AUDITOR GENERAL'S DEPARTMENT

FINANCIAL STATEMENT ASSESSMENT OF PUBLIC BODIES

MINISTRY OF TRANSPORT, WORKS AND HOUSING

JAMAICA URBAN TRANSIT COMPANY LIMITED

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY

PORT AUTHORITY OF JAMAICA

The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial and Administration and Audit Act.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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Foreword

The Board of a public body is required to submit the annual report including audited financial statements of the public body, to the responsible Minister as soon as possible after the end of each financial year, but not more than four months thereafter. The responsible Minister 'shall cause the report and statements to be laid on the Table of the House of Representatives and of the Senate'.

This report comprises the assessment of audited financial statements for three public bodies under the Ministry of Transport, Works and Housing, covering five fiscal years to FY2014/15. The public bodies covered in this review are Jamaica Urban Transit Company Limited (JUTC), National Road Operating and Constructing Company (NROCC), and Port Authority of Jamaica (PAJ).

The review, which involves ratio analyses, was undertaken to inform Parliament, and guide the Public Accounts Committee (PAC) in their review of the financial performance of public bodies. In accordance with the Public Bodies Management and Accountability (PMBA) Act, public entities are required to demonstrate prudent financial management of public resources in the context of the Fiscal Responsibility Framework.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

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Chapter 1

Jamaica Urban Transit Company Limited

Disclaimer

We were unable to assess the current state of affairs of the JUTC owing to the unavailability of the audited financial statements for FY2013/14 and FY2014/15. Consequently, our review was restricted to FY2012/13 which does not imply the current financial performance.

Financial Assessment

1.1 This report was prepared using information from the company's annual audited financial statements for FY2009/10 to FY2012/13, annual reports and other supplementary information as no financial statement was available for FY2013/14 and FY2014/15. Key ratios were calculated to enable an analysis of performance over time and make inferences on viability and sustainability.

Profile of the Company

1.2 The Jamaica Urban Transit Company (JUTC) is a government-subsidized public entity which commenced operations in July 1999. The JUTC evolved out of the Jamaica Omnibus Service (JOS) which controlled public passenger transport services in the Corporate Area from the late 1960's to the early 1980's. The JOS was replaced as matter of policy, by a system of independent operators (often referred to as the 'one man one bus system'). However, this system was not sustainable mainly as a result of poor service quality, indiscipline and ineffective management practices by the owners[1]. Consequently, in the mid-1990's the GOJ attempted to reform the system by issuing franchise licences to companies to operate in the Kingston Metropolitan Transport Region (KMTR). Five franchise licences were issued to three organizations. However, before the end of the decade, it became clear that franchise holders were not delivering acceptable services as commuters' dissatisfaction escalated over the period. As a result, the GOJ assumed control of public passenger transport service in 1999 with the establishment of the state owned Jamaica Urban Transit Company. The JUTC commenced operations in the Eastern franchise, and a year later took control of two more franchises – Spanish Town and Papine. By March 2001, the two remaining franchises, Constant Spring and Portmore were acquired.

1.3 Government support to the JUTC takes the form of subventions, capital contributions, write offs in outstanding pension obligations and statutory deductions. In light of accumulating losses, the JUTC has continually relied on the Government to finance its operations.

[1] The Office of Utilities Regulation - "Economic Regulation of Taxis and Buses in the KMTR", 2001

Industry and Macroeconomic Environment

1.4 The JUTC operates in the Kingston Metropolitan Transport Region Area (KMTR) alongside other public passenger services such as taxis, minibuses, coaster buses and rural stage carriage operators. The JUTC has an exclusive license for the provision of bus transport services in the KMTR, operating on 123 routes inclusive of Papine and Constant Spring as well as the Spanish Town and Portmore franchises. A key competitor to the JUTC is the taxi service. Two types of taxi services operate in the KMTR – the Hackney carriage and route services. Hackney carriage operators are allowed to offer service to commuters without restrictions to a specific route or geographic area. Route operators are permitted to provide service on clearly defined routes.

1.5 The JUTC operates an electronic fare collection system which can accommodate both cash and cashless transactions (using Smart Cards). Currently, the Smarter Card is exclusively in place for concessionary fares, but adults may also pay using the Smarter Card or cash. JUTC operates under a flat fare system, while other public passenger services operate with a fare system based on distance. This disparity in the fare structures provides cheaper alternatives to commuters and as such, many opt for the lower cost alternatives from providers who at times, operate in contravention to their licenses.

1.6 There has been a significant increase in the number of taxi, minibus and coaster bus operators, both legal and illegal in the KMTR[2]. In particular, taxi services in the KMTR have experienced significant growth which can be attributed mainly to the increasing demand for seats as well as commuters' preferences, such as time. The JUTC therefore faces stiff competition from these operators and in an effort to recover 'lost income' and boost competitiveness, the JUTC has undertaken several initiatives which include efforts to reclaim some of its routes and to discontinue the sub-franchise arrangement with other operators.

Mandate

1.7 "To provide public passenger bus services in the Kingston Metropolitan Transport Region."

Mission

1.8 "To provide a customer oriented, safe, reliable, modern, cost effective transport service through teamwork and good conditions of employment."

[2] A survey conducted by the Transport Authority in 2008 highlighted that of 3158 transport operators in the Kingston Metropolitan Transport Region (KMTR), 2488 were illegal operators.

Regulatory Framework & Policies

1.9 The public passenger sector in Jamaica is regulated by three main regulatory bodies namely: The Ministry of Transport, Works and Housing (MTWH), The Transport Authority (TA) and The Office of Utilities Regulations (OUR). The MTWH is responsible for overall policy decision making in the transport sector, ensuring that the proper legal structures and infrastructures are in place to meet the needs of the sector.

1.10 The fare structure of the JUTC is determined by the Office of Utilities Regulations (OUR). However, fares are recommended by the MTWH and approved by the Cabinet. The Office of Utilities Regulations Amendment Act (2000), section 4.4 states that "the Office shall have the power to determine, in accordance with the provisions of this Act, the fares which may be charged in respect of the provisions of the prescribed utility services".

1.11 The Transport Authority regulates the public passenger sector through the following Acts of Parliament: The Transport Authority, The Road Traffic, The Public Passenger Transport (Corporate Area) and the Public Passenger Transport (Rural Area) Acts.

Summary of Findings

1.12 JUTC's Fare Box recovery ratio at end FY2012/13 was 50.5 per cent reflecting an improvement relative to the previous year but a decline relative to FY2009/10. The average Fare Box recovery between FY2009/10 and FY2012/13 was 48.5 per cent. The improvement in FY2012/13 resulted from a fall in expenditure by $2.4 billion or 28.2 per cent which outweighed the impact of a $15.8 million or 0.5 per cent decline in revenue**.**

1.13 The JUTC's debt to equity ratio improved to 1.38 at end FY2012/13 from 5.75 in FY2009/10. The ratio at end FY2012/13 also reflected a sharp improvement relative to FY2011/12 for which the debt to equity ratio was 132.48**.** The improvement in FY2012/13 resulted from a $1.9 billion increase in capital contributions relative to the previous year. On average, excluding FY2011/12, debt was approximately three times greater than equity over the assessment period.

1.14 The JUTC's current ratio was 0.15 for FY2012/13 reflecting an improvement relative to the ratio of 0.09 for FY2011/12. The ratio averaged 0.13 over the period of assessment. The improvement in the ratio for FY2012/13 relative to the previous year resulted primarily from a $3.9 billion fall in current liabilities, in particular payables.

1.15 JUTC was heavily dependent on Government support to maintain its operations over the period FY2009/10 to FY2012/13. Between FY2009/10 and FY2012/13, the JUTC received GOJ support in terms of cash injection, transfer of assets (buses & depots) and forgiveness of debt totalling $25.9 billion. JUTC dependence on GOJ support to maintain its operations poses a significant risk to the fiscal accounts.

Recommendation

1.16 The JUTC should continue its strategies to cut expenditure while boosting operating revenue.

FINANCIAL STATEMENTS ASSESSMENT

1.17 The JUTC's solvency position remained poor throughout the period of assessment, as it continued to struggle to find sufficient funds to meet its short and long-term obligations. The weak debt to equity, debt to capital and debt to asset ratios were indicative of weak financial position of the JUTC.

