



## AUDIT GUIDELINES FOR AGENCIES

For help accessing this document, please contact  
Toronto Children's Services  
10<sup>th</sup> Floor, Metro Hall, Toronto, Ontario, M5V 3C6  
Tel: 416-392-3336  
[toronto.ca/earlylearningpartners](https://toronto.ca/earlylearningpartners)

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## Purpose and Overview

The purpose of these guidelines is to provide guidance to Agencies that receive funding from the City of Toronto (the City) and are required to submit Audited Financial Statements (or if eligible a Review Engagement report). The purpose of this document is to assist auditors (Licensed Public Accountants (LPA)] and stakeholders<sup>1</sup> understanding of the Toronto Children's Services (TCS) requirements regarding what must be submitted when completing Independent Auditor or Review Engagement Reports. This guideline provides an additional resource to be used concurrently with the Budget Guidelines and other applicable Funding Application Guidelines<sup>2</sup>. It also provides information to Agencies on how the financial statements are used by TCS.

This guideline is intended as a resource only. If you need clarification, you may contact your TCS Budget Consultant or Budget Coordinator.

## Hiring a Licensed Public Accountant (LPA) - New

You may visit the [CPA website](#) for accounting and assurance standards, searching for a LPA, or reporting concerns regarding a Chartered Public Accountant (CPA).

In Canada, only LPAs, often referred to Auditors, may issue Independent Audit or Review Engagement Reports. It is the responsibility of the Board to ensure financial statement submitted to TCS include opinion reports certified by an LPA. For additional information regarding Public Accounting Licensing, please refer to [CPA Ontario](#), the oversight body regulating and enforcing professional requirements.

## What is an Audit?

An audit is an independent opinion on an agency's financial statements, which enhances the confidence of stakeholders with reasonable assurance. Auditors perform a review and examination of financial records and activities including assessing risk, design procedures to assess risk and to draw conclusions on the adequacy of controls, ensuring compliance with established policies, and procedures are compliant, in general, within an established framework. This may often entail recommending necessary changes in controls, policies, or procedures to meet objectives. The auditor is an independent third party and is responsible to express an opinion on the audited financial statements based on the audit document they prepare.

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<sup>1</sup> Board Members, Management, Bookkeepers and Auditors are all key stakeholders

<sup>2</sup> Guidelines and Reference Tools are provided in the "Resources" section of this document.

**It is the responsibility of the agency receiving funding from TCS to comply with our guidelines and terms and conditions of the funding agreement.** TCS guidelines and funding agreement information should be communicated to the key stakeholders, including bookkeepers and LPAs performing the audit engagement (Auditors) by the agency.

### **What is a Review Engagement (Independent Practitioner's Review Engagement Report)?**

A Review Engagement Report ("RER") is an independent review of financial records to ensure the financial statements are free from material misstatement. The review engagement provides a meaningful level of assurance to ensure that amounts in the financial statements are plausible, whereas an audit provides a high level of assurance. The LPA is responsible for expressing a conclusion on whether the financial statements are prepared in accordance with the applicable framework.

It is the responsibility of the agency receiving funding from TCS to comply with our guidelines and terms and conditions of the funding agreement. TCS guidelines and funding agreement information is communicated to the LPA performing the review engagement by the agency.

### Who must submit an Audited Financial Statement or Review Engagement to TCS? – New and Updated

In accordance with City policies and applicable Provincial guidelines, all centres are required to provide TCS with financial statements **within four months** of the agency's **fiscal year end** (listed in the chart below):

