2025 FUNDING RECONCILIATION GUIDELINES FOR AGENCIES

(FORMERLY AUDIT GUIDELINES FOR AGENCIES)

For help accessing this document, please contact
Toronto Children's Services
10th Floor, Metro Hall, Toronto, Ontario, M5V 3C6
Tel: 416-392-3336

Link to Document: [Contract & Financial Information – City of Toronto]

Updated January 2026

Contents

1. Purpose and Overview

The purpose of this document is to support Agencies that receive funding from the City of Toronto (the "City") and are required to submit Audited Financial Statements and, where applicable, Standardized Financial Reports (the "SFRs"). This document is intended to assist board members, management, bookkeepers and auditors in understanding Toronto Children's Services' ("TCS") requirements, objectives, and expectations related to the use and reporting of public funding. These guidelines are to be used alongside TCS funding and application guidelines and the Ministry of Education (the "Ministry")'s child care guidelines, including the CWELCC Cost-Based Funding Guideline. This document also explains how TCS uses Agency's submissions to support reconciliation and recovery.

This guideline is intended as a resource only and **the Agency has sole responsibility for adequate use of this document**. Additionally, while this document is intended for all Agencies required to submit Audited Financial Statements and Standardized Financial Reports, there may be sections which do not apply to all Agencies.

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 by the Agency.

<u>Important Note:</u> These Funding Reconciliation Guidelines may be subject to change as a result of Provincial directives, programming changes or Consolidated Municipal Service Manager funding requirements. Agencies are required to comply if Toronto Children's Services requires any further documentation to support compliance with the Service Agreement.

2. [NEW] Standardized Financial Reports (SFRs) Requirements

2.1. What Are Standardized Financial Reports (SFRs)?

Standardized Financial Reports (SFRs) are financial submissions required under the Canada-Wide Early Learning & Child Care (CWELCC) Cost-Based Funding guideline. As part of these requirements, the Ministry mandates that TCS collect standard financial reports and annual attestation from Agencies receiving CWELCC Cost-Based Funding.

Following each calendar year-end, Agencies must prepare and submit SFRs for all eligible centres, reporting eligible costs incurred from January to December for the applicable year.

The SFRs include a detailed breakdown of eligible costs and are essential for assessing compliance with eligibility and funding rules. The SFRs help TCS to:

- Identify costs that may not qualify for cost-based funding
- Support year-end reconciliation and calculation of overpayments for recovery

Each SFRs must include an **annual attestation** signed by an officer with appropriate signing authority as required by the Ministry. This attestation confirms that cost-based funding has been used in accordance with its intended purpose.

Important Note: For 2025, information for the SFRs will be collected by TCS through two channels: (1) an online submission in the Operator Portal, including the annual attestation, and (2) an online survey. Unless otherwise specified, references in this document to the SFRs encompass submission through both channels.

2.2. SFRs and Reconciliation

Information submitted through the SFRs will be used to compare the funding provided to an eligible centre/agency against the eligible centre's/agency's **Actual Cost-Based Funding** for the calendar year, and to identify and recover any overpayments.

Actual Cost-Based Funding
= Actual Program Costs - Actual Base Fee Revenue Offset + Actual Amount In Lieu of Profit/Surplus (*see Appendix V for definitions)

If total Cost-Based Funding disbursed to an eligible centres/agency, net of any in-year recoveries, **exceeds** the Actual Cost-Based Funding, the resulting overpayment is subject to recovery by TCS.

2.3. Who must submit Standardized Financial Reports?

For group child care centres, all centres that receive Canada-Wide Early Learning and Child Care (CWELCC) cost-based funding in a calendar year are required to submit a SFRs after the end of that calendar year. Each centre must submit its own SFRs.

For home child care, agencies may submit the SFRs at the agency level.

2.4. Prescribed Use of Funding: Attributable, Appropriate and Reasonable Standards

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. Agencies have a responsibility to ensure that funding received from the City is used effectively, and, in accordance with its intended purpose.

Agencies must ensure that all costs submitted in their SFRs qualify for CWELCC cost-based funding and meet the following criteria, as outlined in the Ministry's CWELCC guideline:

- Attributable to the provision of child care included in the base fee for eligible children;
- Appropriate for the provision of child care for eligible children; and
- Reasonable in quality and amount, having regard to all relevant circumstances.

Any ineligible costs must be removed from the eligible cost submissions in the SFRs.