Debt to Capital

1.18 **The JUTC debt to capital ratio improved to 0.58 in FY2012/13 from 0.85 in FY2009/10 despite a ratio of 0.99 in FY2011/12.** The ratio for FY2012/13 of 0.58 indicated that 58 per cent of every dollar in capital owned by JUTC was tied up in debt. The improvement resulted from a $3.8 billion reduction in total liabilities and a $4.5 billion increase in equity in FY2012/13 relative to FY2011/12. The increase in the ratio in FY2011/12 resulted from a $2.1 billion increase in liabilities relative to FY2010/11 consequent on an increase in payables. Despite an increase in total liabilities by $1.9 billion in FY2010/11 relative to FY2009/10, the debt to capital ratio improved to 0.62 from 0.85 at end FY2009/10, consequent on an increase of $5.8 billion in total assets (**Table 1)**. On average current liabilities accounted for $6.5 billion or approximately 84 per cent of total liabilities with payables representing 85.9 per cent of current liabilities. Of significance, the JUTC had limited capacity to meet its short-term obligations given that its current assets largely comprise inventory (spares and tools) which would be difficult to liquidate. Non-current assets largely comprised buses and buildings.

Table 1: Analysis of Key Balance Sheet Items-FY2009/10 to FY2012/13 (J$ Millions)

Item	2012/13	2011/12	2010/11	2009/10
Total Assets	10,786.9	10,197.1	13,031.5	7,223.5
Non-current Assets	10,021.1	9,415.2	12,134.6	6,461.6
Current Assets	765.8	781.9	896.9	761.9
Total Liabilities	6,269.9	10,129.4	8,045.5	6,153.9
Non-current Liabilities	1,173.1	1,110.0	1,188.1	1,305.7
Current Liabilities	5,096.8	9,019.3	6,857.4	4,848.2

Source: JUTC's Audited Annual Financial Statements

Debt to Equity

1.19 **The JUTC's debt to equity ratio improved to 1.38 at end FY2012/13 from 5.75 in FY2009/10.** The ratio at end FY2012/13 also reflected a sharp improvement relative to FY2011/12 for which the debt to equity ratio was 132.48 (**Table 2**). The improvement in FY2012/13 resulted from a $1.9 billion increase in capital contributions to $16.7 billion, relative to the previous year. Capital contributions include the cost of buildings, buses, tool and equipment acquired from the Government of Jamaica. Of note, JUTC would have been severely challenged to sustain its operations without support from the GOJ.

Table 2: Debt & Solvency Ratios of - FY2009/10 to FY2012/13

Debt & Solvency Ratios	2012 /13	2011 /12	2010 /11	2009 /10
Debt-Capital Ratio	0.58	0.99	0.62	0.85
Debt-Assets Ratio	0.58	0.99	0.62	0.85
Debt-Equity Ratio	1.38	132.48	1.61	5.75

Source: AuGD's Computation

1.20 The sharp increase in the debt to equity ratio for FY2011/12 largely resulted from an expansion in the accumulated deficit to $15.6 billion from $10.7 billion in FY2010/11. For FY2010/11 the improvement in the debt to equity ratio to 1.61 relative to the previous year resulted from a $6.3 billion increase in capital contributions from the Government, the impact of which was partly offset by a $2.4 billion increase in accumulated deficit.

Liquidity

Current Ratio

1.21 **For FY2012/13, JUTC's current ratio was 0.15 reflecting an improvement relative to the ratio of 0.09 for FY2011/12**. The current ratio averaged 0.13 over the period of assessment. The current ratio of an entity is a liquidity and efficiency ratio that measures whether or not the entity has enough resources to pay its short-term liabilities, which will fall due over the next 12 months with its current assets.

Table 3: Liquidity Ratios - FY2009/10 to FY2012/13

Liquidity Ratios	2012 /13	2011 /12	2010 /11	2009 /10
Current Ratio	0.15	0.09	0.13	0.16
Quick Ratio	0.03	0.02	0.04	0.04

Source: AuGD's computation

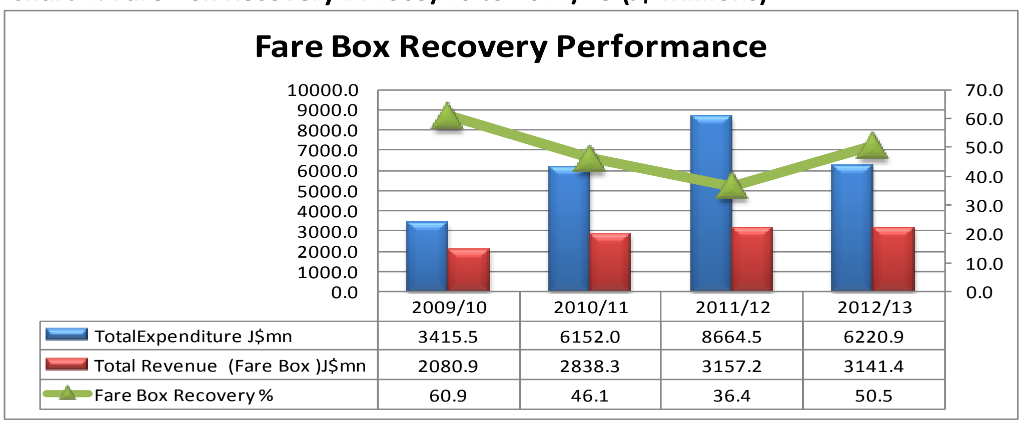
1.22 The improvement the current ratio for FY2012/13 relative to the previous year resulted primarily from a $3.9 billion fall in current liabilities, in particular payables. Although, the current ratio for

FY2009/10 was better relative to subsequent years, this mainly reflected the fact that there were no borrowings or amounts set aside for provisions in that year (**Table 3**).

Fare Box Recovery

1.23 **JUTC Fare Box recovery ratio was 50.5 per cent at end FY2012/13 reflecting an improvement relative to the previous year but a decline relative to FY2009/10[3].** The average Fare Box recovery between FY2009/10 and FY2012/13 was 48.5 per cent **(Chart 1**). The improvement in FY2012/13 resulted from a fall in expenditure by $2.4 billion or 28.2 per cent which outweighed the impact of a $15.8 million or 0.5 per cent decline in revenue.

Chart 1: Fare Box Recovery FY2009/10 to 2012/13 (J$ Millions)



Source: JUTC's Audited Financial Statements

1.24 In April 2010, the JUTC was granted an increase in normal fares to $80, from $50 with concessionary fares moving to $20 from $15. This contributed to a $0.8 billion or 36.4 per cent increase in fare income for FY2010/11 despite a fall off in 'ridership' to 49.3 million passengers from 52 million in FY2009/10. However in a context where expenditure rose by $2.7 billion or 80.1 per cent, Fare Box recovery fell to 46.1 per cent from 60.9 per cent in 2009/10, underscoring the importance of containing expenditure for an improvement in performance.

1.25 **JUTC was heavily dependent on Government support to maintain its operations over the period FY2009/10 to FY2012/13.** Between FY2009/10 and FY2012/13, the JUTC received Government of Jamaica support in terms of cash injection, transfer of assets (buses & depots) and forgiveness of debt totalling $25.9 billion (**Table 4**).

[3] The Fare-Box Recovery Ratio measures how much of costs can be covered from passenger fares. The concept is used worldwide to assess the performance of transportation systems. Caribbean countries such as Barbados and Trinidad and Tobago have also utilized the fare box recovery ratio in their assessments.

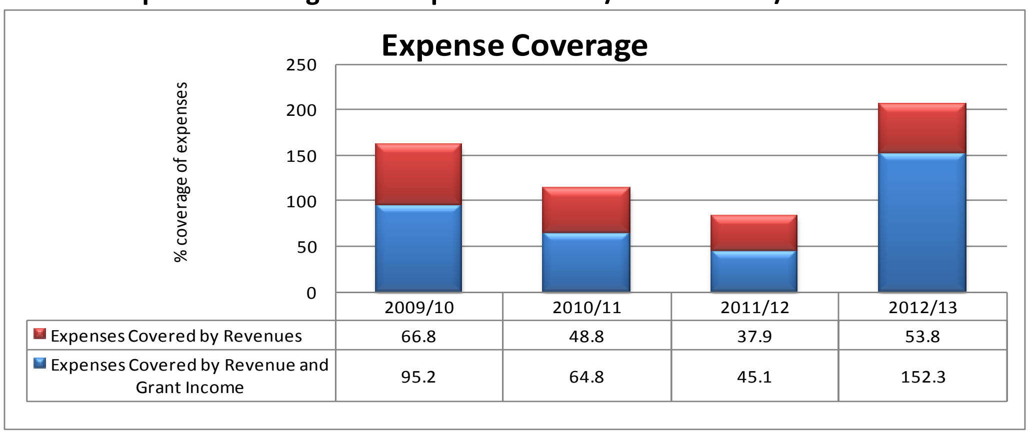
Table 4: Analysis of GOJ Financial Support - FY2009/10 to FY2012/13 (J$ Millions)

Financial Year	2012/13	2011/12	2010/11	2009/10
Cash	298.3	294.1	377.8	652.8
Indirect	2,440.2	351.8	6,911.9	1,649.4
Grant Income	2,738.4	645.9	7,289.7	2,302.1
Total	**5,476.9**	**1,291.8**	**14,579.3**	**4,604.3**

Source: JUTC's Supplementary Information

1.26 At end FY2009/10, JUTC's revenues excluding Government support could cover 66.8 per cent of its liabilities. With Government support, 95.2 per cent of the expenses was covered, thus underscoring its dependence on external support and the risk to the fiscal accounts (**Chart 2**). By end FY2012/13, JUTC could only cover 53.8 per cent of expenses. However with the injection of Government support, the entity was able to fully cover its expenses.