Funding Type	Annual Threshold	Financial Report Required
<ul style="list-style-type: none"> <li>• Fee Subsidy</li> <li>• 2018 &amp; 2019 One-Time Stability Grant (must be recognized as revenue by all Operators by December 31, 2020)</li> <li>• 2020 One-Time Stability Grant (must be recognized as revenue by all Operators by December 31, 2021)</li> </ul>	\$30,000	Audited financial statement
<p>Any combination of:</p> <ul style="list-style-type: none"> <li>• General Operating Funding (GOF)</li> <li>• Agency Operating Funding (AOF) Home Child Care</li> <li>• Provincial Wage Enhancement (PWE)</li> <li>• 1999-2005 Pay Equity</li> <li>• Minor Capital / Health and Safety Grant</li> </ul> <p><b>New:</b></p> <ul style="list-style-type: none"> <li>• <b>TCS COVID-19 Funding includes:</b> <ul style="list-style-type: none"> <li>○ <b>Mandatory Closure Period Funding</b></li> <li>○ <b>Extended Closure Period Funding</b></li> <li>○ <b>COVID-19 Revenue Gap</b></li> </ul> </li> <li>• <b>Safe Restart Funding</b></li> </ul>	\$20,000	Audited financial statement
<p>Any combination of: Provincial Wage Enhancement (PWE) and Home Child Care Enhancement Grant (HCCEG)</p>	\$20,000	Review engagement <b>(Available for Agencies with a fiscal year January 1, 2019 and thereafter)</b>
<p>Summer Day Program Funding</p>	\$20,000	Audited financial statement (Unaudited if less than \$20,000)
<p>Every Child Belongs (Special Need Resourcing) Funding</p>	\$20,000	Audited financial statement
<p>EarlyON Child &amp; Family Centres and Indigenous-Led Child and Family Programs</p> <ul style="list-style-type: none"> <li>• All Programs must submit audited financial statements, regardless of funding level</li> </ul>	All funding	Audited financial statement

When a location is part of a larger agency with more than one Location or service, the funding thresholds outlined above are set at Agency level.

### **Additional Required Revenue Disclosure – New:**

#### **Federal COVID-19 Financial Support**

As a result of COVID-19, Agencies may have received new funding sources and/or funding types to support operations.

At the Agency level all federal revenue types noted below may be reported as one consolidated revenue line item named "Other Grants/Funding" (or named appropriately for your Agency to distinguish this funding) in the Statement of Operations/Income Statement. See Appendix II for an example. However, itemized note disclosed to the financial statements is still required at the Agency level.

This itemized note disclosure must be reported by each Program (Group Child Care, Home Based Child Care, Every Child Belongs, and EarlyON Child & Family Centre and Indigenous-Led Child and Family Programs). See Appendix III for an example.

Federal supports and funding types that must be reported include:

- Canada Emergency Wage Subsidy ("CEWS")
- 10% Wage Subsidy for Employers ("10% WS")
- Canada Emergency Commercial Rent ("CECRA")
- Canada Emergency Rent Subsidy ("CERS")
- Canada Emergency Business Account ("CEBA")

#### **TCS COVID-19 Funding (within the Provincial Sustainability Funding approach)**

Mandated Closure, Extended Closure and COVID-19 Revenue Gap funding must be recognized in 2020 as revenue as it specifically relates to 2020 Operator expenses and it **may not be deferred**. These funding payments, net of the GOF applied (See Appendix IV), may be reported as one revenue line item. The payment for these funding types are found as past adjustment on the Statement of Account and relate to amounts identified on monthly invoices. See Appendix IV for an example invoice.

#### **Safe Restart Funding**

For the Safer Restart Funding (SRF) a separate note disclosure is required in the financial statements. The note disclosure must identify, at a minimum:

- total allocation **Received**
- total amount of funding **recognized** as **Revenue**
- total amount of funding **Deferred**, if not used by the end of fiscal year

As directed by TCS, SRF was not to be used by group child care for Minor Capital. Instead TCS directed child care centers to apply for a Minor Capital Grant. Therefore, any Minor Capital should be reported per your Agency's normal practice when a Minor Capital Grant was received.

For EarlyON Agencies the Safe Restart allocation included Minor Capital as an eligible expenditure.

### **Audited Financial Statement or Review Engagement Reports, Alternative Disclosure**

Alternative disclosure may be allowable in accordance within your agency's financial framework. The financial disclosures must include the amounts of funds received, receivable or deferred for each type of funding for the fiscal year.

Agencies who are unable to meet the financial statement submission deadline (within four months of the agency's fiscal year end) **must submit an extension request in writing to their Children's Services Budget Consultant**. The extension request should include the reason for the extension as well as the anticipated submission deadline. Failure to submit the required statements, in the specified format, may result in sanctions being applied, which include stopping advance payments.