Ineligible costs include, but are not limited to:

- **Unattributable expenses**: costs that are not used for providing child care, or, not covered by base fees.
    - Funds used for child care and early year services provided outside of the City of Toronto; except for the CWELCC funding that has been provided for licensed home child care outside of the City of Toronto.
    - Funds used for child care and early years services in the City of Toronto for programs/locations that do not have a Service Agreement with the City of Toronto.
    - Costs used for children who are ineligible for CWELCC fee reduction (see section 2.5)
    - Personal vehicle expenses or maintenance for vehicles, insurance, gas.
    - Other costs not included or approved as per funding application guidelines or that do not directly support the provision of services to children and families.
- **Inappropriate expenses**: costs that are not necessary, or that a reasonable person would not expect to be needed when operating a similar child care business.
    - Costs deemed to be in lieu of profits (such as year-end performance bonuses for the controlling owner or royalty fee remitted based on profit).
    - Costs funded by another public source or reimbursed by another source (such as by other government funding, recoveries from insurance, donations, non-base fees etc.).
- **Unreasonable expenses**: costs that are higher than what a reasonable person would normally spend when operating a comparable child care business.
    - Financing costs exceeding Canada Small Business Financing program rates
    - Accrued interest on shareholder equity.
    - Losses resulting from the sale of tangible capital assets purchased with cost-based funding (while gains from such sale must reduce the eligible costs).
    - Mortgage Principal and Interest payments, if the mortgage is on facilities not actively used to deliver child care in the base fee (for example, the facility is vacant).

- **Other exclusions:**
    - Capital Renewal for Major Repairs of Sites of Existing Spaces
    - Amortization or depreciation related to assets purchased after August 14, 2025
    - Amortization or depreciation expenses related to capital assets for which mortgage principal payments have been claimed
    - Income taxes
    - Penalties, fines, forfeitures, or liquidated damages
    - Repayments to Children's Services for recoveries
    - Costs attributable to other reporting periods
    - Expenses related to eligible children in a school age program (see section 2.5)

Agencies are responsible for ensuring that expenses are claimed only once in the SFRs. Expenses must not be duplicated across categories or funding sources, including, but not limited to, claiming both mortgage principal payments and amortization or depreciation for the same capital asset, or claiming expenses that have been reimbursed or covered by another public funding source, donations, or insurance. Any duplicated or ineligible expenses identified through the audit process will be excluded from cost-based funding and may be subject to recovery.

In assessing whether costs are “eligible”, TCS may consider factors including, but not limited to:

- What other Agencies usually pay for the same goods or services, obtained through arm’s-length transaction;
- What similar child care programs spend on comparable expenses;
- The size and demonstrated needs of the Agency; and
- Whether a careful, responsible child care operator would see the cost as necessary and not excessive.

It is the Agency’s responsibility to demonstrate that a cost is eligible. If the Agency cannot demonstrate this reasonably, TCS may deem part or all of the cost ineligible for cost-based funding, which may result in a funding recovery.

2.5. CWELCC Eligible / Ineligible Children in Eligible and Ineligible Programs

This section applies to:

- CWELCC eligible children enrolled in CWELCC ineligible programs, and
- CWELCC ineligible children enrolled in CWELCC eligible programs

For CWELCC eligible children in a school age program at a CWELCC enrolled centre,

- Only expenses for eligible children in eligible programs (Infant, Toddler, Preschool and Kindergarten) are considered as eligible expenses
- For 2025, all CWELCC-eligible children occupying a school-age space at a CWELCC-enrolled centre must be charged $22 per day (or less). TCS will fund the difference between the $22 per day (or less) parent fee and the operator's school-age fee. Any related revenue and expenses for the CWELCC eligible children in school-age programs fall outside the cost-based funding model, and related expenses should not be included in eligible expenses in SFRs.

For CWELCC ineligible children in a preschool or kindergarten program at a CWELCC enrolled centre,

- Expenses associated with ineligible children are not considered as eligible expenses

2.6. Related Party Transactions

The Audited Financial Statements should disclose the following information about the Agency's transactions with related parties:

- Description of the relationship between the transacting parties;
- Description of the transactions, including those for which NO amount has been recognized;
- The recognized amounts of the related party transactions, classified by financial statement categories (including, but not limited to, operating expenses such as occupancy costs or rent; equipment or other leasing costs; franchise or royalty fees; consulting, advisory or management fees and expenses; branding, outreach, marketing or communication expenses; research or evaluation expenses travel; meal or entertainment expenses; honoraria or stipends; other contracted services; equipment or other asset purchases; or any other costs incurred with related parties);
- The measurement basis used; (e.g. fair market value, exchange amount, carrying value, etc.);
- Amounts due or from related parties and the terms and conditions relating thereto;
- Contractual obligations with related parties, separate from other contractual obligations; and
- Contingencies involving related parties, separate from other contingencies.

