AUDITOR GENERAL'S DEPARTMENT

FINANCIAL STATEMENTS ANALYSIS OF PUBLIC BODIES

FY2015/16 – FY2019/20

UNIVERSAL SERVICE FUND

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 Administration and Audit Act.

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

Auditor General of Jamaica
Auditor General's Department
40 Knutsford Boulevard, Kingston 5
Jamaica, W.I.
www.auditorgeneral.gov.jm

Vision
A better country through effective audit scrutiny

Document No.:	Date Published
AuGD 134-1602.137.2.	2021, June 3

Table of Contents

This page is intentionally left blank

Auditor General's Overview

The analysis of the audited financial statements of the Universal Service Fund Limited (USF), which falls under the Ministry of Science, Energy and Technology (MSET), was undertaken to assist Parliament and the Public Accounts Committee (PAC) in their review of the financial performance of public bodies, in the context of the Fiscal Responsibility Framework (FRF). The Public Bodies Management and Accountability (PBMA) Act requires public entities to demonstrate prudent financial management of public resources. Where the findings from a financial statements assessment (FSA) signal the need for more in-depth investigation, this may be followed by a performance audit or other audit type.

Our review of the financial statements revealed that the entity experienced net losses in FY2017/18 and FY2018/19 in a context of a consistent decline in core revenue, while gains on foreign exchange stemming from the depreciation of the Jamaica Dollar contributed to net profits in the other periods. Notwithstanding declining liquidity conditions over the review period, USF current assets remained adequate to cover short-term obligations.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

The Universal Service Fund (USF) Limited is a statutory body established under the Telecommunications (Amendment) Act 2012 as a successor to the Universal Access Fund Company Limited (UAFCL) and falls under the portfolio of the Ministry of Science, Energy and Technology (MSET). The USF is primarily financed by a levy on all inbound international voice telephony calls terminated to fixed lines and mobile lines collected by domestic network operators in keeping with the Telecommunications (Amendment) Act 2012. We conducted a Financial Statements Assessment, which is solely an analytical review of the Audited Financial Statements of the USF. We did not conduct an audit of the financial statements of the entity and hence, did not test the management's assertions regarding the figures in the financial statements and disclosures. The calculation of ratios was intended to provide trend analyses of key financial items in the balance sheets and income statements of the entity, along with the notes provided. The key findings are highlighted below:

Declining Revenue Flows	Tightening Liquidity	Low Debt Levels

WHAT WE FOUND

1. **The USF recorded net profits of $563.5 million in FY2019/20, following net losses in FY2017/18 and FY2018/19[1].** Net Profits in FY2019/20 represented a turnaround from a net loss of $967.4 million in FY2018/19, although the outturn was 54 per cent below the $1.2 billion in net profits earned in FY2015/16. Further, this return to profitability was largely underpinned by exchange gains of $1.1 billion, which contributed to the increase in total revenue to $1.9 billion in FY2019/20, from $864 million in FY2018/19. At the same time, the USF recorded a 25 per cent reduction in total expenses to $1.4 billion at end FY2019/20 relative to the previous year.

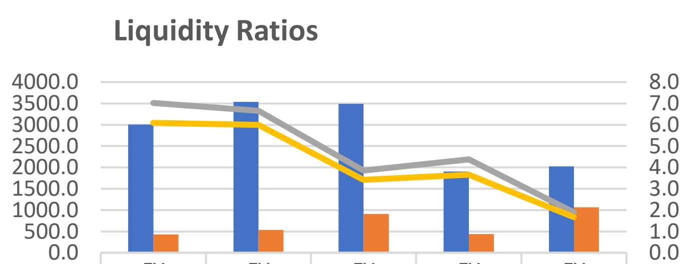
   There was a decline in universal service levy collections, which USF attributed to an increase in competition in the telecoms market, circumvention of the international accounting rate system and increased use of cheaper Voice Over Internet Protocol (VoIP) services. Additionally, USF charged that an independent verification of levy charged, collected and payable by local carriers was further challenged by the absence of a monitoring facility, which necessitated their estimating collections.

[1] The FAA (FRF) Regulations establish several criteria for Public Bodies to be excluded from being part of the specified public sector, as defined in the FAA Act. The criterion relating to Net Profit was not met (**Appendix 2(3)**).

The problem was exacerbated by the uncertainty of when levy collected by the carriers would be submitted to USF.

2. **For FY2019/20, USF recorded foreign exchange gains of $1.1 billion, while USF's core income, the Service Levy, was $617.9 million.** We noted that the USF benefitted from exchange depreciation since levy payments are denominated in US Dollars, whereas costs were largely incurred in Jamaica Dollars. Foreign exchange gains accounted for 54.3 per cent of total income for FY2019/20 relative to an average 30.0 per cent for FY2015/16 and FY2016/17. On the other hand, for the loss-making years of FY2018/19 and FY2017/18, USF incurred foreign exchange losses of $63.0 million and $317.1 million, respectively, as the value of the Jamaica Dollar was relatively more stable.

