June 2025

Best Practices for Financial Management in LBS Programs:

Foundational Training Webinar Supplement

ACKNOWLEDGMENTS

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The opinions expressed in this document are those of Community Literacy of Ontario and do not necessarily reflect the views of our funders.

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FINANCIALS

Ministry Funding and Reporting

Ministry funding is based on your signed Ontario Transfer Payment Agreement with "His Majesty the King in right of Ontario as represented by the Minister of Labour, Immigration, Training and Skills Development." This agreement is signed annually and is effective on the 1st of April for each year.

It is strongly recommended that you read through the agreement each year to ensure there is nothing you disagree with before signing. There can be slight changes to the wording each year.

There are 8 schedules to the agreement, but this guide will focus solely on:

- Schedule "D" – Budget
- Schedule "E" – Payment Plan
- Schedule "F" – Reports
- Schedule "H" – Audit and Accountability Requirements

Schedule "D" – Budget

This section will list your total funding for the fiscal year. This is the amount you will receive over the 12-month period.

Schedule "E" – Payment Plan

The Payment Plan explains how the monthly payment amount from the Ministry will be calculated. This calculation is: maximum funds / number of monthly payments.

Schedule "F" – Reports

This section gives you due dates for:

1. Activity Reports – usually due twice per year

2. Financial Reports:

- Estimate of Expenditure Report (EER) – due five times per year
- Statement of Revenue and Expenditure Report (SRER) – due once per year
- Auditor's Report (if applicable) – due once per year at the same time as the SRER
- Audited Financial Statements (if applicable) – due by October of the same year (e.g. 2025/26 fiscal year Audited Financial Statements are due on October 1, 2026)

- Reports specified from time to time – the Province will specify the due dates if these reports are needed (rarely would this happen)

The reports are submitted in EOIS-SP Connect. All reporting requirements are further detailed in Schedule “H.”

Estimate of Expenditure Report (EER)

The EER is an **estimate** of expenditure report that informs the Ministry’s financial department whether your organization is on budget. If you have not spent the expected funds and have not given a reasonable explanation as to why, you may be “cash-managed” by the government. This rarely happens as programs usually have no problem with spending the core funding they receive. Training Support Funds can vary, but once again, the organization will likely have a good reason why (e.g. it was during the summer months and less learners are in the programs at that time).

On the EER, *Allocation (A)* will already be completed within the system. You will input the *YTD (year-to-date) Expenditures (B), YTD Commitments (C)* and *Forecast (D)*. All other columns will calculate themselves.

YTD Expenditures (B) = operating funds you have spent to date and any other line that is pertinent to your organization including Training Support Funds.

YTD Commitments (C) = any outstanding expenses that have not been entered into your accounts payable.

Forecast (D) = how much of your allocated funding will be spent by year end. Generally, you will enter the full allocation here unless you anticipate not utilizing all your Training Support Funds. See the screen capture of an EER below.


P1 EER

YTD Expenditures (B) - The Ministry requires you to enter all expenses that are incurred, in the reporting period, including expenses that have been incurred and recognized but not yet paid out.

Budget Line		Allocation (A)	YTD Expenditures (B)	% Expended (B/A)	YTD Commitments (C)	% Expended (C/A)	Forecast (D)	Variance (A-D)	% of Allocation (D/A)
Operating Funds		$95,700	$31,900	33.34%	$31,900	33.34%	$95,700	$0	100.00%
Field Support		$0							
American Sign Language (ASL) Fund		$0							
LBS Program Development Fund		$70,734	$5,928	8.39%	$5,928	8.39%	$70,734	$0	100.00%
Under-Represented Groups		$0							
	Totals	$166,434	$37,828	22.73%	$37,828	22.73%	$166,434	$0	100.00%

Variance Explanation

The next section of the EER is the YTD Variance Explanation and the Forecast Variance Explanation. If there is a variance on what should have been spent based on the % expended (B/A), you will need to provide an explanation under the YTD Variance Explanation.