The Standard Financial Reports (specifically the Survey submission) also require disclosure of related party transactions.

All Agencies must demonstrate that their related party transactions are reasonable and must maintain supporting documentation for review upon request. In the absence of satisfactory evidence that a related-party transaction is attributable, appropriate, and reasonable, TCS will deem part or all of the cost ineligible for cost-based funding, which may result in a funding recovery.

2.7. Prepayment and Deferrals

Agencies should only report expenses that were actually incurred for services provided during the funding year. Costs that have not yet been incurred, prepaid expenses where services have not yet been received, deferred revenue, and accrued liabilities without a clear and supportable obligation must be properly accounted for and must not be included as eligible expenses.

Agencies must follow proper accounting rules and keep clear proof (ex. contracts, invoices, or other documents) showing that each cost relates to services received in the correct reporting period. Costs that do not relate to the correct reporting period may be treated as ineligible and subject to recovery.

2.8. Overhead / Indirect Costs Allocation

If an Agency has overhead or indirect costs (such as central administration, rent, shared utilities, insurance, accounting fees etc.) that benefit more than one centre or business, or benefit both CWELCC eligible and ineligible children, these costs must be allocated on a reasonable, consistent, and supportable basis (e.g., based on full-time equivalents (FTEs), enrolment, revenue, program hours, or square footage).

The basis of allocation must be documented and applied consistently from year to year. Upon request, the Agency must provide TCS with:

- A description of the allocation methodology, and
- Calculations supporting the allocation

TCS may adjust or disallow allocations that it determines to be excessive, unsupported, or inconsistent.

3 Audit Requirements

3.1 What is an Audit

An audit is an independent opinion on an Agency's financial statements, which enhances the confidence of stakeholders and public funders 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 must be an independent third party and is responsible to express an opinion on the audited financial statements based on their audit.

3.2 Hiring a Licensed Public Accountant (LPA)

It is the responsibility of the Agency to verify that the auditor selected has a valid license to perform audit engagements in Ontario. In Ontario, only Licensed Public Accountants (LPAs) may issue Independent Audit Engagement Reports.

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

It is the responsibility of the Agency to ensure the appropriate financial statements are submitted to TCS and include signed opinion reports certified by an LPA.

3.3 Who must submit an Audited Financial Statement?

In accordance with City policies and applicable Provincial guidelines, Agencies are required to provide TCS with audited financial statements **within four (4) months** of the Agency's **fiscal year end** if they receive the funding types outlined below within a calendar year.

Audited Financial Statement

Funding Type	Financial Threshold
• Canada-Wide Early Learning & Child Care (CWELCC) • EarlyON & Family Centres and Indigenous-Lead Child and Family Programs	Audited Financial Statements are always required
Any single or combination that adds up to the Financial Threshold: • Fee Subsidy • General Operating Funding (GOF) • Agency Operating Fund (AOF)	$30,000 per annum
Any single or combination that adds up to the Financial Threshold: • Provincial Wage Enhancement (PWE) • 1999-2005 Pay Equity (PE) • Supplemental Capital Funding • Summer Day Funding (unaudited acceptable) • Every Child Belongs (Special Need Resourcing) Funding	$20,000 per annum

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

Important Note: Financial Statements are required to confirm and demonstrate Service Agreement compliance and to authorize Agency funding. Failure to submit audited financial statements in the specified time and format will result in sanctions.