Chart 2: Expense Coverage for the period FY2009/10 to FY2012/13



Source: AuGD's Computation

Chapter 2

National Road Operating and Constructing Company

Financial Assessment

2.1 This report was prepared using information from the company's annual audited financial statements for FY2009/10 to FY2014/15, annual reports and other supplementary information. Key ratios were calculated to enable an analysis of performance over time and to make inferences on viability and sustainability.

Profile of the Entity

2.2 The National Road Operating & Constructing Company (NROCC) is a wholly government owned, public limited liability company that was established under the Companies Act of Jamaica in February 2002. It was granted a 70 year concession by the Minister of Transport, Works and Housing (MTWH) under the Tolls Road Act 2002 for the establishment, development, financing, operation and maintenance of a tolled highway. The NROCC also referred to as the Grantor represents the interest of the Government of Jamaica (GOJ) under the Concession Agreement with the Developers of the Highway Projects.

2.3 The first Concession Agreement was signed on November 21, 2001 with TransJamaican Highway Limited (the Developer) for the implementation of the Highway 2000 project, the centrepiece of the Multi-year Millennium Projects Programme initiated by the GOJ in September 1999 to "upgrade the country's infrastructure and assist in providing economic opportunities for growth and the creation of jobs". The Highway is expected to drive economic activity by providing a direct and efficient link between the major economic centres across the island.

2.4 On June 21, 2012, NROCC signed a second Concession Agreement with the Jamaica North South Highway Company (the Developer) to complete the second phase of the Highway 2000 project, under the Toll Roads Act. The Jamaica North South Highway Company (JNSHC) is a limited liability company incorporated in Jamaica and is owned by the China Harbour Engineering Company Limited (CHEC). The construction of Phase 2 of the Highway was taken over by the CHEC after the previous developers walked away from the project citing technical difficulties with the Mount Rosser Bypass.

Mission

2.5 'To Provide a Modern, Efficient and Technologically Advanced Road Network'

Funding

2.6 On January 13, 2004, the House of Representatives approved a Government of Jamaica guarantee under the provisions of the Approved Organizations and Authorities Act to secure a loan of US$75 million from Wachovia Bank to the NROCC. The loan was intended to finance completion of Phase 1 of the Highway 2000 project.

2.7 On November 3, 2011, NROCC issued a US$294.2 million (€204 million) global bond, from which proceeds were used to repay debt owed to the Development Bank of Jamaica (DBJ) in respect of financing of the Highway 2000 project. The loan repayment by NROCC facilitated repayment by DBJ in August 2006 of a J$21.0 billion loan from Banco de Desarrollo y Social de Venezuela (BANDES) for the financing of the early phases of Highway 2000.

Summary of Findings

2.8 The solvency position of NROCC remained significantly weak throughout the six year assessment period. NROCC consistently recorded losses except for FY2011/12 when no conversion of the long-term receivables of preference shares to the TransJamaican Highway Limited was recognised. Throughout the assessment period, NROCC required continuous Government support. The continuance of this dependence, poses a risk to the fiscal and debt targets under the Fiscal Responsibility Framework (FRF). NROCC indicates that "the increase in losses is almost entirely due to interest on loans and unrealised losses on translation of foreign exchange balances, all of which loans are being serviced by the Government of Jamaica".

2.9 NROCC has no revenues, as the income earned from the toll highways is transferred to the Concessionaire - the owners of the highway, for 35 years. NROCC indicated that "all cash from operations over the period have been used in keeping with the NROCC Loan Conversion Agreement with the Concessionaire." Any surplus cash is "shared 50/50 with NROCC and the developer as distributions/dividends. To date no distributions/dividends have been paid to either the developer or NROCC".

2.10 NROCC is highly indebted with total liabilities of $73.2 billion at end FY2014/15, representing long-term debt ($71.3 billion) and short-term obligations ($1.9 billion), reflecting an increase of $31.2 billion relative to FY2009/10. At end FY2014/15, outstanding balances were due to bond holders, Ministry of Finance and Planning, and PetroCaribe Development Fund, representing contingent liabilities to the GOJ. With a significant portion of NROCC's debt denominated in US dollars, the GOJ is also exposed to foreign exchange risk.

2.11 NROCC continually had negative equity, indicating that the entity is overleveraged; in other words, it is accumulating more debt than assets, resulting in significant net losses over the review period. NROCC's liabilities remained significantly higher than its shareholder's equity which raises concerns about its viability. The sustained negative equity signals that NROCC may face significant troubles to efficiently carry out its future operations as its financial position continues to worsen.

2.12 **NROCC has a relatively fair short-term liquidity position, as evidenced by the current and cash ratios.** NROCC maintains very low levels of cash as reflected in the significantly weak ratios, which marginally exposes NROCC to liquidity risks, as its other current assets, which mainly consist of receivables and resale agreement might not be easily convertible to cash.

FINANCIAL STATEMENTS ASSESSMENT

Debt to Capital and Debt to Asset

2.13 **NROCC's financial statements reveal that the company is highly leveraged[4].** NROCC's operations are funded by loans, as the income it makes from the toll highways is transferred to the Concessionaire, who will own the highway for 35 years. At end FY2014/15 the debt to capital ratio was 3.16 relative to a ratio of 2.99 for the previous year. The increase in the ratio for FY2014/15 mainly resulted from an increase in total liabilities consequent on interest paid by the GOJ on behalf of the company related financing for the Portmore Causeway.

2.14 The ratio deteriorated to 2.78 billion in FY2012/13 from 2.49 in FY2011/12 largely due to an increase in long-term liabilities related to revaluation of US$294.2 million global bonds and Government Guaranteed convertible bonds as well as increased advances from the GOJ. Of note, the debt to capital increased sharply between the FY2009/10 and FY2010/11, reflecting revaluation of a (US$54.3 million in 2010) loan from the PetroCaribe Development Fund which provided working capital for the completion of the Mount Rosser leg of the Highway 2000.

2.15 At end FY2014/15, outstanding balances were due to bond holders, Ministry of Finance and Planning, and PetroCaribe Development Fund, representing contingent liabilities to the GOJ. With a significant portion of NROCC's debt denominated in US dollars, the GOJ was also exposed to foreign exchange risk.

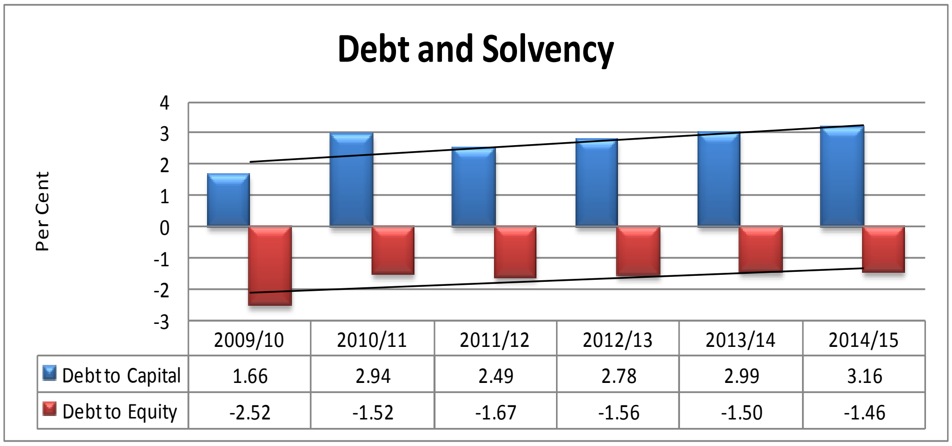
Debt to Equity Ratio

2.16 **NROCC's balance sheets revealed a negative equity position over the financial years FY2009/10 to FY2014/15.** Assets were mainly non-current implying an inability to readily convert to cash as liabilities fall due. In FY2014/15, the debt to equity ratio improved to -1.46 in a context where the reduction in equity was less than an increase in liabilities. For FY2010/11 the sharp improvement in

[4] A company is highly leveraged when it has significantly more debt than it equity capital.

the debt to equity ratio to -1.52 from -2.52 for FY2009/10 resulted from a significantly smaller increase in liabilities relative to a significant decline in equity **(Chart 1)**.