Financial Statement submissions, whether audit or review engagement, are to contain an Independent Auditors Report (Opinion Statement) signed by the Licensed Public Accountant who is independent (3<sup>rd</sup> party) of the Agency. It is the responsibility of the Agency to confirm the auditor has a valid license to perform audits and/or review engagements in Ontario. Audit/Review Engagement Financial Statements submitted to TCS that are not signed by a LPA will be returned to the Agency as non-compliant with TCS reporting requirements and the Agency will be requested to resubmit, at their own expense and the expense will not be eligible as a per diem cost. For more information about Auditors, Audits and Review Engagements, please contact the Chartered Professional Accountants Association of Ontario.

Agencies will be required to **revise and resubmit** audited financial statements that:

- Do not comply with Canadian Auditing Standards;
- Are not prepared based on the appropriate accounting standards;
- Are not completed by a Licensed Public Accountant.
- Are not in compliance with TCS Audit Guidelines and financial reporting requirements,

### **Audit/Review Engagement Requirement upon Termination of Service Agreement<sup>3</sup>**

In the event that a Service Agreement between the Agency and the City of Toronto is terminated, audited financial statements are required from the first day of the agencies current fiscal year to the last day of operation. The final payment for the last month of operation will be held until the audited financial statements for the period are received and analysed as well as any other outstanding reporting requirements, and it is determined that no overpayment has been made. As outlined in Subarticle 3.6 of the Service Agreement:

"Upon termination of this Agreement, the Agency shall reimburse forth-with to Toronto any monies advanced by Toronto which are not expended in accordance with this Agreement."

### **Required Format for Audit or Review Engagement (Mandatory) – New & Updated**

The points listed below must be followed in order for either type of Financial Statements to be accepted:

- Revenue and expenses reported in the submitted financial statements are to be presented using the same categories listed in the budget submission. Agencies may be required to provide a separate report to reconcile the financial statements with the applicable budget.
- TCS introduced these requirements in the 2017 Audit Guidelines. Financial statement submissions must be in compliance with this format for periods beginning on or after January 1, 2019. Non-compliant submissions may not be accepted. Restatements will be at the Agencies expense and will not be accepted as an eligible expense for child care operations.
- The financial statements for Agencies that have more than one location or program must include a breakdown of revenue and expenses by location and/or program for the current and previous fiscal years. Those agencies, which operate in multiple jurisdictions, including but not exclusively in the City of Toronto, are also required to include financial statements or note disclosure, which illustrate the surplus/deficit for the beginning and end of the year and may be required to provide net assets/retained earnings by location at the request of Toronto Children's Services.
- All funding types received from TCS are to be reported separately from any other revenue sources (e.g. fee subsidy revenue, parent fees, general operating funding, grants etc.).

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<sup>3</sup>Terminations of Service Agreements are applicable for changes in control (including ownership changes) and corporate reorganizations, including such transactions as mergers and amalgamations.

- Agencies who received Provincial Wage Enhancement (PWE), Home Child Care Enhancement Grant (HCCEG), and/or 1999 – 2005 Pay Equity are required to present funding and expenditures in the note disclosure to the financial statements (audited or reviewed). If note disclosure is not provided then a special consideration report (formerly identified as special purpose report) must be submitted supplementing the financial information contained in (audited or reviewed) financial statement. The report must be signed by the same licensed public accountant verifying the funding has been used for the purpose(s) intended. The disclosure must be included as part of the agency's financial statements reconciling grant and/or pay equity payments against actual expenditures. Example disclosure presented in Appendix V or refer to the Provincial Wage Enhancement Guidelines.
- In accordance with the requirement stated above, the agency's financial statements must provide a breakdown of staffing costs by reporting salary expenses and benefit expenses separately.
- The audited financial statements must be audited in accordance with Canadian Auditing Standards and the financial statements must be prepared using the appropriate accounting standards.
- The audit and review engagement must include four main statements (Statement of Financial Position/Balance Sheet, Statement of Operations/Income Statement, Statement of Change in Equity/Statement of Change in Net Assets and Cash Flow Statement) and note disclosures.
- The LPA is responsible to form an opinion (or a conclusion for a review engagement) on the financial statements and issue a report in compliance with Canadian Assurance Standards. Agencies will be required, by TCS, to revise and resubmit financial statements that do not comply with the Canadian Auditing Standards and/or the required format as outlined in these guidelines.
- When an agency receives a management letter from an LPA, the agency is required to upload a copy of the management letter and a copy of management's written response to the LPA

## Qualified Audit Opinion

In cases where the LPA is unable to gather sufficient evidence for various aspects of the financial statements, a qualified or reservation opinion may be given due to the limitation of scope. Without sufficient verification of transactions, an LPA may be unable to issue an unqualified opinion.