3.4 Required Format for Audit Engagement

Please note the following points below when creating Audited Financial Statements:

- Agencies who received Canada-Wide Early Learning and Child Care (CWELCC) funding After January 1, 2025, are required to present the funding in a note disclosure to the audited financial statements. For Agencies that have more than one location or program, the note disclosure must include a breakdown by location and/or program. An example of the presentation format is illustrated in Appendix III.
- All funding types received from TCS are to be reported separately from any other revenue sources in either Income Statement or notes disclosure, the separately reported revenue sources should include:
    - Fee subsidy revenue
    - Base fee revenue from parents
    - General operating funding
    - CWELCC Affordability
    - CWELCC Start-Up Grant
    - CWELCC Infrastructure Fund
    - Professional Learning Strategy funding
    - Other City fundings, reported by type
- Expenses reported in the audited financial statements should include the same categories listed in the standardized financial reports (SFRs) submission; otherwise, Agencies may be required to provide a separate report to reconcile the audit and the SFRs submission. Please refer to [Contract & Financial Information – City of Toronto] for SFRs reporting template.
- For HCC Agencies which operate in multiple jurisdictions, including but not exclusively in the City of Toronto, are also required to include in the audited financial statements or note disclosure which illustrate the breakdown of Canada-Wide Early Learning and Child Care (CWELCC) funding and other revenue received from each jurisdiction, as well as the related eligible costs incurred in each jurisdiction.
- 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 audited financial statements. The disclosure must be included as part of the Agency's financial statements reconciling grant and/or pay equity payments against actual expenditures. An example disclosure is included in Appendix II.

- 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 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 on the financial statements and issue a report in compliance with Canadian Auditing 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. Restatements will be at the Agency's expense which is not an eligible expense for cost-based funding.
- 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.

3.5 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.

3.6 Termination of Service Agreement – Audit Requirements

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 Agency's current fiscal year to the last day of operation. Upon termination of the Service Agreement, the Agency shall reimburse the City any monies advanced by Toronto which are not expended in accordance with the Service Agreement. The final payments will be held until the audited financial statements for the period are received, analysed and reconciliation conducted.

3.7 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 years services and as outlined in the funding guidelines. Note that there are several different funding 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 CWELCC, 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 (Notwithstanding CWELCC funding that has been provided for licensed home child care outside of the City of Toronto where the licensed Agency has a City of Toronto address.) Audited financial statements provide TCS with independent (3rd party) verification on the use of public funds.

3.8 Reconciliation between Audit and SFRs

TCS uses the audited financial statements to validate and reconcile actual revenues and expenses against the amounts reported in the Standardized Financial Reports (SFRs). Agencies are responsible for ensuring that all eligible costs reported in the SFRs are accurate, supportable, and can be reconciled back to the Audited Financial Statements. Additional information may be requested to explain any differences between the two submissions.

Variances between the SFRs and the audited financial statements provide TCS with critical information to assess cost eligibility under cost-based funding rules. Any ineligible, unsupported, or misstated costs will be removed during year-end reconciliation, and variances may result in recoveries. TCS may request clarification, supporting documentation, or revised submissions where differences remain unexplained.

4 Funding Analysis, Reconciliation and Recovery

4.1 Overpayment

The Agency must inform TCS 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 funding reconciliation shall be returned. The funding reconciliation will also be reviewed with the audited financial statements.

4.2 Reconciliation and Recovery

TCS may determine that a recovery is required through one or more of the following processes:

- Review and analysis of Standard Financial Reports
- Review and analysis of Audited Financial Statement (for up to 7 prior fiscal years)
  - CWELCC Cost-Based Funding reconciliation
  - Excess of 10% operating surplus for school age operation in the fiscal year (see Appendix I)
  - Underspent funding related to Every Child Belongs (Special Needs Resource) programs or EarlyON & Indigenous-Led Child and Family Programs
  - Other funding types provided which are subject to a recovery (e.g. One-time funding, Special Circumstance)
- Review of inconsistent operating capacity resulting in CWELCC Cost-Based Funding change
- Other review and analysis that reveals funding not being used in accordance with the guidelines and/or implementation plans
- T4 analysis
- Workforce reconciliation analysis

TCS may issue recovery notifications at different stages of review. For example, an initial reconciliation and recovery may be issued following the review of Standard Financial Reports, and a subsequent recovery may be required after the review of Audited Financial Statements if additional variances or discrepancies are identified. TCS reserves the right to issue multiple recoveries as further information becomes available through audits, reconciliations, or other compliance reviews.

A repayment plan is only available on an individual basis, which considers timely repayment as well as the Agency's ability to pay. TCS may withhold payments to recover the amount as determined through the recovery calculation.

4.3 Salary & Benefit Analysis

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

- Compliance with legislative requirements such as minimum wage and CWELCC Workforce Funding.
- Significant variances from T4s to salaries reported in SFRs and audited financial statements.