Chart 1: Debt to equity ratios - FY2009/10 to FY2014/15



Source: AuGD's Computation

Table 1: **Selected Financial Statements Items - FY2009/10 to FY2014/15 (J$ Millions)**

Financial Year	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Net Profit/Loss	-6,210.5	-7,593.6	-7,588.9	2,672.1	-14,245.7	-3,163.4
Net Equity	-50,055.5	-43,844.9	-36,251.3	-28,238.1	-30,910.2	-16,664.5
Total Assets	23,180.1	22,036.2	20,340.1	18,947.3	15,925.9	25,341.4
Total Liabilities	73,235.7	65,881.2	56,591.4	47,185.5	46,836.2	42,005.9

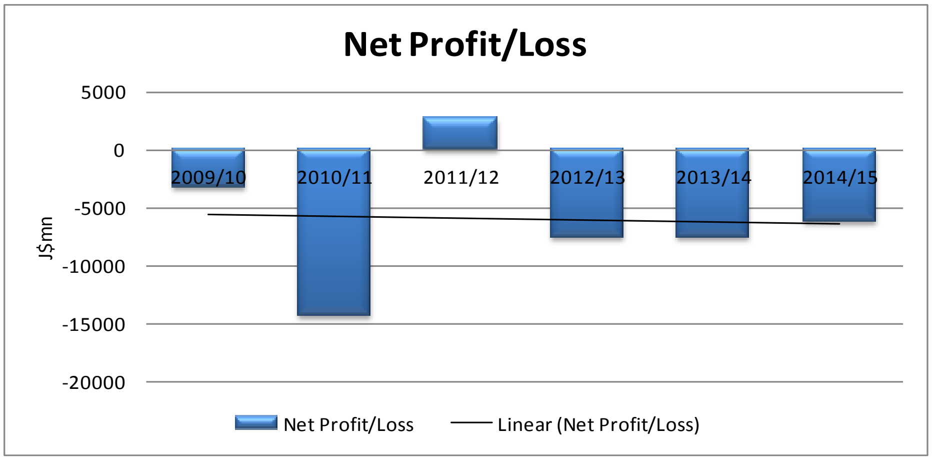
Source: NROCC's Audited Annual Financial Statements

2.17 The sustained negative equity signalled that NROCC could face significant trouble to carry out its future operations had its financial position worsened (**Table 1**). NROCC noted that all its loans continue to be serviced by the GOJ and its day-to-day operations are funded from cash and short term investments and are therefore not impacted by the accumulation of debt.

Profitability

2.18 **NROCC recorded losses in five of the six fiscal years of the assessment period**. For FY2014/15, the entity recorded lower losses of $6.2 billion relative to losses of $7.5 billion for FY2013/14 largely in a context where exchange losses on foreign currency balances were almost 50 per cent less. NROCC noted that the increase in losses over the assessment period was almost entirely due to the interest on loans and unrealised losses on translation of foreign exchange balances, all of which are serviced by the GOJ **(Chart 2)**. Of note**,** the company has no revenues, as the income earned from the toll highways is transferred to the Concessionaire. However NROCC recorded profit of $2.7 billion in FY2011/12, due largely to gains on the sale of bonds.

Chart 2: Profit performance FY2009/10 to FY2014/15



Liquidity

2.19 **NROCC's liquidity ratios were relatively weak over the assessment period FY2009/10 to FY2014/15.** NROCC's significant current assets are resale agreements, other receivables and income tax recoverable while the most significant liability items are income tax payables and interest payables.

Current Ratio

2.20 **NROCC's current ratio averaged 1.23 over the six year review period** (**Table 2**). The current ratio was 0.82 for FY2014/15, deterioration relative to the 1.67 for FY2013/14. The worsening of the ratio was due to $1.2 billion decline in current assets and a $0.3 billion increase in current liabilities consequent on an increase in accrued expenses relative to the previous period. The current ratio of an entity is a liquidity and efficiency ratio that measures whether or not the entity has enough resources to pay its short-term liabilities that will fall due over the next 12 months, with its available current assets**.** NROCC's current ratio improved in FY2011/12 relative to FY2010/11 consequent on the resale of securities totalling $2.5 billion which placed NROCC in a better position to adequately cover its short-term obligations. The current ratio was 0.17 at end FY2010/11, the lowest over the assessment period as current liabilities exceeded current assets by $1.0 billion. In FY2010/11, NROCC had interest payables of $0.7 billion and $0.2 billion due to TransJamaican Highway Limited and the Development Bank of Jamaica, respectively.

Cash Ratio

2.21 **NROCC cash ratio averaged 0.1 over the assessment period and at end FY2014/15 was 0.03.** The ratio for FY2014/15 resulted from a significant increase in cash and cash equivalents relative to the previous year. However, the ratio was negligible over the review period. In a context where

NROCC's other current assets mainly consisted receivables and resale agreement, these might not have been easily converted to cash if the entity faced liquidity constraints.

Table 2: Liquidity Ratios – Financial Years 2009/10 to 2014/15

Financial Year	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Current Ratio	0.82	1.67	1.77	2.16	0.17	0.78
Quick Ratio	0.81	1.65	1.72	2.07	0.09	0.7
Cash Ratio	0.03	0.01	0.01	0.00	0.00	0.01

Source: AuGD's Computation

Chapter 3

Port Authority of Jamaica

Financial Assessment

3.1 This report was prepared using information from PAJ's Separate audited annual financial statements for FY2010/11 to FY2014/15, annual reports and other supplementary information. Key ratios were calculated to enable an analysis of performance over time and to make inferences on viability and sustainability.

Profile of the Entity

3.2 The Port Authority of Jamaica (PAJ) was established as a statutory corporation in 1972 under the Port Authority of Jamaica Act Section 6 of the Act requires that, 'it shall be the duty of the Authority: –

i. to regulate the use of all port facilities in a port;
ii. to provide and operate such port facilities and other services as the Minister may require;
iii. to recommend to the Minister from time to time such measures as the Authority consider necessary or desirable to maintain or improve the port facilities;
iv. to operate such facilities as may be vested in the Authority or to lease them on such terms as may be approved by the Minister;
v. to maintain and improve, where practicable, such port facilities as are vested in the Authority.

3.3 The PAJ has the responsibility to develop the port infrastructure required to support Jamaica's international trade, tourism, commerce and other industries. Regarding its regulatory role, PAJ monitors and regulates the navigation of all vessels entering and leaving Jamaica's ports and harbours, to ensure safety and order. The Authority also sets tariffs on goods moved through the public wharves.

Mandate

3.4 The Port Authority of Jamaica is responsible for the development of the ports and related facilities as well as the regulation of the use of all port facilities within Jamaica.

Core Business

3.5 The operations of the PAJ are centred on two main areas, containerized cargo and cruise shipping, both of which are facilitated by the harbours and port services. Containerized cargo activities include transhipment and domestic cargo movements and are undertaken at the Port of Kingston, through the Kingston Container Terminal (KCT), and the Port of Montego Bay. Cruise activities take place at four ports; the Port of Montego Bay, the Port of Falmouth, Port of Ocho Rios and the Ken Wright Pier[5].

Funding Classification

3.6 The PAJ is a self-financing public body primarily funded by income from its core operations, including containerized cargo, cruise shipping activities, as well as harbour and port services. In addition, the PAJ earns from investment activities related to land and buildings held for such purposes.

Credit Policy

3.7 The Authority extends trade credit primarily to clients within the maritime industry that have a long-standing trade relationship with the PAJ. The average credit period provided by the Authority for services rendered is 30 days. The policy requires that each customer be analysed individually for creditworthiness, via a credit evaluation process, prior to the offering of a credit facility. This process includes, inter alia, a review of the number of years the customer has been in operation, the volume of business conducted with the Group, a review of the financial statements and the procurement of bank references for the customer.

Regulatory Framework

3.8 In addition to the main legislation the Port Authority Act of 1972 which governs the operations of the PAJ, there are several other legislations which empower the Authority to execute its functions. These include:

- The Pilotage Act – This Act gives the Port Authority responsibility for the administration and regulation of Jamaica's Pilotage Service.
- The Harbour Fees Act – Under this Act, harbour fees are charged on all vessels entering Jamaica's harbours.
- The Harbours Act – Under this Act, the Harbour Master, who is employed to the Port Authority, is given responsibility for the safe movement and berthing of vessels in Jamaica's harbours and the maintenance of navigational aids.
- The Harbours Lights and Lighthouses Act – This Act vests the Port Authority with management responsibilities for harbour lights and lighthouses, which facilitate the navigation of vessels in Jamaica's ports, harbours and territorial waters.
- The Wharfage Act – Under this Act, the Port Authority serves as a tribunal for establishing Wharfage Tariffs, through a process of Public Hearing.
- The Jamaica Export Free Zone Amendment Act of 1996 - Under this Act, the Port Authority had sole responsibility for the development and regulation of the free zones that it owns.