For example, if you pay your insurance annually and have just made that payment, you will be overspent for this period. For the Forecast Variance Explanation, you must provide an explanation if you do not expect to use all the funds that have been allocated.

Other Revenue

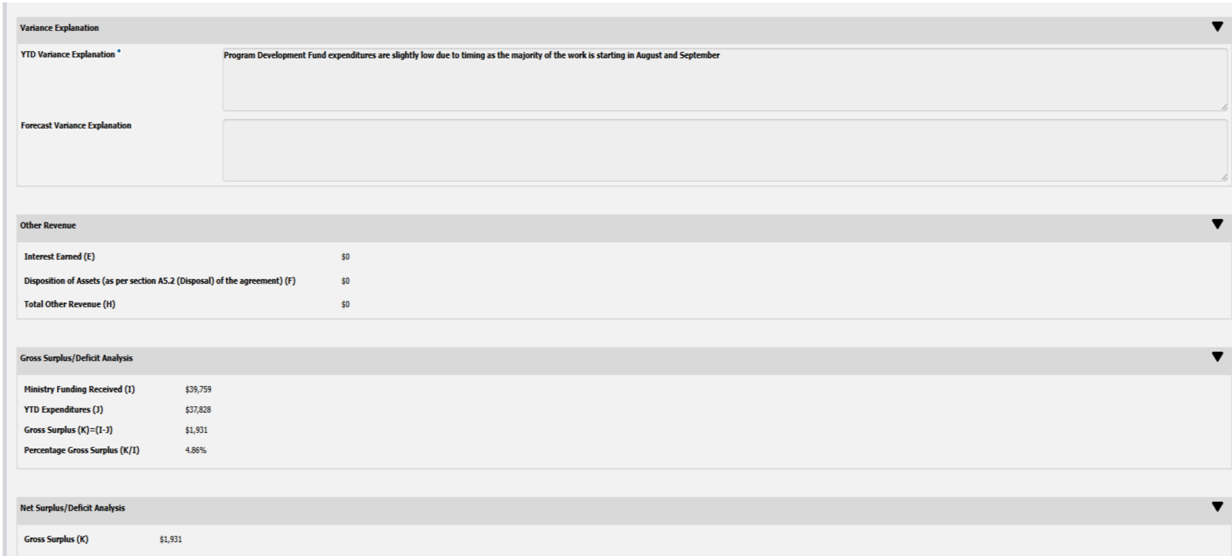
The next section is:

Interest Earned (E): This is recorded if you have earned interest on the Ministry funds you have received. If it is less than $50, then the work required to calculate it is not worth it. This was used more when programs received all their funding at the beginning of the year.

Disposition of Assets (F): This refers to items that were purchased with Ministry Funds outside of regular core funding. If you received approval and extra funding for purchasing these items, then any money you make from selling them must be recorded. However, if they are items like computers that are outdated and you have disposed of them, you do not have to record it here. The only thing that gets recorded is if you made money from the sale of the item(s).