- Reasonability of any payments to staff (including staff who are related parties).
- Using General Operating Funding (GOF) in accordance with guidelines and approved implementation plans.
- Identify over/under-staffing or efficiencies or inefficiencies.
- Composition between casual and permanent staff
- Reasonableness of central allocated administration compared to actual T4 for staff.

If 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.

4.4 Recovery for other funding types

Agencies with **School Age programs** that receive **Fees Subsidy Funding** may be subject to a recovery, if their school age program has a surplus that exceeds 10% of allowable revenue (see Appendix I).

Agencies receiving **Every Child Belongs (Special Needs Resource)** program funding, will be reviewed for operating surplus related to TCS funding. If the operating surplus is specifically driven by underspent Salaries & Benefits in comparison to the submitted budget, the Agency must submit a plan on the use of the underspent funding to the Resource Supervisor. The Agency will be notified if the plan is acceptable and if not, a recovery will be processed for the full amount of underspent funding.

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.

5 Agency Responsibilities, Governance & Compliance

5.1 Governance and Agency Responsibility

An Agency's Board of Directors and/or management has the responsibility for establishing and overseeing the Agency’s governance. Governance encompasses a large scope of responsibilities including fulfilling reporting duties, establishing effective financial controls and reconciliation practices, approving the annual budget and expenditures, and monitoring revenue and expenses. The overall goal of the Board of Directors and/or management includes, but are not limited to:

- Funding received from TCS is used for its intended purposes and used effectively
- 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 funding guidelines; and
- Affirm that all information provided is true, complete, and accurate, and can be fully reconciled between the Standard Financial Reports and the Audited Financial Statements, in accordance with the applicable guidelines.
- Agree to provide additional documentation upon request.
- Acknowledge and accept full responsibility for supporting documentation submission and understand that any changes to the information provided may result in funding recovery or adjustment.
- Understand that any misrepresentation or misstatement may lead to financial or contractual consequences under the terms of the Service Agreement.
- 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 engagement, and that the LPA is a member of Canadian Chartered Professional Accountant, in good standing, and has a valid license to perform audit engagements in Ontario.

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 Agency management, Bookkeepers, and Auditors each have distinct roles and responsibilities within an organization in order to maintain appropriate segregation of duties and financial integrity:

- The Agency is responsible for the overall financial health and ongoing viability of the programs/centers, compliance with all requirements of the Service Agreement, and the preparation and approval of financial documentation and reports.
- Bookkeepers (appointed by the Agency) are responsible for the day-to-day recording, maintenance and preparation of accounting and financial records, documentations and reports, accordance with the Agency's policies and applicable funding requirements, working with Agency management.

- Auditors (appointed by the Agency) are independent third parties responsible for examining the Agency's financial statements and issuing an objective audit opinion in accordance with audit standards.

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

Agencies must ensure that the audited financial statement submitted to TCS is complete and signed. If the report is non-compliant, TCS may request that it is resubmitted at the Agency's expense which is not a cost-based funding coverable expense.

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 Funding Reconciliation Guidelines and financial reporting requirements.

Important Note: It is solely the responsibility of the Agency to manage its own business operations including establishing accounting practices to meet approved accounting standards. Please note that the City does not provide accounting services or offer accounting or business decision-making advice.

5.2 Approval of the Financial Statements

The audited financial statements must be signed an authorized representative of a commercial agency (e.g., owner, director, or other individual with legal signing authority) or two authorized Signing Officers for a non-profit Agency. For non-profit Agencies, the signing officers are members of the Board of Directors, which are listed on the 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 as the sole signature on the Financial Statements.

Agencies are required to maintain an up-to-date 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.

5.3 Standards for Non-profit Agencies

For non-profit Agencies, public funding may not be used for profit distribution or any payments that confer a benefit to directors, officers, employees, or other related parties, beyond reasonable compensation for legitimate services provided. Operating surpluses must be retained and reinvested solely for eligible child care or early years purposes and must not be transferred to other individuals, corporations, entities, affiliates, or other related parties for any other purpose.

Any non-arm’s-length transaction that cannot be clearly shown to be appropriate, reasonable, and directly related to providing child care services, may be treated as ineligible and recovered.