[5] Of note, the contract regarding privatisation of the KCT was signed as a public-private partnership agreement between the PAJ and Kingston Freeport Terminal Limited on 7 April 2015. The agreement stipulates that the PAJ will transfer operations and responsibility for the terminal to the concessionaire in lieu of an annual fixed concession fee of US$15.0 million along with a variable fee equipment to 8 per cent of gross revenues generated each operating year.

- Public Bodies Management and Accountability Act - provides a framework for corporate governance and accountability in public bodies.
- Financial Administration and Audit Act - provides a framework for corporate governance and accountability in the management of the financial affairs of public bodies

Industry and Macro-economic Environment

3.9 Given the nature of its operations the performance of the PAJ is significantly impacted by both domestic and external developments, with the latter expected to exhibit a greater impact.

External

3.10 Transhipment and cruise shipping activities are largely dependent on trends in the global economy and trade. As a result, external risks to PAJ include a downturn in the global economy as well as weak economic performance of Jamaica's main trading partners and source economies. In addition, crude oil prices, freight rates and container industry capacity indirectly affect the performance of PAJ via the impact on the operations of shipping lines, which represents the Authority's main clients.

Domestic

3.11 On the domestic side, cargo movements are influenced by the performance of the local economy, policy governing the industry and in particular import and export activities. The Authority is also impacted by local macroeconomic variables such as exchange rates and interest rates which affect debt servicing costs, as well as inflation which affects the Authority's other expenses.

Summary of Findings

3.12 The PAJ recorded yearly net profits and operating profits between FY2010/11 to FY2014/15, with the exception of FY2012/13 when a net loss of $2.2 billion was recorded For FY2014/15, the PAJ's net profits grew to $1.5 billion, a 90.7 per cent increase relative to FY2013/14. **.**Profits for 2014/15 mainly reflected operations at the PAJ's head office primarily driven by cruise shipping revenues and harbour fees

3.13 The Authority's significant foreign currency exposure negatively impacted its profitability margin which declined to 9.0 per cent in FY2014/15 from 18.0 per cent at FY2010/11. The deterioration reflected the impact of foreign currency losses sustained from the revaluation of the Authority's significant stock of foreign currency debt consequent on exchange rate depreciation. Notably, the foreign currency losses were largely unrealized and as such had a small cash flow impact.

3.14 **PAJ's trade receivables declined by 1.2 per cent at end FY2014/15 relative to end-FY2010/11.** On average trade and other receivables accounted for the largest proportion of current assets held by the PAJ, of which trade receivables represented the most significant component**.**

3.15 **PAJ improved the productivity of its fixed assets over the review period.** The enhancement was reflected in the fixed asset turnover ratio which moved to 0.58 in FY2014/15 from 0.35 in FY2010/11 indicating that the Authority was able to generate more sales with fewer resources, reflected in a decline in fixed assets. The PAJ indicated that development of the Port of Falmouth served to depress the asset ratio.

3.16 **The PAJ short-term liquidity was tight over the assessment period.** The current ratio indicated that current assets were able to cover current liabilities over the assessment period by an average 1.2 times and although the ratio was 1.9 times for FY2014/15, immediate liquidity remained tight. This inference is supported by the cash ratio of 0.69 which suggested that cash and cash equivalents were insufficient to cover current liabilities. In addition, the PAJ's other main short term asset, trade receivables, was not readily liquid due to the inefficiency of collecting these debts.

3.17 **The debt to equity ratio was 2.98 for FY2014/15, indicating that the level of debt financing utilized by the PAJ was approximately three times as much as equity financing).** This represented an improvement over the 3.60 recorded for FY2013/14, but was relatively in line with the 3.02 for FY2010/11 suggesting that over the review period, there was no significant improvement in the debt-equity capital mix. The improvement for FY2014/15 relative to FY2013/14 reflected both a reduction in debt due to amortization and an increase in equity via retained earnings which was underpinned by higher recorded profits largely as a result of relatively lower foreign exchange losses.

3.18 **The PAJ's high level of debt represents a contingent liability for the GOJ**. The non-guarantee debt accounted for approximately 56 per cent of the PAJ's total debt for FY2014/15. However, the PAJ was able to generate sufficient earnings to cover its interest costs over the assessment period based on the interest cover ratio.

FINANCIAL STATEMENTS ASSESSMENT

Profitability

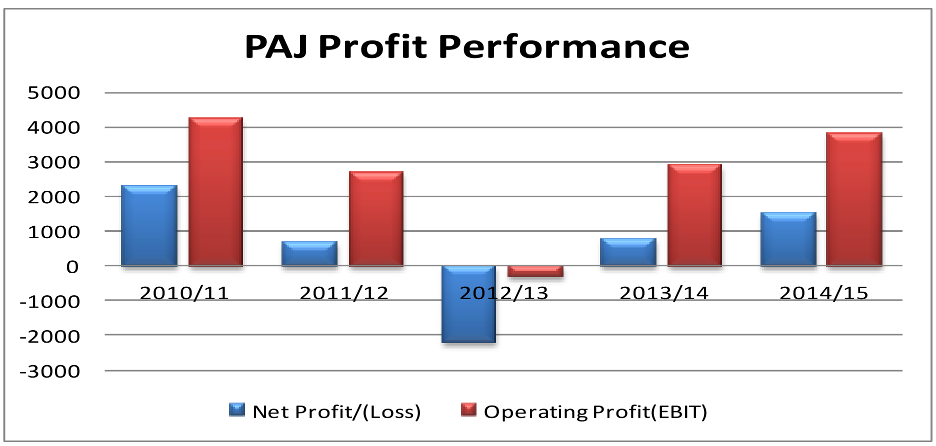
Table 1: PAJ Income Statement ($J millions) – FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Total Income	17,515.4	19,012.1	15,272.8	13,945.2	12,615.2
Total Expenses	14,471.7	14,399.4	13,091.5	12,669.8	11,856.6
Finance and Interest Charges	2,313.3	2,102.4	1,869.6	1,967.0	1,978.3
Foreign currency gains/(losses)	**(1,545.8)**	**(3,827.2)**	**(4,384.6)**	**(589.7)**	**1,504.0**
Net Profit/(Loss)	**1,497.9**	**785.6**	**(2,203.3)**	**685.7**	**2,262.7**
Operating Profit(EBIT)	**3,811.2**	**2,887.9**	**(333.7)**	**2,652.7**	**4,241.0**

Source: PAJ's Audited financial statements

3.19 **The financial performance of the PAJ was influenced by movements in the value of the Jamaica Dollar against the US dollar over the five year assessment period.** Overall profitability was greatly moderated by adverse revaluation in foreign currency debt as exchange losses averaged $2.6 billion per year.

Chart 1: PAJ Financial Performance FY2010/11 to FY2014/15



Source: AuDG's Computation

3.20 **The PAJ recorded yearly net profits and operating profits[6] between FY2010/11 to FY2014/15, with the exception of FY2012/13 when a net loss of $2.2 billion was recorded**. For FY2014/15, the PAJ's net profits grew to $1.5 billion, a 90.7 per cent increase relative to FY2013/14 while operating profits (a better indicator of core business activity) expanded by 32.0 per cent to $3.8 billion (**Table 1**). Notably, losses for FY2012/13 were largely influenced by $4.4 billion in foreign currency losses due to a revaluation of foreign currency loan obligations and associated interest costs. Exchange losses during this period were however largely unrealized, accounting for on average 93.2 per cent of the total, which indicated a relatively small cash flow impact (**Table 2**).

[6] Operating profits refer to earnings before interest and taxes (EBIT) i.e. net profit/loss plus finance and interest charges.

Table 2: Foreign Currency Gains/Losses (J$ million) – FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Realized Exchange Gains/(Losses)	163.6	(220.3)	(172.9)	(42.4)	(96.9)
Unrealized Exchange Gains/(Losses)	1,382.2	(3,606.9)	(4,211.7)	(547.3)	(1,407.1)
Total Exchange Gains/(Losses)	**1,545.8**	**(3,827.2)**	**(4,384.6)**	**(589.7)**	**(1,504.0)**

Source: PAJ supplementary information

3.21 **Profits for 2014/15 mainly reflected operations at the PAJ's head office primarily driven by cruise shipping revenues and harbour fees[7].** This was partly offset by KCT operations which resulted in a loss of $0.4 billion for the same period due to asset depreciation along with finance charges and exchange losses on loans related to the terminal operations[8]. Of note, KCT operations recorded losses in the last four consecutive years of the review period due to the aforementioned factors. Notwithstanding, terminal specific operations recorded consistent, albeit marginally declining profits for FY2014/15 when compared to the outturn of FY2010/11 (**Appendix 1**)[9]. For the five years, KCT revenues averaged $9.3 billion or 60.3 per cent of total PAJ revenues. KCT direct terminal expenses averaged $6.4 billion which accounted for 45.5 per cent of overall PAJ expenses.