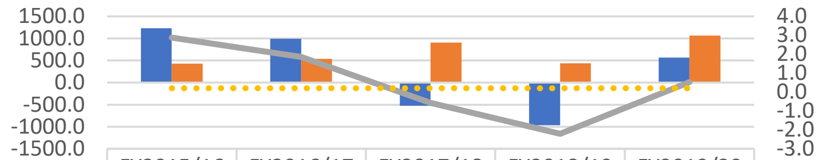
3. **USF current and solvency ratios reflected the tight liquidity conditions between FY2015/16 and FY2018/19, which worsened significantly in FY2019/20.** USF current ratio declined steadily to 1.89 FY2019/20 from 7.02 in FY2015/16, while the cash ratio exhibited a similar trend, falling to 1.67 in FY2019/20 from 6.09 in FY2015/16. Although USF current assets remained adequate to cover short-term liabilities, the sharp tightening in liquidity in FY2019/20 implied less cash to meet current expenses. Whereas in FY2018/19 cash and cash equivalents were sufficient to liquidate nearly four times the value of short-term liabilities, in FY2019/20 the coverage was less than two times, as current liabilities (payables) rose to $1.1 billion from $0.4 billion in FY2018/19.



	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Current Assets ($JM)	3006.4	3533.9	3486.7	1907.3	2021.3
Short Term Liability ($JM)	428.3	531.0	905.0	435.4	1067.2
Current Ratio	7.0	6.7	3.9	4.4	1.9
Cash Ratio	6.1	6.0	3.4	3.7	1.7

Concurrently, USF's solvency ratio, which measures the capacity of the entity to meet its debt and other obligations, declined steadily for the first three-years of the five-year period. Although the ratio improved to 0.53 in FY2019/20 relative to -2.21 in FY2018/19 and -0.58 in FY2017/18, the overall downward trend in the ratio suggested that USF was becoming insolvent. Of note, the positive ratio for FY2019/20 reflected realised foreign exchange gains and not an improvement in the underlying levy collections or operational efficiencies.

Solvency Ratios



	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Net Income (J$M)	1231.0	991.7	-525.4	-967.4	563.5
Total Liabilities (J$M)	428.3	534.3	908.2	438.0	1067.9
Solvency Ratio	2.9	1.9	-0.6	-2.2	0.5
Solvency Threshold	0.2	0.2	0.2	0.2	0.2

4. **USF working capital[2] was relatively stable over the review period.** We noted that USF met the criteria established in the FAA Regulations[3], which requires the attainment of a positive working capital and a current ratio of at least 1.2 times. USF's working capital turnover ratio was 0.6 in FY2015/16 and remained relatively stable at an average of 0.5 over the period. This indicated that for each dollar invested by USF in working capital, there was an average contribution of $0.50 towards total revenue. An assessment of USF's working capital turnover ratios also revealed that the entity had adequate liquid funds to meet its short-term obligations.

5. **USF debt ratios were generally low over the five-year review period indicating that USF was not materially leveraged**. The debt-to-asset ratio measures the portion of company assets that is financed by debt, while the debt-to-equity ratio, evaluates the capital structure of a company, with a ratio of more than one indicating that the entity is reliant on debt to support its operations. USF debt to asset and debt to equity ratios ranged between 0.03 and 0.08 between FY2015/16 and FY2019/20, as the USF had no significant long-term debt, except for deferred tax liabilities which stood at $0.74 million at the end of FY2019/20. Notwithstanding, in FY2019/20, liabilities increased two-fold because of increased payables associated with project expenditure, which saw the debt to total assets ratio increasing to 0.07 from 0.03 in FY2018/19, with this outturn being the highest for the review period. However, the average long-term debt-to-equity ratio met the criteria for classification as a commercial entity under the FAA (FRF) Regulations (**Appendix 2**).

6. **USF's return on assets[4] showed a trend decline over the review period, to 0.04 in FY2019/20 from 0.09 in FY2015/16, indicating that for every dollar of assets invested in the latter period, USF only recorded a net profit of $0.04**. For the five-year period, USF's return on assets averaged only 0.02, reflecting the impact of net loss positions for the years FY2017/18 and FY2018/19. The assets of USF

---

[2] Working capital refers to the day-to-day management of a firm's short-term assets and liabilities.
[3] The positive working capital and current ratio of the public body (on a stand-alone basis or, if applicable, on a consolidated basis) is at least 1.2, where current ratio means current assets divided by current liabilities.
[4] The return on assets ratio indicates how well management is employing the company's total assets to make a profit. The higher the return, the more efficient management is in utilizing its asset base.

consisted of property, plant and equipment, accounts receivables, and cash and cash equivalents. Total assets over the period primarily reflected a 15.3 per cent increase in funds held at the Accountant General's Department (AcGD)[5], which accounted for an average of 80 per cent of the Fund's Assets.