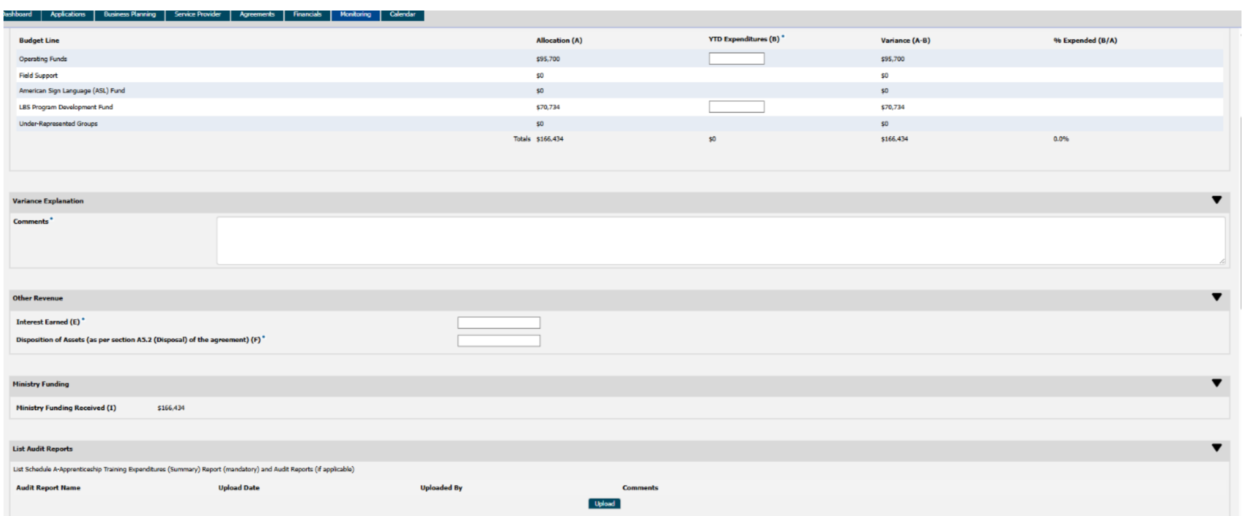
Total Other Revenue (H): This is rarely used as you are only reporting on Ministry funds, not all your funding from other sources.

Everything else is calculated automatically.



The SRER looks very similar to the EER. It has less columns because it is the final financial statement for the year.

The only additional step is to upload your Auditor's Report at the bottom of the page, if required.



Schedule "H" – Audit and Accountability Requirements

This section is also for your auditor and your bookkeeper. As discussed in the "Foundational Training Module 1: LBS Program Leadership," the agreement reinforces that "Project Accounting" should be used by the organization.

This Schedule also explains Funding Categories:

- Operating Funds
- Field Support
- American Sign Language (ASL) Fund (not reviewed in this document)
- LBS Program Development Fund (not reviewed in this document)

Operating Funds

"Operating Costs are direct expenditures related to the provision of the Project that can be claimed against Operating Funds" and include:

- Salaries directly related to the delivery of programs
- Hiring and training of staff, including professional development
- Marketing
- Rent/Mortgage payments (only the interest portion)
- Funding of projects undertaken by the organization
- Ongoing purchase of equipment and furniture directly related to programming
- Funding of research and innovation
- Accounting services and auditors' fees
- Other direct operating expenses

Operating Funds cannot be used for termination, severance costs, bonuses, or major capital expenditures.

Administrative Costs (maximum of 15% of total funds) include administrative staff pro-rated salaries, insurance, utilities, technology, professional fees (bookkeeping, cleaner, legal, etc.) and office supplies/miscellaneous (stationery, toner, mail, stamps, bank fees, etc.).

Field Support

Field Support is also referred to as "in-year" funding. This is used to support an organization with one-time "exceptional" expenditures. An example of this is the cost of relocating offices for a valid reason.

The other two categories, American Sign Language (ASL) Fund and LBS Program Development Fund, usually relate to Networks and Provincial Support Organizations. Delivery agencies will have their own categories with specific allowable expenditures such as Training Support Funds.

Bank Account

This is another category in Schedule "H" and it lets the organization know that Ministry funds must be deposited into an interest-bearing account.

Deficits

If the organization expects an over-expenditure, it must request this in writing and receive prior written approval to exceed its budget.

Tax Rebates

All nonprofits receive tax rebates for GST and OVAT. Reported expenditures to the government must be net of any tax rebates or credits. This means you must subtract the rebated tax amounts from the total costs of items.

Amount spent on an item:	$100.00
HST	$ 13.00
Rebate of GST (50%)	$ 2.50
Rebate of OVAT (82%)	$ 6.56
Total expense recorded	$103.94

Auditor's Report

An Auditor's Report is required when an organization receives Ministry funds totalling $150,000 or more. An Auditor's Report is not required for organizations who are:

- School boards
- Universities
- Colleges of Applied Arts and Technology
- Municipalities
- Organizations identified in the Ontario Regulation 239/18, made under the Indigenous Institutes Act, 2017
- Hospitals in Ontario

The Auditor's Report states that the auditor agrees with the SRER that was submitted, or it identifies discrepancies and explains why they exist.