5.4 Standard for Commercial agencies

Dividends:

TCS recognizes that a commercial Agency may issue dividends or similar forms of distribution (e.g., share buy-backs, or repayment of shareholder loans) in accordance with applicable corporate legislation. However, Agencies must not declare, issue, or distribute dividends to shareholders, owners, or related parties; conduct share buy-backs; or repay shareholder loans until all outstanding amounts owing to TCS, including recoveries arising from audit, reconciliation, or compliance reviews, have been fully resolved and paid.

Owner / Shareholder Compensation:

“Compensation” means any payment or benefit given to owners, shareholders, or related parties, including but not limited to:

- salaries, wages, bonuses, and taxable benefits;
- management, consulting, or director fees;
- payments to companies owned by the operator or their family members;
- any non-cash benefits such as gift cards, allowances, retreats, per diems, or employer-paid premiums

Any compensation that cannot be clearly shown to be appropriate, reasonable, and directly related to providing child care services, may be treated as ineligible and recovered.

5.5 Sanctions and Penalties

Non-compliance with timely and satisfactory financial statement submission, reports and other supporting documents **will result in Funding and Payment holds**. Further sanctions are possible for non-compliance including, but not limited to:

- Termination of the Service Agreement
- Forfeit funding increases or grant eligibility if no submission is received by deadlines
- Payment schedule adjustments
- Permanent payment reduction
- Removal of consideration for expansion and/or purchase of services

For the City to effectively maintain its reporting obligations, it is imperative that Agencies comply with business cycle timelines.

5.6 Resources

There are several resources available to support Agencies with the responsibilities to manage a child care and early years operation. TCS staff are available to support any interpretation needed for funding 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
- Toronto Children's Services - 2025 Funding Requirements for Child Care Locations and Home Child Care Agencies
- Chartered Professional Accountants of Canada- cpacanada.ca
- Chartered Professional Accountants of Ontario - cpaontario.ca

5.7 How to submit your financial documents to TCS?

TCS has a module available for all Agencies to upload Audited Financial Statements, Management Letter and supporting Audit Engagement documents.

The upload can be accessed through Online Services for Operators, in Applications, under the "Financial" tab.

APPENDIX I – Fee Subsidy Recovery Calculation Sample (Excess of 10% operating surplus)

[NEW] The Fee Subsidy recovery calculation applies to Agencies' **school-age programs only**. The recovery for Fee Subsidy paid to Infant, Toddler, Preschool and Kindergarten ("ITPK") programs will be calculated as part of the CWELCC Cost-Based Funding reconciliation.

Recovery Calculation for Year Ended December 31, 20xx

Information from Audit Analysis		
Allowable Revenue	A	$ 120,000
Allowable Expenses (disallowed expenses are removed from this amount)	B	$ 90,000
Operating Surplus (A-B)	C	$ 30,000
Operating Surplus % (C/A)	D	25%
Revenue Information from Statement of Account/ Payment Summary		
Parent Portion of Fees	E	$ 30,000
Subsidy Fees	F	$ 70,000
General Operating Funding	G	$ 9,000
Total Fee Subsidy & General Operating Funding (E+F+G)	H	$ 109,000
Recovery Calculation		
City Funding % of Allowable Revenue (H/A)	I	90.83%
10% of Allowable Revenue (A*10%)	J	$ 12,000
Excess Operating Surplus over Allowable Revenue (C-J)	K	$ 18,000
Recovery Amount (K*I)	L	$ 16,350

APPENDIX II - Provincial Wage Enhancement (PWE)

[NEW] The PWE recovery calculation applies to Agencies' **school-age programs only**. The recovery for PWE paid to ITPK programs will be calculated as part of the CWELCC Cost-Based Funding reconciliation.

A note disclosure must be included with the audited financial statement 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.

Note	**Provincial Wage Enhancement (PWE)**
Deferred from prior years (1)	
Received in this Fiscal Year (2)	
PWE expensed in this fiscal year according to the guidelines (3)	
PWE returned to Children's Services this fiscal year (4)	
PWE deferred to future years (1) + (2) - (3) - (4)	

APPENDIX III - Canada-Wide Early Learning and Child Care (CWELCC)

[NEW]: Applies to CWELCC Cost-Based Funding received after January 1, 2025.
For all Agencies with a year-end prior to June 30, 2026, please report the financial information listed below for the period in which your centre received CWELCC Cost-Based Funding in the 2025 calendar year (January 1, 2025, to December 31, 2025).