TCS will review the qualification to determine whether the issues raised by the LPA comply with our guidelines. Any qualification may require further review by TCS and may result in sanctions applied from TCS to the Agency. TCS may request more information from the agency during this subsequent review.

## **Sanctions and Penalties - Updated**

In order to effectively manage Agency financial reporting obligations, TCS will implement sanctions and penalties for non-compliance with business cycle deadlines.

Agencies who are unable to meet the audit submission deadline must submit an extension request in writing to their Children's Services Budget Consultant. The extension request should include the reason for the extension as well as the anticipated submission deadline. Failure to submit audited financial statements will result in sanctions being applied, which may include stopping advance payments or placing holds payments.

Agencies who fail to submit required financial statements, reports and other supporting documents on a timely basis may be subject to the following sanctions and penalties:

- Forfeit their funding increases or grant eligibility if no submission is received by budget/grant deadlines
- Payment Schedule adjusted from Quarterly Advances to Monthly Advances
- Payments suspended until issue is resolved
- Further sanctions including, but not limited to termination of the Service Agreement between the City of Toronto and the Agency, the recovery of funds, and no consideration for expansion of locations or service levels

## **Agency Responsibility - Updated**

An agency's Board of Directors and/or management has the responsibility for overseeing the agency and its financial matters. This important duty of financial oversight encompasses a large scope of responsibilities including fulfilling reporting responsibilities, establishing compensation, approving the annual budget and expenditures, and monitoring revenue. The overall goal of the Board of Directors and/or management includes, but are not limited to:

- Establishing and ensuring the agency's compliance with proper financial systems and controls;
- Regularly evaluating the agency's financial health and viability;
- Ensuring compliance with the Service Agreement;
- Ensuring the Agency's compliance with the financial reporting obligations as per TCS budget and funding guidelines; and

Ensuring that there is a signed contract in place prior to the commencement of any audit or review procedures that outlines the terms of the audit or review engagement, and that the Canadian

Chartered Professional Accountant is a member, in good standing, and holds a valid Public Accounting License in Ontario (other Canadian jurisdictions are allowable). For non-profit agencies, it is important that the Board composition should include some members that possess finance experience and that all Board Members possess enough financial literacy to understand basic terminology, read and evaluate financial statements, and be able to ask the right questions in determining the financial viability and compliance with the Service Agreement.

It is important to acknowledge that the agency, bookkeepers and Auditors have different roles and responsibilities within an agency so that there is a segregation of duties:

- Agency is responsible for the overall financial health, ongoing viability of the program/centre and all requirements of the Service Agreement;
- Bookkeepers (appointed by the agency) are responsible for recording transactions;
- LPA / Auditor (appointed by the agency) is an independent third party responsible for issuing an opinion on the financial statements.

It is important to appoint Bookkeepers and LPAs that have knowledge of Early Learning and Child Care, including EarlyON Services, sector funding mechanisms, as well as TCS Service Agreement and reporting requirements.

### **Audit and Review Engagement - Financial Statements and Document Upload - New**

A new module is available for all agencies, to upload Audited Financial Statements, Review Engagement Report, Management Letter and supporting Audit/Review Engagement documents. Agencies are able to begin using this new efficient method of submitting financial information starting with their 2019 fiscal year.

All 2020 Audits are to be uploaded through the new document upload feature.

The upload can be accessed through Online Services for Operators, in Applications, under the "Financial" tab. Children's Services has also provided a training video to support the learning process for this new feature. The Financial Document Upload video can be found in the Operator's portal financial landing page under Tips, Tricks & Help,

### **Approval of the Financial Statements - Updated**

The financial statements or review engagement report must be signed by the Operator (for commercial agencies) or by two Signing Officers (for non-profit agencies). For non-profit agencies, the signing officers are members of the Board of Directors, which are listed on the Form 1, Schedule A –

Ontario Corporation Initial Return/Notice of Change. The Supervisor or Executive Director is not a member of the Board of Directors and as such, their signatures are not acceptable.