[5] Upon the establishment of the USF, the UAFCL was liquidated, and all its assets and liabilities transferred to the USF, where a significant portion of the assets is held at the Accountant General's Department.

Part One: Introduction

Disclaimer

1.1 *This Financial Statements Assessment is solely an analytical review of the audited financial statements of the Universal Service Fund Limited (USF). We did not conduct an audit of the financial statements of the entity and hence, did not test the management's assertions regarding the figures in the financial statements and disclosures. The calculation of ratios was merely intended to provide trend analyses of key financial items in the balance sheets and income statements of the entity, along with the notes provided.*

Introduction

1.2 This report was prepared using information from USF's audited financial statements for the periods FY2015/16 to FY2019/20, the corresponding annual reports, and other supplementary information.

Profile of the Entity

1.3 The USF is a statutory body, which falls under the portfolio of the Ministry of Science, Energy and Technology (MSET). The Fund was established under the Telecommunications (Amendment) Act 2012, and became effective on June 1, 2012, as a successor to the Universal Access Fund Company Limited (UAFCL). Consequent on the establishment of the USF, the UAFCL was liquidated, and all its assets and liabilities transferred to the USF. The mandate of the USF was widened to incorporate that of the UAFCL and to provide funding for a wider project range, including loans and grants for Information and Communication Technology projects. As at March 31, 2020, the USF had an asset base of approximately $14.5 billion. The Fund is financed by taxes collected from domestic telecommunication network operators. All domestic network operators are required to collect a universal service levy on all inbound international voice telephony calls terminated to fixed lines (US$0.03 per minute) and mobile lines (US$0.02 per minute), in accordance with Section 38(d) of the Amended Act 2012 and a Ministerial Order, issued in 2005[6].

[6] In accordance with the Telecommunications Act (2000) that became effective June 1, 2005.

Funds collected by the USF are used to finance the following activities:

Mission/Vision/Objective

1.4 The USF emphasized in its Vision statement that: "Our aspiration is to ensure that every resident of Jamaica is provided with easy and reliable access to the information superhighway through the deployment of broadband services, to facilitate the transformation of Jamaica into a knowledge-based society and to stimulate continuous improvement in the quality of life for all." The USF's Mission is to facilitate universal access to the information 'superhighway' by stimulating and accelerating the deployment of broadband services island-wide.

1.5 The strategic objectives of the Company include an expansion of the island-wide broadband network that allows internet access to the public through schools, libraries, post offices and other approved broad-based organizations. The subsidiary benefit is the provision of broadband capacity within additional communities throughout the country.

Vision 2030/United Nation's Sustainable Development Goals (SDGs)

1.6 USF operations in the Information Technology sector is aligned to the achievement of 11-*A Technology Enabled Society* under Vision 2030.[7] The national strategies are aligned to USF mission of enabling sustainable development in Jamaica**.** This outcome is also aligned with the United Nations SDG # 9: *Industry, Innovation, and Infrastructure*.

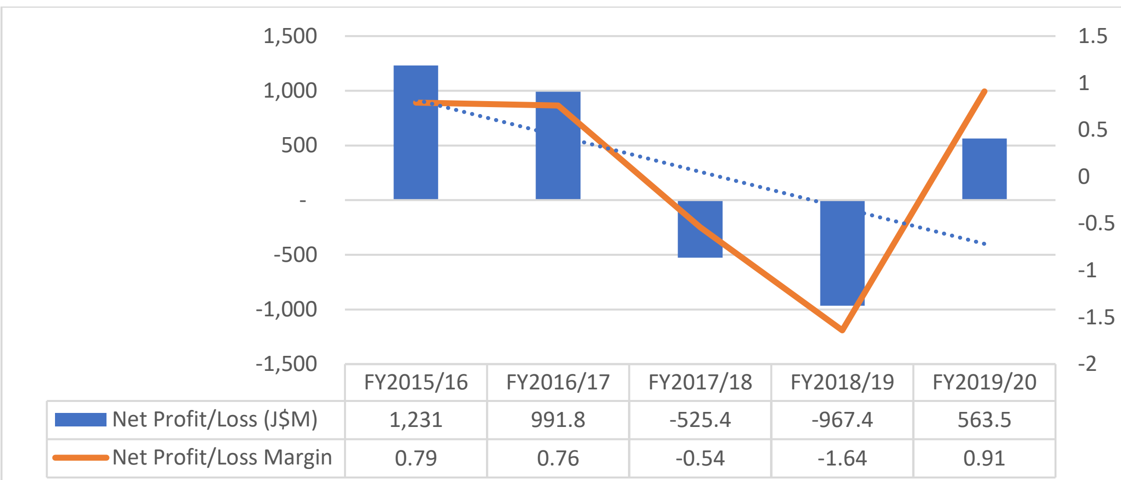
[7] Extracted from Page 19 the Vision 2030 NDP Document