Agencies operating multiple child care centres must report and separate the eligible costs incurred for each individual centre. This schedule can either be included in the notes of the financial statements or as a separate supplementary schedule to the financial statements reviewed by the auditors.

Actual Program Costs:

Actual Program Costs	**Eligible costs (Centre #1)**	**Eligible costs (Centre #2)**	**Eligible costs (Total)**
Program Staff (A)			
Supervisors (B)			
Accommodations (C)			
Operations (D)			
Total sum of all eligible costs incurred for the eligible centres, BEFORE one-time, unexpected costs (E = A + B + C + D)			
Actual Cost Covered as per Approved One-Time, Unexpected Cost (F)			
Total sum of all eligible costs incurred for the eligible centres, AFTER one-time, unexpected costs (E - F)			

Actual Base Fee Revenue Offset:

Actual Program Costs	**Centre #1**	**Centre #2**	**Total**
Actual Base Fee Revenue from Families			
Actual Base fee Revenue from Fee Subsidies			

* TCS performed year-end reconciliations for CWELCC Cost-Based Funding (CBF) recoveries using the information submitted by each centre in the Standard Financial Reports. However, if any amounts differ significantly from those reported in the standardized financial report and the annual attestation for CBF, TCS may request an additional recovery at the Agency level.

APPENDIX VI - Canada-Wide Early Learning and Child Care (CWELCC) Start-Up Grant Funding for Home Child Care

For CWELCC Start Up Grant Funding to support **home child care**, an additional note disclosure is required that identifies the following:

- Total amount received.
- Total amount of funding distributed to Providers.
- Total amount of funding deferred, if applicable, in accordance with the Ministry of Education’s Canada-Wide Early Learning and Child Care Guidelines.
- Total amount of funding unused, if applicable, for space creation for which the funding was provided.

The Agency is responsible for verifying that the use of the Start-Up Grant funding is in accordance with eligible expenses as set out in the Ministry of Education’s Canada-Wide Early Learning and Child Care Guidelines.

APPENDIX V - [NEW] Definition of Actual Cost-Based funding for Reconciliation

CONCEPT	THROUGHOUT CALENDAR YEAR (Notional "Allocations")	AT END OF CALENDAR YEAR ("Actuals", after reconciliation)
PROGRAM COSTS	**PROGRAM COST ALLOCATION** ***Benchmark allocation plus any applicable top-up allocation*** • **Benchmark allocation based on benchmarks and planned operating spaces** • **Legacy Top-Up, which supports eligible centres/agencies with cost structures that exceed benchmark allocations** • **Growth Top-Up, which supports eligible centres/agencies adding new spaces/active homes (including new centres/agencies).** • **May be adjusted during the calendar year due to in-year operating**	**ACTUAL PROGRAM COSTS** • **Actual amount of eligible costs incurred for an eligible centre/agency to provide child care reflected in base fees during the calendar year.** • **Cannot exceed the Program Cost Allocation, including any in-year adjustments**.
BASE FEE REVENUE OFFSET	**EXPECTED BASE FEE REVENUE OFFSET** • Amount of base fee revenue estimated to be earned in the calendar year based on planned operating spaces. • Adjusted by an allowed vacancy rate when it offsets the Program Costs Allocation	**ACTUAL BASE FEE REVENUE OFFSET** • The amount of base fee revenue earned from families and fee subsidy revenue for eligible children in the calendar year. • Cannot be lower than the Expected Base Fee Revenue Offset, which is adjusted by the allowed vacancy rate.
AMOUNT IN LIEU OF PROFIT/SURPLUS	**ALLOCATION IN LIEU OF PROFIT/SURPLUS** **Calculated based on Program Cost Allocation plus a flat amount**	**ACTUAL AMOUNT IN LIEU OF PROFIT/SURPLUS** ***Calculated based on Actual Program Costs plus a flat amount***
COST-BASED FUNDING	**COST-BASED FUNDING ALLOCATION** **Program Cost Allocation plus Allocation in Lieu of Profit/Surplus minus Expected Base Fee Revenue Offset** • **Total amount of notional funding provided to support the costs of providing child care at an eligible centre/agency throughout the calendar year.**	**ACTUAL COST-BASED FUNDING** **Actual Program Costs Plus Actual Amount in Lieu of Profit/Surplus minus Actual Base Fee Revenue Offset** • **Final amount of funding available for an eligible centre/agency for a calendar year, based on Actual Program Costs.** • **TCS must recover any overpayments return to the Ministry**