3.22 **The PAJ's revenue sources are its core business areas of container terminal & wharves, cruise shipping and harbour & port services**. The PAJ benefitted from foreign exchange gains earned from the translation of foreign currency denominated income streams which averaged $0.3 billion over the assessment period. PAJ recorded a 38.8 per cent expansion in revenues which outpaced the 22.0 per cent increase in expenses. PAJ's core revenue streams grew by 11.4 per cent, 219.6 per cent and 66.3 per cent respectively, over the assessment period[10]. Notably, Cruise shipping revenue was bolstered by the completion of the Falmouth port at end FY2010/11. An expansion in PAJ's expenses was primarily attributed to its marine operations which increased by 30.9 per cent.

Table 3: Selected Profitability Ratios

	2014/15	2013/14	2012/13	2011/12	2010/11
Net Profit Margin	0.09	0.05	-0.15	0.05	0.18
Operating Profit Margin	0.22	0.15	-0.02	0.19	0.34
Rate of Return on Equity	0.12	0.07	-0.21	0.05	0.19

Source: AuGD's computation

[7] During the period the Authority's operations was segmented into five categories; PAJ head office operations, KCT operations, Port Handlers, Maritime Towing and Lannaman & Morris Shipping.

[8] KCT operations reflect activities at the terminal as per the financial statements for KCT and adjustments for depreciation associated with KCT assets as well as finance charges and foreign exchange gains/loans on loans related to terminal operations.

[9] Terminal specific operations exclude foreign currency gains/losses and interest charges for loans associated with the KCT as these are handled by the PAJ head office and as such are not reflected in the individual financial statements of KCT.

[10] Cargo movements, cruise shipping and harbour and port services together accounted for 86.8 per cent of the PAJ's revenues on average during the review period.

Net Profit Margin

3.23 **PAJ's profit position improved in FY2013/14 and FY2014/15, following deterioration in FY2012/13**. The improvement was reflected in the net profit margin ratio of 0.09 which suggested that 9 cents of each dollar of sales remained after expenses as a result of the lower foreign currency losses (**Table 3**). The ratio for FY2013/14 indicated that 5 cents of each dollar of sales remained after all expenses in comparison to FY2012/13 for which additional resources were required to fund expenses.

Operating Profit Margin

3.24 **The operating profit margin of the PAJ however, underscored the generally negative impact of foreign currency depreciation on PAJ's profitability between FY2010/11 and FY2014/15.** The ratio mirrored the downward trend of the net profit margin, declining to 0.22 in FY2014/15 from 0.34 at end FY2010/11 (**Table 3**). In other words, after operating expenses were accounted for at end FY2014/15, 22 cents from each dollar of sales remained compared to 34 cents for FY2010/11. Similarly, there were successive improvements in the final two years of the review period following the negative ratio in FY2012/13 for which the Authority recorded an operating loss.

Return on Equity

3.25 The return on equity ratio, which indicates how well the PAJ uses its own funds to generate profits, exhibited a similar trend to that for net profit margin ratio. Although relative low in FY2010/11 and FY2011/12, the return on equity ratio went negative in FY2012/13 before improving in the successive years to 0.12 at end-FY2014/15 (**Table 3**).

Activity Ratios

3.26 As part of its mandate, the Authority is required to invest in new capital equipment while undertaking maintenance of existing assets over regular intervals. In addition, the PAJ is required to carry out capital projects to ensure the development and efficient operations of port services. However, such activities are subject to the availability of adequate cash flows. Therefore it is important for the PAJ to generate positive working capital in order to finance these expenses.

Table 4: Selected Activity Ratios FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Accounts Receivables Turnover	7.2	5.3	5.6	6.4	5.4
Receivable days outstanding	50.5	68.3	65.6	56.8	68.1
Fixed Assets Turnover	0.58	0.44	0.40	0.37	0.35

Source: AuGD's computation

3.27 **The PAJ's stock of trade receivables fell marginally over the review period.** Trade receivables declined by 1.2 per cent at end FY2014/15 relative to end-FY2010/11. On average trade and other receivables accounted for the largest proportion of current assets held by the PAJ, of which trade receivables represented the most significant component[11]. In particular, the stock of trade receivables which represented 83.5 per cent of trade and other receivables averaged 33.8 per cent of current assets over the review period (**Table 5**). Of note, a 6.9 per cent increase in total assets between FY2010/11 and FY2014/15 reflected an increase in current assets.

Table 5: PAJ Assets FY2011/12 to FY2014/15

J$ million	2014/15	2013/14	2012/13	2011/12	2010/11
Current Assets	12,667.4	8,140.7	7,434.9	5,174.9	5,184.2
Cash & Short term Deposits	4,557.2	4,800.5	2,753.9	1,464.8	1,692.2
Trade & Other Receivables	2,335.4	2,734.7	3,668.8	2,770.6	2,662.2
o/w Trade Receivables	*2,096.6*	*2,468.0*	*3,018.2*	*2,094.0*	*2,121.6*
Other Current Assets	5,774.8	605.4	1,012.2	939.5	829.8
Non -Current Assets	41,384.0	46,790.9	43,778.2	45,119.3	45,374.3
Plant Property & Equipment	25,534.1	31,413.0	34,838.1	35,891.8	36,627.2
Investment Property	14,562.0	14,062.6	8,001.7	7,794.3	7,543.4
Other Non-Current Assets	1,287.9	1,315.3	938.4	1,433.2	1,203.6
Total Assets	54,051.3	54,931.5	51,213.1	50,294.2	50,558.4

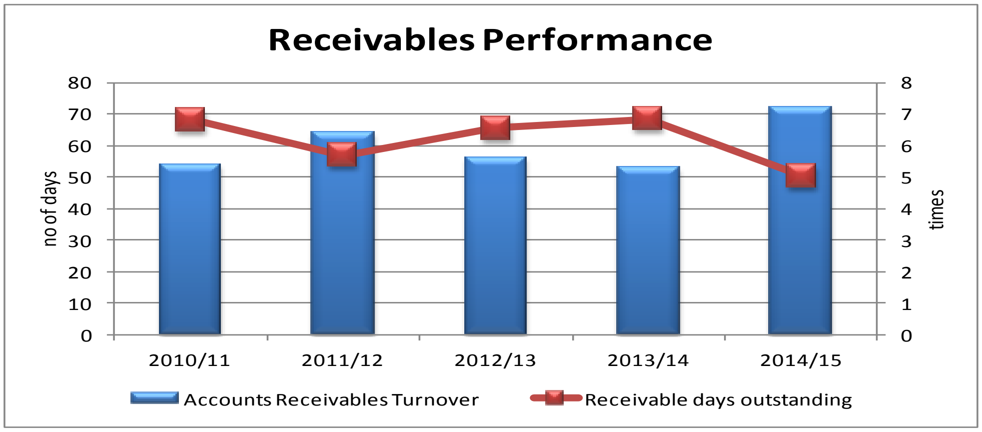
Source: PAJ's Audited financial statements

Accounts Receivable

3.28 PAJ's credit collection broadly improved over the period FY2010/11 to FY2014/15. The improvement was evidenced by PAJ's accounts receivables turnover ratio which increased to 7.2 in 2014/15 from 5.4 in 2013/14, suggesting that PAJ turned over its average trade receivables over 7 times in FY2014/15, relative to just over 5 times for the previous year (**Chart 3 and Table 4**). Notably, the accounts receivables turnover ratio indicates the velocity by which the PAJ collects on debt generated from the extension of credit to its customers. This improved rate of collection in FY2014/15 may have been largely driven by better financial performance from the PAJ's main debtors, the shipping carriers, following two consecutive periods of decline when trade receivables grew as a consequence of the poor financial performance of shipping lines.

[11] Trade receivables arise as the PAJ provides access to port services and facilities to some shipping lines on a credit basis. This is carried out via a formal credit facility to which access is granted based on an internal credit review process that analyses the creditworthiness of customers.