Part Two: Financial Statements Analysis

USF recorded a declining trend in profits over the review period

2.1 USF recorded net losses of $967.4 million and $525.4 million respectively, for FY2018/19 and FY2017/18, before rebounding to net profits of $563.5 million in FY2019/20. Net profit for FY2019/20 was however, 54 per cent below the $1.2 billion profit recorded for FY2015/16 based on a 124 per cent increase in total revenue to $1.9 billion and a 25 per cent reduction in total expenses to $1.4 billion, over the year (**Chart 1**). Accordingly, USF's net profit margin improved to 0.91 for FY2019/20 relative to negative 1.64 in FY2018/19. The net profit margin ratio for FY2019/20 indicated that USF recorded 91 cents of profit for each dollar of income received, relative to a loss of $1.64 on each dollar in FY2018/19.

Chart 1: USF Net Profit/Loss - FY2015/16 to FY2019/20



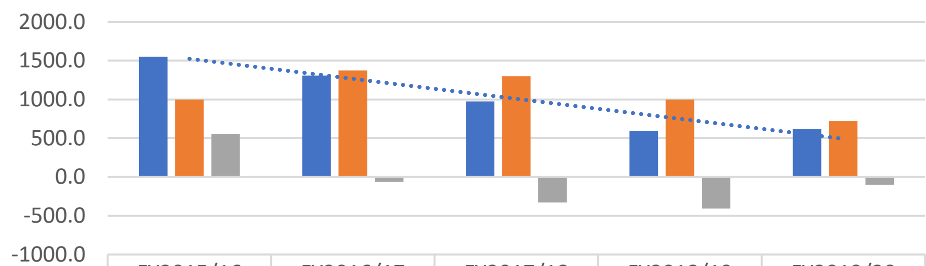
	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Net Profit/Loss (J$M)	1,231	991.8	-525.4	-967.4	563.5
Net Profit/Loss Margin	0.79	0.76	-0.54	-1.64	0.91

Source: USF's Financial Statements

2.2 For FY2019/20, USF recorded foreign exchange gains of $1.1 billion, while USF's core income, the Service Levy, was $617.9 million. The USF benefitted from depreciation in the value of the Jamaica Dollars vis-à-vis the United States Dollar as levy payments are remitted in US currency, whereas the Fund's expenses are largely incurred in Jamaica Dollar. The USF acknowledged that the year over year increase of $26.7 million for the levy in FY2019/20 was "a direct result of the volatility in the exchange rate" and as such was not as a result of organic growth. Notably for the loss-making years of FY2018/19 and FY2017/18 exchange rate losses were $63.0 million and $317.1 million respectively given that the Jamaica Dollar experienced greater exchange rate stability. For FY2015/16 and FY2016/17, foreign exchange gains accounted on average, for 30 per cent of income, relative to 54.3 per cent in FY2019/20.

2.3 The funding base for universal service programmes was largely affected by a steady decline in core levy inflows and interest income, notwithstanding an increase in the interest fund held by the AcGD. The USF in its annual reports, identified increased competition in the telecoms market, circumvention of the international accounting rate system and an increase in the use of cheaper Voice Over Internet Protocol (VoIP) services as some of the main factors undermining its revenue source. The impact was manifested by a 60.2 per cent decline in service levy collections to $617.9 million in FY2019/20 from $1.5 billion in FY2015/16 (**Chart 2**).

Chart 2: Collection of Universal Service Levy FY2015/16 to FY2019/20



	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Actual Service Fee $JM	1551.1	1306.6	972.9	591.2	617.9
Budget Service Fee $JM	1000.0	1371.0	1300.0	1000.0	720.0
Variance	551.1	-64.5	-327.1	-408.8	-102.1

Source: USF Annual Reports FY2015/16 -FY2019/20

2.4 International carriers remit the Service Levy[8] indirectly to the Fund through local carriers. The USF utilizes Traffic Reports from the terminating carriers to determine the amount of levy that is to be collected each month. However, reports from the carriers were not always timely, which made it difficult for the USF to predict when it would receive these transfers, thereby requiring the entity to continually estimate collections and adjust accordingly when the actual service levy for the respective months, was received. According to the USF, this problem was exacerbated by the absence of an independent monitoring facility for the Levy charged, collected and payable by local carriers. The Telecommunications (Universal Service Levy) (No.2) Order 2011 requires each interconnected carrier to submit traffic reports to the respective terminating carriers, which would thereafter submit their reports to the USF within a reasonable[9] time following the applicable months to which the Levy applies. The report should include details of the duration and applicable rates of all inbound international voice telephony calls terminated to fixed and mobile lines.

