

2026 FUNDING RECONCILIATION GUIDELINES FOR AGENCIES

(FORMERLY AUDIT GUIDELINES FOR AGENCIES)

For help accessing this document, please contact
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Link to Document: [Contract & Financial Information – City of Toronto](#)

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Disclaimer: *This guideline is subject to change based on updates to the [Ministry of Education](#) - [Ontario Child Care and Early Years Funding Guidelines](#)*

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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”) child care guidelines, including the CWELCC Cost-Based Funding Guideline and Standardized Financial Report and Cost Review Requirements. 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 all 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 Licensed Public Accountants LPAs by the Agency.

Important Note: These guidelines may change based on provincial direction, program changes, or funding requirements. Agencies must provide information to TCS upon request to confirm funding is used properly and in line with the Service Agreement.

2. Standardized Financial Reports (SFRs) Requirements

2.1. What Are Standardized Financial Reports (SFRs)?

Standardized Financial Reports (SFRs) are annual financial reports required for Agencies that receive Canada-Wide Early Learning & Child Care (CWELCC) Cost-Based Funding.

Agencies must prepare and submit SFRs for each eligible centre after the calendar year-end and report 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 SFR must include the required **annual attestation**, signed by an officer with appropriate signing authority, confirming that cost-based funding was used for its intended purpose.

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 SFR after the end of that calendar year. Each centre must submit its own SFR.

For home childcare, 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.

[UPDATED] Ineligible costs include, but are not limited to:

Category	Examples of ineligible costs
Unattributable Cost	Costs that are not used for providing childcare, or not covered by base fees: - Funds used for childcare and early year services provided outside of the City of Toronto (except CWELCC funding provided for licensed home childcare outside of the City of Toronto); - Funds used for childcare 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 (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 childcare business: - Costs deemed to be in lieu of profits (for example, year-end performance bonuses for the controlling owner or royalty fees based on profit); - Costs funded or reimbursed from another public or private source (for example, government funding, insurance recoveries, donations or non-base fees);
Unreasonable Expenses	Costs that are higher than what a reasonable person would normally spend when operating a comparable childcare business: - Financing costs exceeding Canada Small Business Financing program rates; - Accrued interest on shareholder equity; - Losses on the sale of tangible capital assets purchased with cost-based funding (while gains from such sales must reduce eligible costs); - Mortgage principal and interest payments where the mortgaged facility is not actively used to provide childcare included in the base fee (for example, a vacant facility) - Increases to existing cost structures that are significantly higher than inflationary adjustments, and are at the discretion of the operator (for example, a large increase to one employees' wage, while remaining employees receive minimal increases).
Other Ineligible Costs	- Capital Renewal for Major Repairs of Sites of Existing Spaces; [Updated] Amortization or depreciation related to assets purchased after August 14, 2024; - Amortization or depreciation expenses related to capital assets for which mortgage principal payments have been claimed - Income taxes; - Penalties, fines, forfeitures and liquidated damages; - Repayment to Children's Services for Funding recoveries; - Costs attributable to other reporting periods; - Expenses related to eligible children in a school-age program (see Section 2.5) [NEW] Principal amount of a loan.

[NEW]: Legacy top-up, established in 2025, subsequently referred to as Rolling Top-Up in 2026 is funding intended to support an Agency's existing cost structure as of 2023 and must not be used to introduce new programs, services or expenses. Expensing funding, even on possibly eligible expenses, does not result in the Agency being eligible for the funding. Agencies that receive Rolling-top-up must ensure that the funding spent is used for expenses that were established in 2023. Where TCS identifies a significant increase in costs arising from programs or services that are **new to the Agency and not attributable to a reasonable change in its operating practices**, these costs would be disallowed and excluded from Actual Program Costs, even if they are related to the provision of child care.

Agencies are responsible for ensuring that expenses are claimed only once in the SFR. 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 childcare programs spend on comparable expenses;
- The size and demonstrated needs of the Agency; and
- Whether a careful, responsible childcare 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 would 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

- 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 Standardized 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 report only those expenses that were actually incurred for services provided during the funding year. Costs that have not yet been incurred, prepaid expenses for which 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 maintain sufficient supporting documentation (such as contracts, invoices, or other records) to demonstrate that reported costs relate to services received during the appropriate reporting period. Costs that do not relate to the correct reporting period may be considered ineligible and may result in a funding 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, supportable, and attributable basis (e.g., based on full-time equivalents (FTEs), enrolment, revenue, program hours, or square footage).