Agencies are required to maintain an up-to-date Form 1 – Ontario Corporation and Schedule A, filed with the Ministry of Government Services. Please note that Children's Services may request Agencies to provide a current copy of the Form 1 and Schedule A's as a part of the Agency review processes.

Non-profit agencies shall submit a copy of their Annual General Meeting (AGM) Minutes each year. The minutes shall include the approval of previous year's AGM minutes, approval or availability of previous years audited financial statements, election of the Board of Directors and appointment of the auditor.

### **Toronto Children's Services (TCS) Financial Statement Analysis**

TCS uses the financial statements as a mechanism to ensure accountability for the use of public funds, which the City provides to agencies. The agency shall use the funds provided only for the expenses that directly support the provision of child care and early year services and as outlined in the approved budget and program budget guidelines. Note that there are a number of different budget guidelines and they are individual by program type, i.e. Group Child Care, Home Child Care, EarlyON, Every Child Belongs (Special Needs Resourcing) as well as, guidelines for other specific funding types, such as General Operating Funding (GOF), and Provincial Wage Enhancement (PWE). City funding must be used to provide services within the City of Toronto boundaries and are not permitted to support programs outside of the City of Toronto. Financial statements, which include an Independent Auditor Report or Independent Review Engagement Report, provide TCS with independent (3rd party) verification on the use of public funds.

TCS also uses the financial statement submission to compare actual to budgeted revenue and expenses in order to support the following year's budget submission. Variances between budget and actuals (as per audited financial statements) provide TCS with useful information regarding changes that may have occurred during the year and identify areas where additional support/capacity building may be needed.

Analysis of financial statements entails a review by TCS of amounts reported in revenue and expense categories by the agency compared to the approved budget or funding guidelines to ensure public funding has been used for the purpose for which it was provided. Audit analysis also includes a review of the financial health of an agency and is used to determine any surplus/deficit and any potential recovery. Comparing budgeted amounts to the amounts in the audit will identify any significant variances requiring follow-up.

## **T4 Visit and Salary & Benefit Analysis - Updated**

Salaries and benefit costs represent approximately 80% of expenses in child care and early year services, therefore specific detail is required related to this category and particular emphasis will be given to this area during TCS analysis. A review of T4s and analysis of salaries and benefits in the audited financial statements will highlight any of the following issues:

- Compliance with legislative requirements such as minimum wage
- Significant variances from T4s to budgeted salaries
- Any payments to staff (including but not limited to dividends and bonuses) as part of total compensation, which will be compared to budgeted salaries and maximum allowable salaries in the guidelines. Payments in excess of what has been approved in the budget or in excess of TCS salary maximum may result in a recovery
- Using General Operating Funding in accordance with guidelines and approved implementation plans. **Note:** Further information about the General Operating Funding (GOF) is detailed in the General Operating Funding Guidelines for Child Care Centres with a Service Agreement for Fee Subsidy on the website. The document includes definitions that will explain the GOF Funding component.
- Identify over/under-staffing or efficiencies or inefficiencies
- Composition between casual and permanent staff
- Reasonableness of central allocated administration in the budget compared to actual T4 for staff

In the event that any issues or concerns about the use of public funding are noted during this analysis, TCS may request additional information from the agency, and may apply sanctions, if there is a concern or evidence that funding has not been applied as approved.

During the performance of TCS financial statement and/or T4 analysis, additional information may be requested as per the Service Agreement, Section 5, REPORTS, 5.1 (e). Schedules reconciling T4 information to year-end financial statements, on a location-by-location basis and/or program, may be requested as well as other documentation, as required.

## **Prescribed use of City Funding**

The City of Toronto, through Children's Services, is accountable, through legislation, for the funding and the policy decisions that determine funding for agencies. Given their key role in providing and supporting child care and early year services, agencies have important accountabilities to the community and the City. A basis of the child care system is the principle that agencies have a responsibility to ensure the effective use of City Funding and of other funding agencies, where

applicable. Thoughtful, transparent budgeting, aligned with a focused strategy, is vital and integral to this goal.

Agencies who have a contract with TCS are not permitted to distribute public funding to any individuals or corporations, that do not directly support the provision of child care and early year services as approved in the annual budget submission. Allowable operating surpluses are expected to be retained for future use for child care and early year services and are not to be transferred to other corporations or entities.