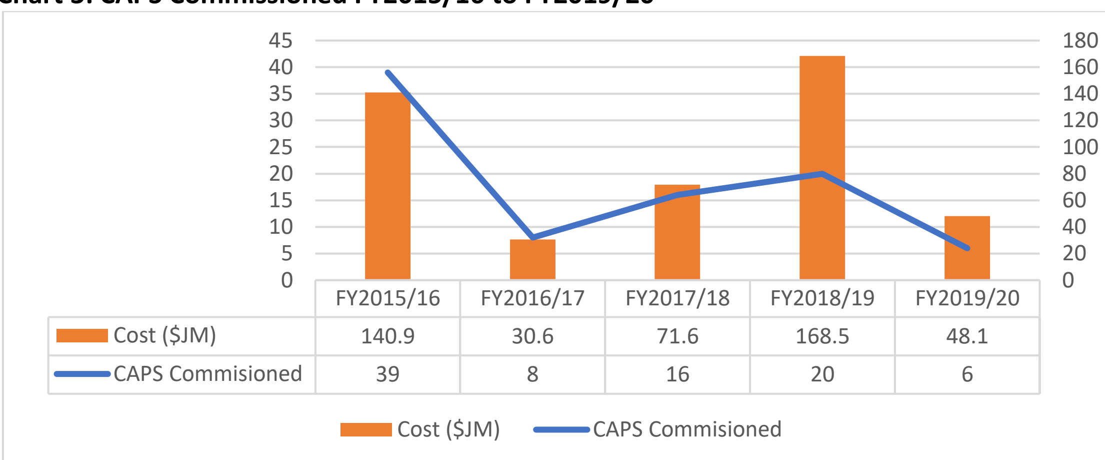
[8] The service levy is recognized on an accrual basis and the monthly accruals are based on an average of the previous actual collections.

[9] The established timeline for the submission of the carrier report is consistent with that for the payment of the levy, which, according to Ministerial Order 2005, will be due and payable in accordance with the Carrier's monthly billing and payment cycles.

Expenditure relating to programmes fell in FY2019/20

2.5 Total Expenditure by the USF grew steadily between FY2015/16 and FY2018/19 but fell sharply in FY2019/20. The increase in expenditure between FY2015/16 and FY2018/19 largely reflected an additional allocation of $302.0 million (76 per cent) to the e-Learning Programme and the adoption of new programmes such as the Technology Advancement Programme (TAP) since FY2016/17. Coupled with the significant decline in revenue, these additional expenditures in FY2017/18 and FY2018/19 also led to the loss-making position in those years. Meanwhile, expenditure related to Universal Service Fund Projects, which included CAP projects, declined by 69.3 per cent to $178.1 million in FY2019/20 from $581.2 million in FY2015/16 (**Table 1**). This coincided with an 84.6 per cent decline in the number of projects commissioned over the period (**Chart 3**). The USF's management indicated that the decline in the number of CAP projects over the review period represented a strategic shift in priority, as there was greater investment in public Wi-Fi to allow for greater accessibility and connectivity in keeping with the technology shift and the public need.

Chart 3: CAPS Commissioned FY2015/16 to FY2019/20



Source: USF Annual Reports FY2015/16-FY2019/20

2.6 Direct Cost of Projects[10] increased by 14 per cent to $1.1 billion over the period, despite a year over year decline of $353.3 million (24 per cent) in FY2019/20; attributable to reductions in spending on Technology Advancement Programme (TAP) and Universal Service Projects (**Table 1**). Between FY2016/17 and FY2019/20, Direct Cost on Projects exceeded levy collections for the last three years of the period under review, highlighting the impact on profitability as well as, issues related to USF's project execution.

[10] Total cost directly attributable to projects.

Table 1: Expenses FY2015/16 to FY2019/20 (J$M)

	FY2019/20	FY2018/19	FY2017/18	FY2016/17	FY2015/16
Direct Cost on Projects	**1,114.1**	**1,467.4**	**1,174.5**	**928.9**	**979.2**
Universal Service Projects	178.1	252.5	669.5	778.9	581.2
e-Learning Projects	700.0	700.0	449.4	150.0	398.0
Technology Advancement Programme	235.9	514.9	55.6	*	*
Administrative Expenses	**241.1**	**341.4**	**494.2**	**142.4**	**90.1**
Total Expenses	**1,355.1**	**1,808.8**	**1,668.8**	**1,071.3**	**1,069.3**

Source: USF Financials
*TAP started in FY2017/18

USF's return on assets influenced by the movement of the entity's bottom line

2.7 Similarly, USF's return on assets[11] showed a trend decline over the review period moving to 0.04 in FY2019/20 from 0.09 in FY2015/16, reflective of a reduction in net profit and an increase in the asset base. This indicated that, USF recorded a net profit of $0.04 for every dollar of assets it invested over the period. However, for the five-year period, USF's return on assets averaged 0.02, reflecting the impact of net loss positions for the years FY2017/18 and FY2018/19. USF's total assets over the period increased by $702.1 million (5.1 per cent), primarily reflecting a 15.3 per cent increase in funds held at the Accountant General's Department (AcGD) to $12.5 billion in FY2019/20 from $10.8 billion in FY2015/16. Over the review period, funds held at the AcGD accounted for an average of 80 per cent of the Fund's Assets, while cash and cash equivalents averaged 17 per cent of total assets.

