

Ministry of Education

Financial Analysis and
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**2018: SB05**

MEMORANDUM TO: Superintendents of Business

FROM: Med Ahmadoun
Director
Financial Analysis and Accountability Branch

DATE: April 16, 2018

SUBJECT: Cash Management Strategy

The purpose of this memorandum is to provide more details on the regulation changes to subsections 11(3) and (4) of the Education Act in regards to the cash management strategy, referred to below as “the policy”. These changes were first communicated in Memoranda 2018:B06 Grants for Student Needs (GSN) for 2018–19.

Background

The ministry is updating the operating cash flow policy and procedures for school boards effective September 1, 2018 to reduce the associated borrowing costs currently incurred by the Province and to more closely align our practices to the OPS cash management directive. As a result of this change, part of the grant payments from the ministry will be delayed until the adjusted accumulated surplus and deferred revenue balances of school boards meet specified criteria. Boards impacted by this policy will report a grants receivable from the Province to track the amount of delayed payments. It should be noted that this is a change to cash flow only and the annual funding entitlements provided to school boards under the GSN will not be affected by this change.

Delayed Grant Payment Calculation

The Delayed Grant Payment Amount will be calculated using a sliding scale based on the “adjusted accumulated surplus and deferred revenue balance” (defined below) as a percentage of the annual operating allocation of each school board.

Adjusted Accumulated Surplus and Deferred Revenues (ASDR) Balance

The policy takes into consideration the size of accumulated surplus and deferred revenue balances, as well as some financial assets as reported in the most recent financial statements submission. As the policy is intended to provide a proxy of cash available to school boards, the ASDR balance shall be calculated as follows:

Total Accumulated Surplus (Deficit) plus Total Deferred Revenues

LESS

- Total Accumulated Surplus (Deficit) Unavailable for Compliance
- Committed Capital Projects
- Committed Sinking Fund Interest Earned
- Deferred Revenues - Third Party Grants – Operating
- Deferred Revenues - Third Party Grants – Capital
- Tuition Fees Receivable (First Nation)
- Long-Term Investments (Temporary Exemption)

As school boards have long-term investments which may carry penalties for early redemption, the temporary exemption for long-term investments will be as follows:

- Until the end of February 2019: where interest is pro-rated under the terms of the investment; or
- Until the investment matures: where there is a penalty or interest is lost entirely if redeemed prior to maturity.

Boards must provide the ministry with detailed information in regards to their long-term investment balances to determine the length of the temporary exemptions. Any new long-term investments, as of September 1, 2018 will not be excluded from the Delayed Grant Payment amount.

Sliding Scale

The **Delayed Grant Payment amount** is calculated using a sliding scale based on the ASDR Balance as a percentage of Operating Allocation:

- The portion of the ASDR balance equal to 5% or less of the operating allocation will not be subject to delayed grant payment.
- The portion of the ASDR balance between 5.01% and 10% of the operating allocation will be subject to delayed grant payment at a rate of 80%.
- Any portion of the ASDR balance exceeding 10% of the operating allocation will be subject to delayed grant payment in its entirety.

Implementation and Reporting

The Delayed Grant Payment amount will be in effect as of September 1, 2018. The calculation to support the delayed grant payment amount will be initially included in the 2018-19 Estimates EFIS forms, based on the information reported in 2016-17 Financial Statements. The Delayed Grant Payment amount will then be updated annually based on the most recent financial statements submitted by school boards.

Transfer Payment Adjustment

The Delayed Grant Payment amount will be applied as an adjustment to the regular monthly transfer payments, where applicable. The adjustment will begin in September 2018 and continue to apply until the full amount of the Delayed Grant Payment balance has been reached.

After the initial set-up of the Delayed Grant Payment amount, the annual change to the balance will be reflected in future transfer payments based on the latest financial statements submitted by school boards.

If you require further information, please contact Andrew Yang, Manager of the Financial Standards and Consolidation Unit, at (416) 325-4212 or andrew.yang@ontario.ca, or Patrick Pelletier, Project Manager, Financial Standards and Consolidation Unit at (416) 325-3314 or patrick.pelletier@ontario.ca.

Original signed by

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