Chart 3: Receivables Performance FY2010/11 to FY2014/15



Receivables days outstanding

3.29 **PAJ's trade receivables collections significantly exceeded the average credit period of 30 days stipulated by the Authority's credit policy**. The average length of time to collect receivables improved between FY2010/11 and FY2014/15 as reflected in the Receivables Days Outstanding ratio which was 50.5 days for FY2014/15 relative to 68.1 days for FY2010/11 (**Chart 3 and Table 4**). It took approximately 65 days on average for the PAJ to collect its receivables in FY2012/13 in comparison to approximately 57 days during FY2011/12. During this period, past due receivables expanded by 64.8 per cent to amount to $1.8 billion and mainly reflected growth in the portion of outstanding receivables past due for more than 90 days which increased by 142 per cent (**Chart 4)**.

Chart 4: PAJ's Outstanding Receivables – FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
31-60 days	562.0	669.1	709.6	491.9	409.5
61-90 days	134.9	136.9	268.6	268.9	246.3
Over 90 days	371.1	518.4	856.2	352.5	659.2

Source: AuDG's Computation

3.30 The significant collections lag over the review period reflected the financial challenges faced by the PAJ's debtors, the shipping lines in the aftermath of the global crisis. As a result, shipping lines made requests to its stakeholders, including the PAJ, for renegotiated terms. PAJ indicated that it was forced to offer concessionary terms to shipping lines including the extension of credit periods, reduced rates and a deferral of receivables.

Fixed Asset Turnover

3.31 **PAJ's productivity of its fixed assets improved between FY2010/11 and FY2014/15.** The fixed assets turnover ratio increased to 0.58 at FY2014/15 from 0.35 for FY2010/11 which suggests that the PAJ was able to generate greater sales per dollar of fixed assets (**Table 4**). The improvement was reflected in expansions in core income while the stock of fixed assets declined over the period. Enhancements in productivity during the period were underpinned by the implementation of programmes aimed at increasing operational efficiency, particularly at the KCT. The PAJ indicated that revised maintenance plans and training for all equipment were developed and implemented to increase the proficiencies of its workforce. The improved efficiencies were reflected in a decline in vessel turnaround times to 31.5 hours in 2014 from 51.3 in 2010. Of note, the reclassification of fixed assets as current assets totalling $5.1 billion at end-FY2014/15 resulted in a partial inflation of ratio for that period[12]. The adjusted ratio was 0.53 for FY2014/15. PAJ indicated that less equipment and operational space were in use between FY2010/11 and FY2014/15 in comparison to earlier periods while core revenues have increased[13].

Liquidity

Table 4: Current Liabilities (J$ millions)–FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Current Liabilities	**6,609.4**	**6,699.2**	**6,263.3**	**6,750.0**	**5,175.5**
Payable & Accruals	*2,537.8*	*2,276.5*	*2,039.2*	*2,236.5*	*1,513.3*
Curr. portion of Liabilities	*4,003.3*	*4,350.9*	*4,137.0*	*4,404.1*	*3,519.8*
Other	*68.3*	*71.8*	*87.1*	*109.4*	*142.4*

Source: PAJ's Audited financial statements

3.32 The operations of the PAJ generated various short-term obligations to be satisfied during the course of a fiscal year. For the review period, the Authority's current liabilities averaged approximately 16 per cent of the PAJ's overall liabilities each year (see **Table 5**). Current liabilities mainly reflected the portion of the PAJ's liabilities falling due within 12-months and accounts payables which together accounted for 98.4 per cent of short –term obligations during the review period.

Current Ratio

3.33 **PAJ current ratio was 1.9 for FY2014/15 relative to 1.0 in FY2010/11.** The ratio for FY2014/15 also reflected improvement relative to the ratios of 1.22 and 1.19, respectively for the previous two years. The current ratio indicates the PAJ's ability to generate cash from its current assets to cover

[12] The assets were reclassified as they were to be transferred to the concessionaire as part of the KCT PPP agreement to be finalized within a year. However, the assets were utilized in the PAJ's operations during the period and as such may be included in the ratio to provide a more accurate calculation.

[13] The PAJ's annual report FY2014/15 outlined that the Authority possessed 6 functional Gordon Cay cranes, 65 straddle carriers and 700 metres of operational berth in November 2014 relative to 10, 72 and 1300 metres, respectively, in January 2009.

short-term liabilities. Of note, increase in the ratio in FY2014/15 partly reflected the reclassification of assets from Property, Plant and Equipment valued at $5.1 billion to current assets as 'assets held for sale'. These assets will be transferred to the concessionaire following completion of the KCT contract agreement. The ratios for FY2013/14 and FY2012/13 was largely underpinned by greater cash and short-term deposits held by the Authority. The tightened liquidity position for FY2011/12 relative to FY2010/11 arose as current assets of $5.2 billion were insufficient to cover current liabilities of $6.8 billion. Current liabilities increased by $1.5 billion relative to the previous year whereas current assets remained relatively flat.

Table 5: Selected Liquidity Ratios - FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Current Ratio	1.92	1.22	1.19	0.77	1.0
Cash Ratio	0.69	0.72	0.44	0.22	0.33

Source: AuGD's computation

Cash Ratio

3.34 **The improvement in liquidity of the PAJ over the review period was also reflected in the cash ratio**. This ratio indicates the ability of the PAJ to meet its current liabilities with its most liquid assets - cash and cash equivalents. The ratio of 0.69 indicated that at end-FY2014/15, the PAJ was able to meet 69.0 per cent of its short-term obligations with its cash and short term deposits relative to 44.0 per cent at end-FY2011/12 and 22.0 per cent in FY2012/13 (**Table 5**). For FY2014/15 the ratio reflected a marginal decline relative to 0.72 recorded for FY2013/14. Given that cash and short-term deposits were not sufficient to satisfy current liabilities as evidenced by ratios less than 1.0, the importance of other current assets, in particular trade and other receivables, is magnified in terms of meeting the obligations. Despite the adequate alternate resources to cover its current liabilities, the issue of immediate liquidity was of concern given the lack of ease in converting some of the resources primarily the trade receivables, into cash.

Debt and Solvency

3.35 **The PAJ accumulated significant debt in undertaking its operations and as such these liabilities generally exhibited an upward trend**. Given the capital intensive nature of PAJ operations however, it was not unexpected that the entity required significant capital injection to maintain its operations. Over five-year review period, total liabilities increased by 7.2 per cent moving to $41.3 billion at end-FY2014/15 from $38.5 billion at end-FY2010/11, an average increase of 2.0 per cent per year (**Table 6**). The increase in liabilities was primarily driven by the accumulation of loans which also represented the largest share of total liabilities (92.8 per cent on average) as the PAJ primarily utilized debt financing to fund the acquisition of assets and capital projects particularly related to KCT. Loan details provided by the PAJ indicated that loans associated with the KCT accounted for approximately 62 per cent of total loans on average over the review period[14]. Against

[14] Calculation excluded local currency loans.

this background, the PAJ's total debt was $38.0 billion at end- FY2014/15, 4.7 per cent above the level recorded for FY2010/11 but 6.3 per cent below the stock at end FY2013/14. In addition, the majority of PAJ's debt stock is denominated in foreign currency and for FY2014/15 accounted for 88.4 per cent, reduction relative to the 89.5 per cent and 97.0 per cent recorded at end FY2013/14 and FY2012/13 respectively. Notwithstanding the downward trend, the proportion remained elevated and as such the Authority continued to be susceptible to significant foreign currency risk.

Table 6: Capital Structure (J$ millions) – FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Total Assets	**54,051.3**	**54,931.5**	**51,213.1**	**50,294.2**	**50,558.4**
Total Liabilities	**41,289.6**	**43,667.7**	**40,734.8**	**37,583.8**	**38,533.6**
o/w Long Term Liabilities	*38,013.4*	*40,549.0*	*37,711.9*	*34,695.0*	*36,297.4*
Total Equity	**12,761.7**	**11,263.8**	**10,478.3**	**12,710.5**	**12,024.8**

Source: PAJ's Audited financial statements

3.36 **PAJ's debt represented a contingent liability and fiscal risk for Central government at end FY2014/15.** The government guaranteed portion of the PAJ's debt, which reflected loans from various financial institutions, was $16.9 billion or 44.4 per cent of PAJ's total outstanding debt and represented an explicit contingent liability (**Appendix 2**). This remainder includes unsecured loans from the PetroCaribe and financial institutions of $14.6 billion, of $1.3 billion respectively and $2.7 billion backed by letters of undertaking.

Table 7: Selected Debt/Solvency Ratios – FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Debt-Assets Ratio	0.70	0.74	0.74	0.69	0.72
Debt-Equity Ratio	2.98	3.60	3.60	2.73	3.02
Times Interest Earned	1.65	1.38	-0.18	1.35	2.14

Source: AuGD's computation

Debt-Assets Ratio

3.37 The Authority's reliance on debt financing is highlighted by the debt-assets ratio which assesses the proportion of assets that is financed by way of borrowings. The ratio indicated that for the period FY2010/11 to FY2014/15 the average ratio was 0.72 which suggested that on average, 72 per cent of the PAJ's assets were financed by debt. In other words, the proceeds from the liquidation of the Authority's total assets were sufficient to cover its debt obligations by an average of 1.4 times for the period. At end FY2014/15 the ratio declined to 0.70 from 0.74 for the previous period and indicated an improvement in the PAJ's position which was underpinned by the repayment of foreign currency loans due to non-government financial institutions (**Table 7**).