2.8 The return on equity ratio, which indicates how well an entity uses its own funds to generate profits, exhibited for USF, a similar trend as that for the net profit margin over the period, moving to 0.04 in FY2019/20 from 0.09 in FY2015/16. Shareholder's equity remained positive over the period increasing marginally by 0.5 per cent to $13.5 billion in FY2019/20 as retained earnings remained positive, despite the two net loss positions during the period.

USF liquidity reflected a declining trend over the review period

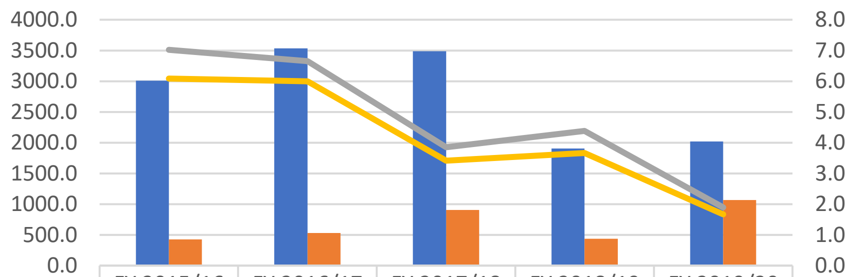
2.9 Both USF's current and cash ratios exhibited a declining trend over the five-year review period although the entity maintained adequate liquidity to cover its short-term obligations. The entity's liquid assets, which comprise cash and cash equivalents averaged 87 per cent of total current assets over the period. We noted that USF met the criteria established in the FAA regulations[12], which speaks to the attainment of a current ratio of at least 1.2 times. However, USF current ratio declined

---

[11] The return on assets ratio indicates how well management is employing the company's total assets to make a profit. The higher the return, the more efficient management is in utilizing its asset base.
[12] The current ratio of the public body (on a stand-alone basis or, if applicable, on a consolidated basis) is at least 1.2, where current ratio means current assets divided by current liabilities.

steadily to 1.89 FY2019/20 from 7.02 in FY2015/16, while the cash ratio exhibited a similar trend, falling to 1.67 in FY2019/20 from 6.09 in FY2015/16 (**Chart 4**). A sharp fall in the current ratio in 2019/20 resulted from a 145 per cent increase in payables to $1.0 billion from $435.4 million, the impact of which was only partly countered by a 5.98 per cent increase in current assets to $2.0 billion from $1.9 billion. A slight uptick in the ratio between FY2017/18 and FY2018/19, reflected a 51.9 cent decline in payables (current liabilities) to $435.4 million from $905.0 million, the impact of which was partly countered by a 48 per cent decline in cash and cash equivalents to $1.6 billion from $3.0 billion as the USF attempted to navigate through these two loss-making years. USF cash ratio reflected a similar trend given the cash and cash equivalents component of the ratio.

Chart 4: USF Balance Sheet Extract and Current and Cash Ratios FY2015/16 to FY2019/20



	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Current Assets ($JM)	3006.4	3533.9	3486.7	1907.3	2021.3
Short Term Liability ($JM)	428.3	531.0	905.0	435.4	1067.2
Current Ratio	7.0	6.7	3.9	4.4	1.9
Cash Ratio	6.1	6.0	3.4	3.7	1.7

Source: USF Financial Statements

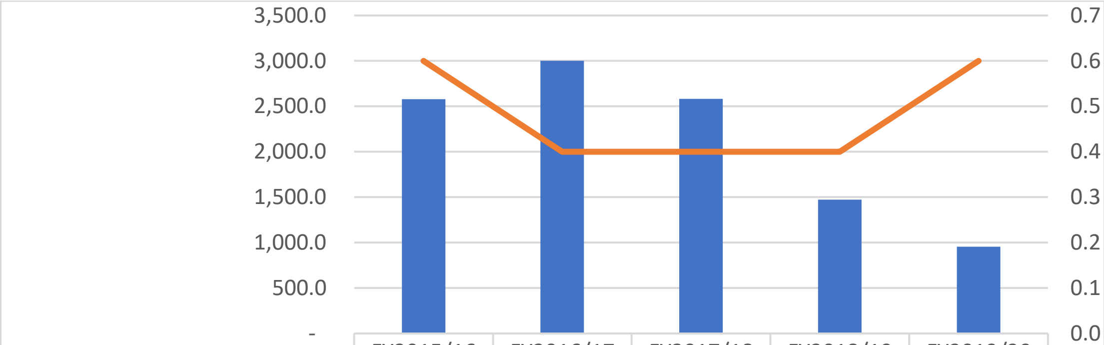
2.10 The deteriorating trend in the liquidity ratios over the five-year review period occurred in a context where the demand for USF to fund new projects has been increasing. Further, the ability of USF to support project funding was bolstered by exchange rate movements and did not represent an expansion in the sources of core income.