Audited Financial Statements

The organization will submit full audited financial statements to the Ministry if they receive $150,000 or more in funding. An audit will follow Canadian Generally Accepted Auditing

Standards. Organizations that are exempt from the Auditor’s Report are also exempt from submitting Audited Financial Statements.

WORKING WITH AUDITORS

A nonprofit audit is a detailed review of an organization’s records, reports, transactions, policies and procedures. The auditor is going to assess the organization's overall health and make sure all federal, provincial and general financial principles are followed.

There are a variety of types of audits, but what is being reviewed here is an annual independent financial audit.

Audits may be written into your organization's bylaws or policies, and it may be stated that the organization will have an annual audit. For Ontario Ministry funds, an organization working under MLITSD is required to have an audit if they receive $150,000 or more in funding from the Ministry. Some granting organizations may also require an organization to have an audit.

Audits can also be helpful in getting project funds from other funders. This is because an audit can reveal the type of financial risk your organization may face.

Expectations

Auditors expect you to have everything prepared for them to perform the audit. They may wish to take your files to their office, review the documents in your office or documents may be submitted digitally by e-mail or via the auditor’s portal. On the next page, you will find a list of what needs to be prepared for the actual audit.

Auditors need to review your Board meeting, Committee meeting and AGM minutes to see if there any changes made to your bylaws and financial policies over the past fiscal year.

Auditors will prepare a DRAFT audited financial statement, and if they identify any areas for improvement, they will draft a letter of recommendations to the Board of Directors.

Audit Checklist

- Fiscal year bank reconciliations and statements
- List of grant funds received including funding contracts
    - List funds receivable from grants
    - List of any deferred revenue related to grants
- Fixed assets and depreciation schedule
- List of any physical items that you are intending to sell

- General ledger for the fiscal year
    - Backup copy of the financial software report for the fiscal year
    - Financial policies
- Board meeting, Committee meeting and AGM minutes for the year
- Any bylaw or article changes to the organization
- Payroll T4s and T4 summary
- List of Prepaids
- List of Accounts Payable
- List of Accounts Receivable
- List of Accounts Payable for payroll
- List of staff and wages
- Charitable receipts
- Files of invoices for the fiscal year, including the first month of the following year

Understanding Audit Reports

Audits can start with a "Management Responsibility for Financial Reporting" letter based on how the organization reviews financials (e.g. the role of the Finance committee). At a minimum, the Audit Report will start with the written Independent Auditors' Report and will give their "Qualified Opinion." Typically there is a section that states something similar to this:

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Agency as at (fiscal year end date), and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Audit reports will contain:

Statement of Operations

This statement is the most familiar to all of us. It shows the revenue, expenses and excess or deficiency of revenue over expenditures for the year. It compares the current fiscal year to the previous fiscal year

This statement should closely reflect your statement of finances that you work with over the year.

Statement of Financial Position (Formerly called the Balance Statement)

This statement shows the assets, liabilities and fund balances for the year and compares it to the previous year.

It is of direct interest to funders, bankers and larger sponsors because it shows your financial risk.

These agents will look at the debt-to-equity ratio which is the organization's total liabilities/equity/assets. If an organization has total liabilities of $233,749 and total equity/assets of $107,792: 233,749 ÷ 107,792 = 2.17

This means the organization had $2.17 of debt for every dollar of equity. That is not a good credit risk.

It can be a bit confusing for a nonprofit compared to a for-profit business, as we can have deferred revenue, which is treated as a liability.

This statement also shows currently:

- What you have in the bank
- What you have in investments
- What you are still owed (accounts receivable)
- What you still owe (accounts payable)
- Any accrued payroll for vacations

However, this statement is only good for the day it is posted as the numbers can change daily.

Statement of Fund Balances

This statement shows any fund balances you have at the beginning of the year:

- Property and equipment
- Operating funds
- Contingency Funds

It compares the current year fund balances to the previous year.