3.38 Despite the adequate coverage, the potential financial risk remained given the PAJ's already highly leveraged position and as such small adverse changes to the valuation of the Authority's assets could impair the Authority's ability to meet its long-term obligations. Of note, the Authority's asset base was predominantly reflected in Property, Plant and Equipment and Investment properties which combined averaged 83 per cent of total assets for the review period. It is important to note that these assets are subject to valuation changes due to depreciation and fair value adjustments which may negatively influence their values.

Debt-Equity Ratio

3.39 For FY2014/15, the debt to equity ratio was 2.98 indicating that the level of debt financing utilized by the PAJ was approximately three times as much as equity financing (Table 7). This represented an improvement over the 3.60 recorded for FY2013/14, but was relatively in line with the 3.02 for FY2010/11 suggesting that over the review period, there was no significant improvement in the debt-equity mix. The decline in FY2014/15 relative to FY2013/14 reflected both a reduction in debt due to amortization and an increase in equity via retained earnings which was underpinned by higher recorded profits largely as a result of relatively lower foreign exchange losses.

Times Interest Earned Ratio (Interest Coverage Ratio)

3.40 The high levels of debt contracted by the PAJ to finance its operations invariably resulted in significant financing costs. In addition, the foreign currency denomination of the payments exacerbated the magnitude of the PAJ's financing costs. Over the 5-year assessment period, annual financing costs averaged $2.0 billion or 13.1 per cent of average total revenue. In FY2013/14 and FY2014/15, interest payments experienced moderate growth as financing costs amounted to $2.3 billion and $2.1 billion for FY2014/15 and FY2013/14, respectively, reflecting increases by 10.0 per cent and 12.5 per cent over the previous fiscal years. The expansions were mainly driven by depreciation of Jamaica Dollar.

3.41 The times interest earned ratio, which assesses the PAJ's earnings available to meet its interest obligations, averaged 1.27 for the review period. This indicated that the PAJ's earnings before interest and tax payments (EBIT) were sufficient to cover 1.3 times the interest payments**.** The ratio increased to 1.65 in FY2014/15 from 1.38 in FY2013/14 which also reflected improvement over the previous fiscal period**.** In FY2012/13 the ratio was 0.18 which suggested that the PAJ did not earn enough to repay creditors during the year (**Table 7**). This value also represented the second consecutive period of decline as the ratio was 1.35 and 2.14 for FY2011/12 and FY2010/11, respectively. The declines for FY2011/12 and FY2012/13 reflected lower EBIT both influenced by unrealized foreign currency losses on the Authority's outstanding loans.

Appendices

Appendix 1: PAJ Past Due Receivables – FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
KCT Total Revenue (KTR)	10,053.2	9,281.2	9,306.7	8,846.8	8,944.6
KCT Total Expenses (KTE)	*6,968.0*	*7,316.6*	*6,304.6*	*5,904.6*	*5,268.2*
KCT Total Comprehensive Income	***3,085.2***	***1,964.6***	***3,002.0***	***2,942.1***	***3,676.4***
Depreciation	*1,149.6*	*1,356.1*	*1,229.6*	*1,330.3*	*1,410.1*
Fx gain/(loss) on loans	*(849.2)*	*(2,351.5)*	*(2,651.0)*	*(338.4)*	*1,025.7*
Finance Charges on loans	*1,472.6*	*1,534.9*	*1,428.1*	*1,754.4*	*1,831.0*
Net Comprehensive Income/(loss) from KCT operations	**(386.2)**	**(3,277.8)**	**(2,306.7)**	**(481.0)**	**1,460.9**

Source: PAJ's supplementary information

Appendix 2: PAJ Outstanding Loans FY2010/11 to FY2014/15

	2014/15	2013/14	2012/13	2011/12	2010/11
Government Loans	**14,582.7**	**13,890.8**	**12,538.9**	**10,953.0**	**11,391.1**
PetroCaribe	*14,551.7*	*13,859.8*	*12,507.9*	*10,922.0*	*11,360.1*
Other	*31.0*	*31.0*	*31.0*	*31.0*	*31.0*
Non-Government Loans	**23,485.8**	**26,883.4**	**25,609.2**	**24,411.9**	**25,890.1**
Guaranteed by GOJ	***16,893.8***	*19,658.4*	*20,521.0*	*19,329.6*	*20,711.4*
Letters of Undertaking	*2,701.4*	*3,037.8*	*3,164.1*	*3,164.1*	*3,103.4*
Charge on Assets	*2,565.0*	*2,779.5*	*444.3*	*557.7*	*1,966.7*
Unsecured-Evidenced by Promissory note	*1,325.5*	*1,407.7*	*1,479.9*	*1,360.6*	*108.5*

Source: PAJ's audited financial statements

Appendix 2: Definition of Ratios

Activity Ratios

Accounts Receivable Turnover – refers to the ratio of net credit sales to accounts receivable. This indicates the number of times during the period that credit sales have been made and collected on.

$$Formula = \frac{Credit\ Sales}{Accounts\ Receivable}$$

Accounts Receivable Days – refers to the number of days it takes, on average, for an entity to collect its accounts receivables.

$$Formula = \frac{Accounts\ Receivable}{Credit\ Sales/365}$$

Fixed Asset Turnover – refers to the ratio of sales to fixed assets and indicates the ability of the entity to use fixed assets to generate sales.

$$Formula = \frac{Sales}{Fixed\ Assets}$$

Inventory Turnover – refers to the ratio of cost of goods sold to inventories. The ratio indicates how many times inventory is created and sold during the period.

$$Formula = \frac{Cost\ of\ goods\ sold}{Inventory}$$

Total Asset Turnover – refers to the ratio of sales to assets and indicates the extent to which an entity's investment in total assets results in sales.

$$Formula = \frac{Sales}{Total\ Assets}$$

Liquidity Ratios

Cash Ratio – refers to the ratio of cash and cash equivalents to current liabilities and measures an entity's ability to pay off its current liabilities with only cash and cash equivalents.

$$Formula = \frac{Cash + Cash\ equivalents}{Current\ Liabilities}$$

Current Ratio - refers to the ratio of current assets to current liabilities and indicates an entity's ability to meet current liabilities with its current assets.

$$Formula = \frac{Current\ Assets}{Current\ Liabilities}$$

Quick Ratio – refers to the ratio of quick assets (current assets *less* inventory) to current liabilities. This ratio indicates the ability of an entity to pay its current liabilities when they become due with only quick assets.

$$Formula = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

Debt and Solvency Ratios

Debt-to-Assets – refers to the ratio of an entity's debt to total assets and measures the proportion of assets that are financed with debt.

$$Formula = \frac{Debt}{Total\ Assets}$$

Debt-to-Capital – refers to the ratio of an entity's debt to the total capital employed. It measures the proportion of the capital employed that is debt.

$$Formula = \frac{Debt}{Total\ Capital} = \frac{Debt}{Total\ Equity + Debt}$$

Debt-to-Equity – refers to the ratio of an entity's debt to total equity and indicates the relative use of debt and equity as sources of capital to finance the entity's assets.

$$Formula = \frac{Debt}{Total\ Equity}$$

Times Interest Earned/Interest Cover – this ratio compares the earnings available to meet interest obligations with the interest obligation.

$$Formula = \frac{Earnings\ before\ Interest\ \&\ Taxes\ (EBIT)}{Interest\ Expense}$$

$$= \frac{Net\ Income + Interest\ Expense + Taxes}{Interest\ Expense}$$

Profitability Ratios

Net Profit Margin – refers to the ratio of an entity's net income to sales and measures how much of each dollar of sales is left over after all expenses.

$$Formula = \frac{Net\ Income}{Sales}$$

Operating Profit Margin – refers to the ratio of an entity's operating income to sales and indicates how much of each dollar of sales is left over after operating expenses.

$$Formula = \frac{Operating\ Income}{Sales}$$

Rate of Return on Assets – refers to the ratio of net income to total assets. This indicates the amount earned on each dollar of assets.

$$Formula = \frac{Net\ Income}{Total\ Assets}$$

Rate of Return on Equity – refers to the ratio of net income to total equity and measures the ability of an entity to generate profits from owners' investments.

$$Formula = \frac{Net\ Income}{Total\ Equity}$$