2.11 USF met the criteria established in the FAA regulations[13], which speaks to the attainment of a positive working capital. Working capital refers to the day-to-day management of an entity's short-term assets and liabilities. The working capital turnover ratio indicates whether a company has enough short-term assets to cover its immediate liabilities and upcoming operational expenses.

2.12 USF's working capital turnover ratio was 0.6 in FY2015/16 and remained relatively stable at an average of 0.5 over the period. This indicated that for each dollar invested by USF in working capital there was an average contribution of $0.50 towards total revenue. USF's working capital turnover ratio revealed that the entity had adequate funds to meet its short-term obligations (**Chart 5**).

[13] The positive working capital of the public body (on a stand-alone basis or, if applicable, on a consolidated basis) is at least 1.2, where current ratio means current assets divided by current liabilities.

Chart 5: USF Working Capital for FY2015/16 to FY2019/20



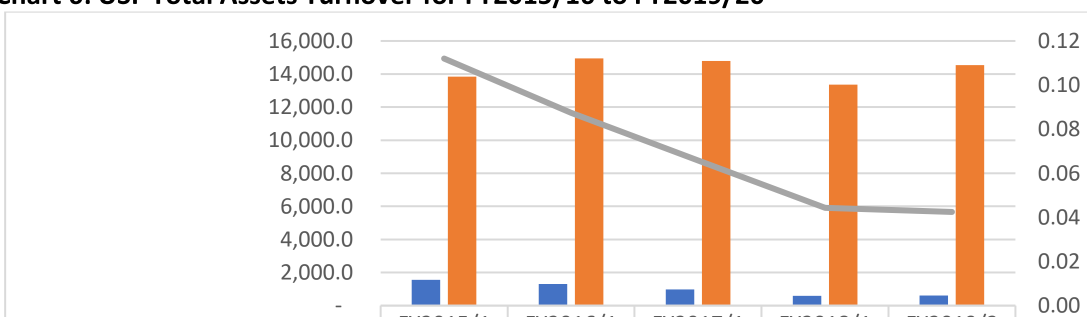
	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Working Capital ($JM)	2,578.1	3,002.9	2,581.7	1,471.9	954.1
Working Capital Turnover Ratio	0.6	0.4	0.4	0.4	0.6

Source: USF Financial Statements

Reduced efficiency in utilizing assets to generate revenue.

2.13 Total asset turnover ratio measures the value of a company's revenue generated relative to the value of its assets. USF's assets consist of property, plant and equipment, accounts receivables, and cash and cash equivalents. USF's total asset turnover averaged 0.35 over the review period, declining to 0.04 in FY2019/20 from 0.11 in FY2015/16 (**Chart 6**). The ratio declined in a context of the continued downward movement in revenue which outstripped the 5.1 per cent increase in total assets.

Chart 6: USF Total Assets Turnover for FY2015/16 to FY2019/20



	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Service Levy ($JM)	1,551.1	1,306.6	972.9	591.2	617.9
Total Assets (J$M)	13,845.7	14,943.4	14,792.0	13,354.4	14,547.8
Total Asset Turnover Ratio	0.11	0.09	0.07	0.04	0.04

Source: USF Financial Statements

USF debt ratios were generally low, despite a notable increase in the debt to total asset ratio

2.14 USF debt to asset and debt to equity ratios both ranged between 0.03 and 0.08 over the five-year period FY2015/16 and FY2019/20. The debt-to-asset ratio measures the portion of company assets that is financed by debt, while the debt-to-equity ratio, evaluates the capital structure of a company. A ratio that is greater than one, indicates that the entity is reliant on debt to support its operations. USF recorded low debt to asset ratios for the review period, based on its low levels of debt. USF debt ratios indicated that the entity was not reliant on debt to support its operations and despite dwindling cash resources, could finance its obligations. Notwithstanding, in FY2019/20, other liabilities increased two-fold because of increased payables associated with project expenditure, which saw the debt to total assets ratio increasing to 0.07 from 0.03 in FY2018/19, with this outturn being the highest for the review period (**Table 2**).