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

- A description of the allocation methodology,
- Calculations supporting the allocation, and
- [NEW] Any additional documentation supporting the reasonableness of the methodology

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

3 Audited Financial Statement Requirements

3.1 What is an Audited Financial Statement?

An audit is an independent review of an Agency's financial statements. The auditor must be an independent third party and must be licensed to perform audit engagements in Ontario. The auditor reviews financial records, assesses risks and controls, and provides an opinion on whether the financial statements are fairly presented and prepared in accordance with the applicable accounting and auditing standards. Agencies are responsible for ensuring the audit is complete, signed, and submitted to TCS in the required format.

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. Submitting false or misleading audits or auditor certification is cause for the Service Agreement to be terminated.

3.3 Who must submit Audited Financial Statements?

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.

Funding Type	Financial Threshold
- Canada-Wide Early Learning & Child Care (CWELCC) - EarlyON & Family Centres and Indigenous-Led Child and Family Programs	Audited Financial Statements are always required
<i>Any single or combination that adds up to the Financial Threshold:</i> - Fee Subsidy - General Operating Funding (GOF) - Agency Operating Fund (AOF)	\$30,000 per annum
<i>Any single or combination that adds up to the Financial Threshold:</i> - 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, up and including the termination of the Service Agreement.

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 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 Cost-Based Funding
 - CWELCC Start-Up Grant
 - CWELCC Infrastructure Fund
 - Professional Learning Strategy funding
 - Other City fundings, reported by type
- **[UPDATED]** Agencies receiving CWELCC Cost-Based Funding are required to disclose eligible costs and base fee revenue offsets in the notes to their audited financial statements, using the format provided in Appendix III and the same categories as those used in the Standardized Financial Reports (SFRs) submission. If the note disclosure does not meet the requirements, Agencies will be required to provide a separate audited report to reconcile the audited financial statements to 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 reviews audited financial statements to confirm that public funding was used for approved child care and early years services, in accordance with the applicable funding guidelines and the Service Agreement. Agencies must use City funding only for eligible expenses that directly support funded services and, unless specifically allowed, services provided within the City of Toronto. Audited financial statements provide independent third-party verification, and TCS may request additional information to confirm compliance or complete reconciliation.

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 SFR 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.

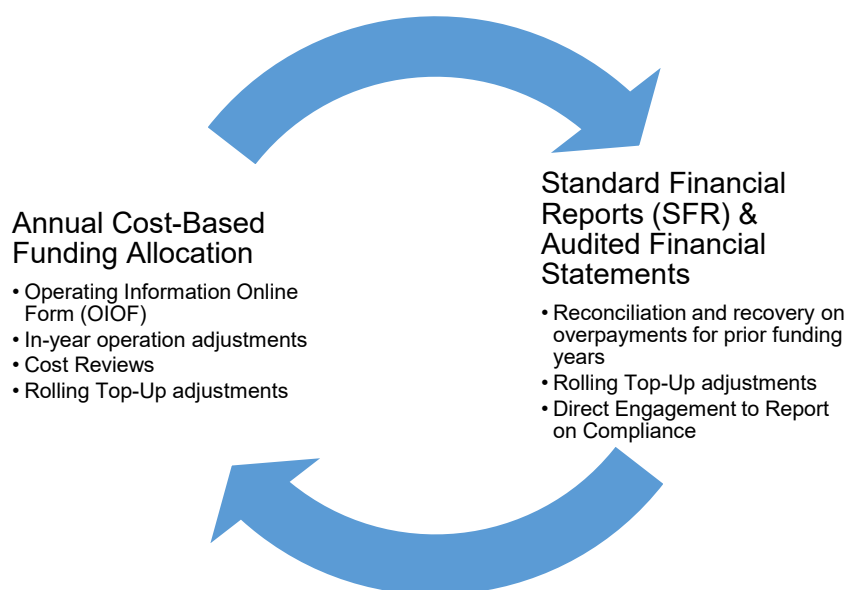
3.9 [NEW] Third-Party Audit

Agencies receiving Cost-Based Funding may be selected by TCS for a **Direct Engagement to Report on Compliance**, performed by an independent third-party auditor. The engagement is required by the Province and is intended to provide additional assurance that funding reported by the Agency is supported by eligible costs and complies with applicable Cost-Based Funding requirements.

The auditor may review the Agency's financial records, supporting documentation, and other information relevant to the funding reconciliation. The outcome of the engagement may identify costs that do not meet the applicable funding requirements and may result in **additional amounts being subject to recovery**. Selected Agencies are required to cooperate with the auditor and provide the requested information and supporting documentation.