Although certain transactions may be presented in accordance with appropriate accounting standards in the agency's financial statements, and comply with Provincial or Federal legislation governing commercial or not-for-profit corporations, funding must be used in accordance with the terms of the Service Agreement Subarticle 4.2 as stated:

"The Agency shall use the funds provided by Toronto pursuant to Subarticle 4.1 only for the specific purpose for which the funds are provided, and in accordance with the budget submitted by the Agency."

**Transactions not funded by the City include, but are not limited to – Updated:**

- Loans to employees, shareholders, board members, directors, related parties/corporations, etc., including transactions that occur between fiscal year ends are not reflected in the financial Statements
- Advances to shareholders, directors, related parties/corporations, etc.
- Funds used to pay for expenses that do not directly relate to the child care centre or program for which the funding has been provided (e.g. expenses incurred by shareholders, other child care centres/programs, related parties/companies, etc.), this may include inter-company transfers, allocations or chargebacks, or drawings on equity
- Funds used for child care and early year services provided outside of the City of Toronto
- Funds used for child care and early year services in the City of Toronto for programs/locations that do not have a contract, or are a service agreement with the City of Toronto
- Bad debt expenses
- Goodwill write-off
- Loan interest
- Principle portion of a loan/mortgage
- Personal vehicle expenses or maintenance for vehicles, insurance, gas
- Head office rent

- School bus expenses (including insurance)
- Associated business enterprises including a charity of the agency
- Other costs not included or approved as per budget/funding application guidelines or that do not directly support the provision of services to children and families in the City of Toronto
- Repayments to Children's Services for recoveries
- Transaction related to prior fiscal years.
- Any expenses over and above the threshold set in the budget/funding application guidelines
- Canada Emergency Business Account (CEBA) loan repayments and/or CEBA loan forgiveness. It is the responsibility of the operator to provide appropriate evidence, if repayments are from sources other than TCS funding and/or; the loan was utilized for expenses which were not funded by TCS

Payments or loan forgiveness to other COVID-19 relief programs such as Canada Emergency Business Account ("CEBA") loan repayments and/or CEBA loan forgiveness or Canada Emergency Rent Subsidy ("CERS").

Any of these expenses will be disallowed during audit analysis and could potentially lead to a recovery of funding by TCS.

## **Dividends**

TCS recognizes that a commercial agency may issue dividends in accordance with the Corporations Act. In the event that dividends are issued, TCS requires that the agency submit the T5 to the Budget Consultant and/or Budget Coordinator. The dividends paid will be included as the total compensation during TCS analysis, which cannot exceed the TCS budget/funding application guidelines. Any excess over the approved budget submission and/or the budget/funding application guideline maximum will be disallowed and may result in a potential recovery.

## **Audited financial statements - Surplus / (Deficit)**

Agencies are encouraged to accumulate a surplus not exceeding three months of average operating expenses in order to meet unforeseen contingencies. Agencies are to follow-up with their Consultant and may be required to submit a plan to the Budget Consultant for the use of any accumulated surplus (that exceeds three months of average operating expenses) identified in the audit for City funded programs. The expectation of the agency is that the surplus is reinvested into the program it was intended for through the submission of the annual operating budget and used to support the provision of child care and early year services.

**A surplus in an Agency's fiscal year**, that exceeds 10% of allowable revenue, may result in a

recovery if an overpayment has occurred.

- Agencies receiving **Every Child Belongs (Special Needs Resource)** program funding will be required to reimburse the City for any surplus for the full amount of program underspending.
- Agencies receiving **EarlyON and Indigenous-Led Child and Family Programs** funding will be required to reimburse the City for any surplus for the full amount of program underspending.

When an agency has incurred a deficit, TCS will review the audited financial statements during the audit analysis and if necessary, will request a business plan. TCS will analyze the impact on financial viability of any going concern issue and consider the materiality of the deficit as well as changes over the prior year. The business plan should be realistic and identify how the deficit will be addressed in the following fiscal year.

## Overpayment and Recovery

The agency must inform their Budget Consultant immediately of any overpayments made by the City, which is to be returned to the City within a pre-arranged period. Any overpayment determined through a grant reconciliation shall be returned with a signed reconciliation statement. The grant reconciliation will also be reviewed with the audited financial statements and/or review engagement.