Statement of Cash Flows

- This statement shows the flow of cash from various activities (operating, investment and financing) over the past year and compares it to the previous year
- It shows the net increase or decrease in cash for the period

Explanatory Financial Notes

- There will be notes throughout the various statements in the audit, and this is where you will find the related explanations for each item.

- It will give a summary of significant accounting policies, which will include if and how the organization amortizes capital assets
- Capital Assets will be listed here
- Deferred revenues will be listed here
- Loans, investments, mortgages, reserve funds and more are also explained
- Financial Risk is also analyzed

Preparation for an Audit

Preparing files of invoices (paper or electronic) should be straightforward as you will have a filing process (even if it is electronic) to keep these items organized. What is different about an audit is it will clear up all the accounts payable and receivable, so they do not affect the next fiscal year. This means you will need to create a file for April invoices and receipts for the auditor to review to ensure that anything to do with the ending fiscal year is kept in that year.

Accounts Payable

Accounts payable refers to goods or services related to expenses incurred in the previous fiscal year. For example, in your own life, when you use a credit card to pay for items, those items are an accounts payable. You may buy the goods in December, but you will most likely pay for them in January. Although they are part of your December expenses, the money does not come out of your bank account until January. Similarly, on March 31st, your organization will have items related to March that are not paid until April; these are classified as accounts payable.

Examples of accounts payable:

- Invoices - for items like office supplies, organizational credit cards, telephone, and other vendors
- Payroll – this can take a bit more time to set up, but investing the time to do this should save you a lot of money on your audit. Rarely does payroll end on March 31st. For example, in 2024/25, for many organizations, the last pay in March was made on the 21st and in bi-weekly payroll, that means the next pay day would be on April 4th. That means, (since we don't usually work weekends) that there are 6 days of March payroll that went into April expenses. These must be added to the previous year and taken out of the current year. That means calculating the daily payroll for those 6 days for all staff. That is payroll payable.

Accounts Receivable

Similar to accounts payable, there can be payments for work completed in March that are not deposited into your bank account until April. These can come from a variety of sources including:

- Outstanding invoices for work done (e.g. resources sold, workshop fees outstanding, etc.)
- Project funds. Many funders hold back a certain amount of funds for project work, typically from 10% to 20% (sometimes more or less), and do not pay that back until the final project report is approved. These funds are also accounts receivable.

Prepaid

These are funds that have been paid for goods and services that will be used in the next fiscal year and can come from a variety of sources, including:

- Employee benefits may be paid three months in advance. For example, if benefits cover the period from April to June, they can be paid in March. Since these payments have been deducted from your bank account, they should not be recorded as expenses in March but rather accounted for in the new fiscal year.
- Insurance can be paid annually, and if it is paid in January, you will need to account for nine months of it as a prepaid for the next fiscal year.

Deferred Revenue

These are funds that the organization would have received in the current year, but will be used for work in the next fiscal year.

Most times, these are project funds that run for a different fiscal year from the organization's (e.g. municipal grants that run from January to December with the organization's fiscal year being April to March). The unused portion of these grants need to be deferred to the next fiscal year. For example:

- Project Work for $100,000 running from January to December and paid in full in January.
- Only 3 months of expenses have been used within the organization's fiscal year
- $100,000 – Expenses for January to March = Deferred Revenue for that project

There can also be deferred revenue for funds that have been allocated to a specific use and were not spent in the ending fiscal year.

SALARIES & WAGES

Calculating Actual Costs

When calculating salaries or wages, a manager wants to ensure they stay within their budget; however, Mandatory Employment Related Costs (MERCs) are often overlooked. Doing this will cause the wage expense to become overspent over time, but it can be avoided by estimating the cost ahead of time.

