Financial Statements
For the Year Ended 30 June 2010
(Stated in Cayman Islands Dollars)**

10. Subsequent Events

Under Section 14 (5) of the ERA Law (2008 Revision), the ERA is required to pay over any excess earnings to the Government. In July 2010, the ERA transferred \$150,000.