TCS may also determine that a recovery is required through the following:

- T4 analysis
- Audited financial statement analysis (for up to 7 prior fiscal years)
  - Excess of 10% operating surplus in the fiscal year;
  - Accumulated surplus exceeding a reasonable amount that is not being reinvested into child care and early year services;
  - Transactions not funded by the City;
  - Underspent funding related to Every Child Belongs (Special Needs Resource) programs or EarlyON & Indigenous-Led Child and Family Programs
- Inconsistent operating capacity resulting in General Operating Funding change or not used in accordance with the guidelines and/or implementation plans, if applicable
- Per diem recovery (when TCS determines an agency's per diem is higher than their public fee)

Any expenses not funded by the city as mentioned in this guideline will increase the surplus and lead to a potential recovery, which will be adjusted, to reflect the percentage of City Funding to total revenue. A repayment plan is negotiable on an individual basis, which considers timely repayment as well as the agency's ability to pay. TCS may withhold final monthly payments to recover the amount as determined through the recovery calculation.

Any unspent or surplus funds identified in the audit will be recovered either through a recovery or a reduction in subsequent payments.

## Resources

There are a number of resources available to support Agencies with the responsibilities to manage a child care and early year's operation. TCS staff are available to support any interpretation needed for budget and operating guidelines and for any audit or recovery process questions. Please contact your Budget Consultant for any support needed.

The following websites may also be used to access additional information:

- Children's Services for Operators – [toronto.ca/earlylearningpartners](https://toronto.ca/earlylearningpartners)
- [Budget and General Operating Funding Guidelines](#)
- [COVID-19 Resources](#)
- Chartered Professional Accountants of Canada- [cpacanada.ca](https://cpacanada.ca)
- Chartered Professional Accountants of Ontario - [cpaontario.ca](https://cpaontario.ca)

**APPENDIX I**

**Recovery Calculation Sample**

<b>Information from Audit Analysis "Statement of Operation/Income Statement Analysis" form:</b>		
Allowable Revenue	\$1,237,427	A
Allowable Expenses	\$1,097,853	B
<b>Operating Surplus \$</b>	<u>\$139,574</u>	C = A-B
<b>Operating Surplus %</b>	11.28%	
<b>Information from Statement of Account and Payment Summary:</b>		
Parent Portion of Fees	\$69,302	D
Net Amount (Subsidy Fees)	\$698,235	E
General Operating Funding	\$20,007	F
<b>Total Fee Subsidy &amp; GOF</b>	<u>\$787,544</u>	G = D+E+F
<b>Recovery Calculation:</b>		
City Funding % of Allowable Revenue	63.64%	H = G/A
10% of the Allowable Revenue	\$123,743	I = Ax10%
Excess Operating Surplus over Allowable Revenue	\$15,831	J = C-I
<b>Recovery Amount</b>	<u><u>\$10,076</u></u>	K = HxJ

**All revenue identified in Appendix III will be removed from an Audit recovery calculation on both the expenditure and revenue side.**

**APPENDIX II**

Example of a Statement of Operations/Income Statement that includes new funding types

<b>Revenue</b>	
Full Fee	\$200,000
Fee Subsidy	\$150,000
General Operating Fund	\$40,000
Provincial Wage Enhancement	\$25,000
One-Time Stability Grant 2019	\$10,000
One-Time Stability Grant 2020	\$10,000
<b>TCS COVID-19 Funding</b>	<b>\$20,000</b>
<b>Safe Restart Funding</b>	<b>\$15,000</b>
<b>Other Grant/Funding (for example Federal supports)*</b>	<b>\$44,000</b>
Other Income	\$5,000
<b>Total</b>	<b>\$519,000</b>

**\*This example shows consolidated line items for new funding types, alternatively all individual funding types may be reported as separate revenue lines**