The following steps will guide you in making this calculation:

Employment Insurance (EI) deductions:

When an employee receives their wages, the employer is responsible for deducting the employee's share of EI and paying that to the Canada Revenue Agency (CRA) on the employee's behalf. This calculation is usually made by your accounting program or manually using the payroll deductions calculator or the Payroll Deductions and Remittances Guide https://www.canada.ca/en/revenue-agency/services/e-services/digital-services-businesses/payroll-deductions-online-calculator.html

For 2025, the rate for EI is 1.64%. If someone is paid $1000, they would be deducted $16.40 for their EI premium. As an employer, you would also be required to pay not only the $16.40, but also an employer share of 1.4 times that amount, which would be:

$16.40 x 1.4 = $22.96

As the employer, you would remit the $16.40 + $22.96 = $39.36 for EI to the CRA.

It is important to note that each year there is "maximum annual insurable earnings" set by the CRA. For 2025, it is $65,700. The site listed below will also give you the maximum amount of the employer payment. For 2025, it is $1,508.47.

The rate for EI can change every year and occasionally it can also change halfway through the year (July 1st). You can find the current rate at https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/employment-insurance-ei/ei-premium-rates-maximums.html

The employer is also responsible for deducting the employee's share of CPP and paying that to CRA on the employee's behalf. For 2025, the rate for CPP is 5.95%. If someone is paid $1000, they would be deducted $59.50. As an employer, you would also be required to pay not only the $59.50, but also an employer share of the exact same amount which would be:

$59.50 + $59.50 = $119.00

That is the amount you would be remitting to the CRA for the employee's CPP.

It is important to note that each year there is a "maximum contributory earnings" set by the CRA. For 2025, it is $67,800. The site listed below will also give you the maximum amount of the employer and employee payment. For 2025, it is $4,034.10. To calculate the cost to the employer, you can divide that amount by 2 (or 50%) = $2017.05.

The rate for CPP can change every year and occasionally it can also change halfway through the year (July 1st). You can find the current rate at https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/payroll-deductions-contributions/canada-pension-plan-cpp/cpp-contribution-rates-maximums-exemptions.html.

In 2024, the federal government added a "second additional CPP contribution." Employers must deduct a second additional CPP contribution (CPP2) on earnings above the annual maximum pensionable earnings. The maximum annual pensionable earnings for 2025 is $81,200. This happens if the individual makes more than $67,800, up to the maximum of $81,200. The rate for 2025 is 4% for both the employee and employer. The maximum that can be paid out for this amount is $396 by both the employee and employer.

You can find the CPP2 current rate at https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/calculating-deductions/making-deductions/second-additional-cpp-contribution-rates-maximums.html

This all sounds a bit confusing; however, you do not need to pre-calculate everything as there are charts and programs that do that for you. You need to be aware of these amounts, however, because when you are budgeting for a program or a project, you MUST include the MERCs to ensure accuracy. Most employees in community-based programs do not make the maximum amounts under EI and CPP. There may be one or two people who do though, and it is up to you if you want to calculate that out completely or not for budgeting. The usual practice for budgeting is to use the current employer rates for both EI and CPP.

EI for the employee is 1.64%. The employer's share rate is 1.64% x 1.4 = 2.3%

CPP for the employee is 5.95% (and it is exactly the same for the employer)

2.3% + 5.95% = 8.25% (MERC rate)

This is the percentage you need to add onto an employee's salary or wages to calculate the true budgeted expense for each employee.

For example:

An employee makes $65,000 per year. The actual cost for that employee in your budget is:

$65,000 x 8.25% = $5,362.50 (MERC).

$65,000 + $5,362.50 = **$70,362.50**

As you can see, if not calculated in, it would show a loss of $5,362.50 in your budget at year end.

Also, due to the fact that the Federal government uses the calendar year for its EI and CPP rates and community-based programs usually use the April to March fiscal year, the actual rate will most likely change 75% through the year (April to December and then the change on January 1st). To compensate for that potential increase, you can increase your MERC rate. That is completely up to you, but you can always go to the next ½ percent or 0.5. In the case of 8.25%, that would mean calculating it at 8.5%.