4 Funding Analysis, Reconciliation and Recovery

The funding reconciliation cycle is as follows:



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 Standardized 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
- Workforce & Wage Enhancement 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 SFRs and Audited Financial Statements, and a subsequent recovery may be required after the third-party audit engagement 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 childcare 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).
- Reasonableness of central allocated administration compared to actual T4 for staff.
- [NEW] Review of wage costs and adjustments related to the repeal of Bill 124, where applicable, to ensure they are supported and calculated in accordance with requirements.

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 salaries and benefits review, additional information may be requested as per the Service Agreement.

4.4 Recovery for other funding types

Agencies with **School-Age programs** that receive **Fee 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

The Agency's Board of Directors and/or management is responsible for overseeing the Agency's finances, reporting, controls, budget, spending, and compliance with the Service Agreement. This includes ensuring that TCS funding is used for its intended purpose, financial information is true, complete, accurate, and reconcilable between SFRs and audited financial statements, and supporting documentation is available upon request. The Agency remains responsible for its financial submissions, even where bookkeepers or auditors support the work.

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.

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. It is important to appoint Bookkeepers and LPA's that have knowledge of Early Learning and Child Care, including EarlyON Services, CWELCC, sector funding, and reporting requirements.

Submitting audits that do not meet the requirements will be reject and could result in sanctions, up to and including termination. Non-compliance includes, but is not limited to, 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.

At the discretion of TCS Agencies may be granted the opportunity to **revise and resubmit** audited financial statements.

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 by 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 Standards 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 funding 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 District 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 - 2026 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)

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	<u>\$ 90,000</u>
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	<u>\$ 9,000</u>
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 - Wage Enhancement

The Wage Enhancement recovery calculation applies to Agencies' **school-age programs only**. The recovery for Wage Enhancement 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	Wage Enhancement
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)

Applies to CWELCC Cost-Based Funding received on or after January 1, 2026.

For all Agencies with a year-end prior to June 30, 2027, please report the financial information listed below for the period in which your centre received CWELCC Cost-Based Funding in the 2026 calendar year (January 1, 2026, to December 31, 2026).

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

* TCS performs year-end reconciliations for CWELCC Cost-Based Funding (CBF) recoveries using the information submitted by each centre in the Standardized 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 IV - 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 - 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 <i>Benchmark allocation <u>plus</u> any applicable top-up allocation</i> - Benchmark allocation based on benchmarks and planned operating spaces. - Rolling Top-Up, which supports eligible centres/agencies with cost structures that exceed benchmark allocations, including, where applicable, the [NEW] 2026 one-time adjustment related to the repeal of Bill 124. - 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 changes	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 Higher of the following: - The amount of base fee revenue earned from families and fee subsidy revenue for eligible children in the calendar year. or - 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 <u>plus</u> a flat amount	ACTUAL AMOUNT IN LIEU OF PROFIT/SURPLUS Calculated based on Actual Program Costs <u>plus</u> a flat amount
COST-BASED FUNDING	COST-BASED FUNDING ALLOCATION Program Cost Allocation <u>plus</u> Allocation in Lieu of Profit/Surplus <u>minus</u> 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 <u>Plus</u> Actual Amount In Lieu of Profit/Surplus <u>minus</u> 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

[NEW] APPENDIX VI - 2026 Funding Reconciliation Submission Checklist**1. Audited Financial Statements – Minimum Submission Requirements**

- ☐ Fiscal Year-End falls between June 30, 2025, and May 31, 2027
- ☐ Audited Financial Statements are uploaded to the portal under the 2026 fiscal year, within four months of the fiscal year end
- ☐ Audited Financial Statements are complete, with no missing pages
- ☐ Audited Financial Statements are signed by a licensed public accountant
- ☐ Audited Financial Statements are signed by the Agency's authorized signing authority

2. Financial Statement Note Disclosures & Supplementary Information – Funding Reconciliation Requirements

- ☐ Related-party transactions are disclosed in the Audited Financial Statements in accordance with Section 2.6
- ☐ Eligible Program Cost and Base Fee Revenue Offset are reported by location for the period January to December 2026, either in the notes of the Audited Financial Statements or in a separate supplementary schedule, in accordance with Appendix III
- ☐ Agencies receiving Fee-Subsidy funding provide an internally generated schedule summarizing revenue and expenses attributed to school age program only
- ☐ Agencies receiving Wage Enhancement funding provide the required note disclosure in accordance with Appendix II

3. Standard Financial Reports (SFRs) and Survey Submission (applicable to CWELCC centres and agencies)

- ☐ SFR is submitted by date identified by TCS (1st quarter of calendar year following the funding year)

4. Recovery and Appeals, if applicable

- ☐ Appeal within 10 business days if receiving the recovery letter, unless otherwise specified by TCS
- ☐ Recovery payments to be received by TCS within 30 days of the date on the recovery letter