**APPENDIX III**

**Example of an itemized Note Disclosure by Program type**

Other Grant/Funding	Federal Supports and Non-TCS Funded Grants					Total
	Group Child Care Centre	Home Child Care	Every Child Belongs	EarlyON & I-L	Other-Non TCS funded	
Canada Emergency Wage Subsidy ("CEWS")	\$20,000	\$8,000	\$2,000	\$3,000	\$0	\$33,000
10% Wage Subsidy for Employers ("10% WS")	\$0	\$0	\$0	\$0	\$0	\$0
Canada Emergency Commercial Rent ("CECRA")	\$5,000	2,000	\$0	\$0	\$0	\$7,000
Canada Emergency Rent Subsidy ("CERS")	\$0	\$0	\$0	\$0	\$0	\$0
Canada Emergency Business Account ("CEBA")	\$0	\$0	\$0	\$0	\$0	\$0
Other grant(s)					\$4,000	\$4,000
<b>Total</b>	<b>\$25,000</b>	<b>\$10,000</b>	<b>\$2,000</b>	<b>\$3,000</b>	<b>\$4,000</b>	<b>\$44,000</b>

Total \$44,000 matches to Statement of Operations/Income Statement in the "Other Grant/Funding" revenue line

## APPENDIX IV

### Sample invoice with past adjustments related to TCS COVID-19 Funding

2020 approved GOF was paid as in prior years, on a quarterly basis, as shown on the Payment Summary Report. GOF identified on Invoices (in this example on the May 2020 invoice) shows how much of GOF Funding was applied against "Fixed Costs, Mandated Closure Period (Rent) – 25% and Salaries & Wages, CEWS" calculated for the period.

The payment for Mandated Closure, Extended Closure and COVID-19 Revenue Gap are found as Past Adjustment (PA) on the Statement of Account and relate to amounts identified on monthly invoices, **net of GOF**.

Example: Invoice for May 2020:

	Amount	Remarks
Past Adjustment (PA)	(\$20,777.21)	64 Days of GOF during Closure Period applied against eligible expenses
Past Adjustment (PA)	\$14,364.57	Fixed Costs
Past Adjustment (PA)	\$2,931.30	Mandated Closure Period (Rent) - 25%
Past Adjustment (PA)	\$17,042.68	Salaries & Wages, CEWS

### Sample invoice for May 2020:



GROUP CENTRE DAYCARE  
Invoice for Child Care Services during May, 2020  
and any applicable adjustments

Field Office :   
 Ward :   
 Group Centre :   
 Agency : 

Payment Support Assistant : PRODUCTION ACCT, CSIS Phone #. E-mail: tcsinvoic@toronto.ca

Service	Program	Children Served	Total Days	Per Diem
<b>GENERAL ATTENDANCE</b>				
542146	1320 TOD FULL TIME	11	0	
469400	1330 PS FULL TIME	30	0	
<b>ENROLMENT TOTAL</b>		<b>41</b>	<b>0</b>	
<b>GROUP CENTRE TOTAL</b>			<b>0</b>	

**ADVANCE PAYMENT**

**PAST ADJUSTMENT TOTAL**

Past Adjustment	-\$20,777.21	64 DAYS OF GOF DURING CLOSURE
Past Adjustment	\$14,364.57	FIXED COSTS
Past Adjustment	\$2,931.30	MANDATED CLOSURE PERIOD (RENT) - 25%
Past Adjustment	\$17,042.68	SALARIES & WAGES, CEWS

**APPENDIX V**

**Provincial Wage Enhancement (PWE) and Pay Equity**

A Note disclosure must be included with the audited financial statement / review engagement when an agency receives more than \$20,000 in aggregate funding through the City of Toronto in the agency’s fiscal year. This note is also required to have a cross-reference from the financial statements. Please see below for a sample note format.

**Example of the note disclosure to the Financial Statements Relating to "Pay Equity and PWE Grants"**

<b>Note</b>	<b>Pay Equity 1999 – 2005</b>	<b>Provincial Wage Enhancement (PWE)</b>
Deferred from prior years <sup>(1)</sup>		
Received in this Fiscal Year <sup>(2)</sup>		
Pay Equity/PWE expensed in this fiscal year according to the guidelines <sup>(3)</sup>		
Pay Equity/PWE returned to Children's Services this fiscal year <sup>(4)</sup>		
Pay Equity/PWE deferred to future years $(1) + (2) - (3) - (4)$		

A new module is now available for all agencies to upload their Audits, Review Engagement Report, Management Letter and Audit supporting documents beginning with the 2019 Fiscal year. Prior to starting, please review the guide and video available under Tips, Tricks & Help on the Financial page in Online Services.