Budgeting for payroll is not an exact science as the rates for CPP and EI change, but using the 8.5% in 2025 will help ensure you stay under budget. You must check the rates every year. 8.5% works for 2025, it may not work for 2026.

People do ask, “why the 1.4% for EI MERCs?” The answer the government has given is that it helps to cover EI administrative costs.

Employers can also be eligible for EI premium reductions, but that is established based on 4 categories of qualified short-term disability plans:

Category 1 - A cumulative paid sick leave plan, which allows for a minimum monthly accumulation of 1 day and a total accumulation of at least 75 days.

Category 2 - An enhanced cumulative paid sick leave plan, which allows for a minimum monthly accumulation of one and two-third days and a total accumulation of at least 125 days.

Category 3 - A weekly indemnity plan with a benefit period of at least 15 weeks.

Category 4 - A weekly indemnity plan with a benefit period of at least 52 weeks. (This reduction is available only to public and para-public employers of a province.)

https://www.canada.ca/en/employment-social-development/programs/ei/ei-list/ei-employers/premium-reduction-program.html

Calculating Contractors’ Payments

It seems easier to calculate budgets when you are hiring independent contractors. You have budgeted a certain amount, and that amount is typically included in a contract that states something similar to “inclusive of HST.” It may seem straightforward and complete, but it’s not as simple as it appears. You have to remember that as nonprofits and charities, you get rebates on HST. This can affect the final expense line for private contractors in your financials/budget.

You hire a contractor for a $12,000, one-year contract inclusive of HST. If the contractor needs to charge HST, their monthly invoice might look like this:

$884.96 + $115.04 HST = $1,000.00

That makes sense, or does it?

Here is how this would be reflected in your organization's financials:

$919.84 would be charged to the private contracting line in expenses, $22.15 would be charged to GST Rebate and $58.01 would be charged to OVAT Rebate.

At the end of the year, your financials for this position would show the total spent as $11,038.08, not $12,000, resulting in being underspent by $961.92. If it is project funding, the funder would ask for those funds back.

Usually, it is advisable to specify in the contract the amount to be charged for monthly (or other specified periods) invoices. Yes, it can take a bit of work, but it will make your budgets balance and your contractor will be happy. Remember, this only needs to be done if the contractor charges HST.

Each organization will have their own expense forms and if your expense form calculates out the actual cost and rebate amounts, this will be much easier. If you do not have this, we will include an excel spreadsheet you can use for this process.

You want the final amount, less the rebate, to equal as close as possible to the $1,000/month for the invoice:

Total, including HST, could potentially be:

$950 (it will be lower than the $1000). $950 + HST = $1073.50 (rebate totals $86.05); 1073.50 – 86.05 = $987.45 that would be charged to your expense. It is only short 12.55. You do not have to be exact. It is up to you what you want to calculate it as. This calculation would make your expense line only short $150.60. If you want to have it even closer, you can try other numbers. For this we will use $960. Now you will only be $2.16 short and $25.92 short for the year.

HST on receipt	Total Receipt	1/2 GST for office use	82% OVAT for office use	Total-1/2 GST	original amount without HST
$ 123.50	$ 1,073.50	23.77	62.28	987.45	$ 950.00
$ 124.80	$ 1,084.80	24.02	62.94	997.84	$ 960.00

You would then tell the contractor that they can give you monthly invoices for $960 + HST = $1084.80.

Other Monetary Incentives

LBS agencies have not received a funding increase in 10 years, and the last increase did not keep up with cost-of-living adjustments at that time. It is difficult to keep or attract staff within these confines.

Project READ Literacy Network created a Capacity Building guide: https://projectread.ca/tools-and-resources/practitioner-resources/publications/

It reviewed some other incentives to attract staff that we will share here:

- Fair Pay: school boards and colleges may not have the same flexibility here as community-based programs. Are you paying a decent wage to your staff? If you have not had funding increases there are still ways to increase pay rates. Are staff working 35 to 40 hour paid work weeks? Reduce the hours and increase the pay. If you have to close your program on a Friday, then bring that forward to your ETC:
  - If someone is making $25/hr for 37.5 hrs per week that equals $937.5/week
  - The hours can be reduced and the pay can increase:
  - This same person can make $31.25/hr for 30 hrs/wk.