Table 2: Debt Ratios FY2015/16 to FY2019/20

	FY2019/20	FY2018/19	FY2017/18	FY2016/17	FY2015/16
Total Assets (J$M)	14,547.8	13,354.4	14,792.0	14,943.4	13,845.7
Total Liabilities (J$M)	1,067.9	438.0	908.2	534.3	428.3
Of Which: Payables (J$M)	*1,067.2*	*435.4*	*905.0*	*531.0*	*428.3*
Total Equity (J$M)	13,479.9	12,916.4	13,883.7	14,409.1	13,417.4
Debt to Assets	0.07	0.03	0.06	0.04	0.03
Debt to Equity	0.08	0.03	0.07	0.04	0.03

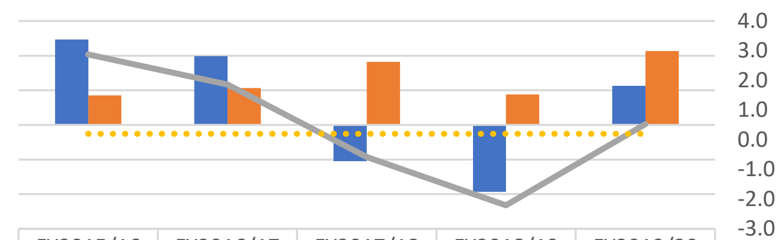
Source: USF Financial Statements and AuGD analysis

2.15 USF's debt to equity ratio was also low and followed a similar trend as the debt to assets ratio, attributable to the relatively high equity holdings of the entity. USF's equity consisted of a net capital contribution of $9.6 billion from its predecessor, the Universal Access Fund Company Limited (UAFCL), which was transferred by the Government upon the commencement of operations of the Fund in 2012. The other component of USF's equity, the accumulated surplus, averaged $4.0 billion over the period, despite the two net loss positions. The relatively low debt to asset and debt to equity ratios were not surprising, given that USF did not have any significant long-term debt, except for deferred tax liabilities which stood at $0.74 million at the end of FY2019/20, moving from $3.3 million in FY2015/16. Of note, USF's average long-term debt-to-equity ratio met the criteria for classification as a commercial entity under the FAA (FRF) Regulations.

USF solvency fell in the context of declining revenue

2.16 USF's solvency ratio, which measures the entity's capacity to meet its long-term debts obligations, displayed a steady decline for the first three years of the five-year period, before recovering to 0.53 in FY2019/20. This recovery was largely attributable to the depreciation of the Jamaica Dollar, which led to foreign exchange gains on translation (**Chart 7**).

Chart 7: USF Solvency Ratios for FY2015/16 to FY2019/20



	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20
Net Income (J$M)	1231.0	991.7	-525.4	-967.4	563.5
Total Liabilities (J$M)	428.3	534.3	908.2	438.0	1067.9
Solvency Ratio	2.9	1.9	-0.6	-2.2	0.5
Solvency Threshold	0.2	0.2	0.2	0.2	0.2

Source:USF Financials

Appendices

Appendix 1: Definition of Ratios

Activity Ratios

Working Capital Turnover ratio – refers to the ratio of revenue to working capital (current assets less current liabilities). This measures the company's efficiency in its use of working capital.

$$Formula = \frac{Revenue}{Working\ Capital}$$

Receivable Turnover ratio - refers to the ratio that measures the rate at which a company collects its accounts receivables.

$$Formula = \frac{Revenue}{Average\ Accounts\ Receivables}$$

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.

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

Debt and Solvency Ratios

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

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

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.

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

Solvency Ratio - refers to an enterprise's ability to meet its long-term debt obligations. It indicates whether a company's cash flow is sufficient to meet its long-term liabilities and thus is a measure of its financial health.

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

<u>**Profitability Ratios**</u>

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.

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

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.

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

Return on Equity-refers to the profitability of a business in relation to the equity. This indicates the efficiency of an entity at generating income from its equity financing.

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

Appendix 2: Criteria for Financial Standards - FAA Act (Amended) 2015, Regulations:

	Selected Criteria for Public Entities not forming part of the specified public sector (Financial Standards)	**Met/ Not Met**
1.	The auditor of the public body has expressed an unqualified opinion on the financial statements of the public body, including an opinion that the accounts comply with the International Financial Reporting Standards (IFRS).	Met
2.	Annual reports, including audited financial statements of the public body have been submitted in accordance with section 3(2) of the *Public Bodies Management and Accountability Act.*	Met
3.	The public body has, on average over the three preceding financial years, recorded a positive net profit after tax, on a stand-alone basis or, if applicable, on a consolidated basis.	Not Met
4.	At least one of the following provisions apply in respect of a public body -	
	a) The average long-term debt to equity ratio of the public body (on a stand-alone basis, or, if applicable, on a consolidated basis) over the three preceding financial years is no more than 2.5, where long term debt means debt that is due over a period that is longer than one year,	Met
	b) The positive working capital and current ratio of the public body (on a stand-alone basis, or if applicable, on a consolidated basis) is at least 1.2, where current ratio means current assets divided by current liabilities.	Met