Many programs are exceeding the number of learners being served, which does not encourage the government to increase funding. You are already exceeding the contracted numbers for the money you currently get.

- For community-based programs, you can offer more flexible schedules and extra time off
- Offer paid recharge days through out the year. Offering them around a long weekend is very appreciated by staff
- Start succession planning early. Offering training and development is appreciated by staff and there are a number of free or cost-effective training available online (e.g. Charity Village, Ontario Nonprofit Network, etc.)

Average Wages Per Sector

Historically, school boards and colleges are funded higher than community-based programs. Provincial support organizations are working on this inequity; however, using the CLO survey results from May 2022, we can share some insights on pays within this sector and the LBS field.

The average pay per position in the LBS community-based field is in the chart below and includes a cost-of-living increase of 9% to May 2025:

Position	Wage/hour 2022	Wage/hour 2025
Executive Director/Manager	$34.67	$37.79
Program Coordinator	$27.82	$30.32
Instructor/Facilitator	$25.64	$27.95
Assessor	$21.40	$23.33
Administrative Support	$20.50	$22.35

There is a very helpful tool from the Bank of Canada that will calculate the cost-of-living increase for any amount from any year to any year:
https://www.bankofcanada.ca/rates/related/inflation-calculator/

According to Indeed listings for not for profits, the above wages are close to the average base salary. However, typically, that wage is the initial rate when starting a job. The wages above included individuals who are very experienced in their positions.

To really analyze how your wages compare to the not-for-profit field, you can always review the information that is gathered annually by Charity Village. You will have to pay for the current year's report, but you can also review the Executive Summary:
https://charityvillage.com/canadian-nonprofit-sector-salary-benefits-report/

Charity Village reports on six levels of positions across nonprofits and charities throughout Canada. The following are the average base wages (not including benefits) for all these positions in 2024. It is important to note that the full report breaks it down by funding levels and size as well.

Level 1 – Chief Executives	$115,910
Level 2 – Senior Executives	$112,971
Level 3 – Senior Management	$ 94,683
Level 4 – Management/Supervising Staff	$ 71,792

Level 5 – Functional and Program Staff	$ 53,647
Level 6 – Support Staff	$ 51,875

BUDGETING

Budgeting is a part of the job that you either love or tolerate, but it is an extremely important part of the job in any organization.

As stated in the Foundational Training Manual, creating budgets is not as hard as you think. If the organization has been open for more than 3 years, you have a lot of information to build from.

Budget planning begins in the third quarter of your year; December is a good time to start. Look at your last three to five years of finances and see how regular expenses have changed over time. Ask the questions:

- Are these expenses increasing at the cost-of-living rates?
- Have we had any notifications from suppliers that costs are going up?
- What are experts/economists saying about increased costs in insurance?

It is important to keep the mission and annual goals of your organization in mind. Has the board decided they want to bring in more unrestricted funds to the organization?

When creating your organizational budget, keep your strategic plan nearby. What financials goals are listed in your strategic plan?

Wages/Salaries/Contractors

The first step is looking at the various paid positions within your organization. It is best practice to develop at least two potential wage budgets: one without pay rate increases and another that has at least a cost-of-living increase. You may need to do a third if a goal or strategic plan is to raise wages by a certain amount.

Referring to the section on “Salaries/Wages,” you will need to calculate the MERCs for the upcoming year, as even a wage budget without increases could still have an increase due to the MERCs.

You also will need to look at benefits – on average for the past 3 to 5 years, how much have these increased annually?

The following is an example of one person’s wage following status quo and a 2% increase:

	Wage/Salary	MERC	Health Ben	Total	MERC rate
Previous Year	$ 40,000.00	$ 3,280.00	$ 2,000.00	$ 45,280.00	8.25
Status Quo	$ 40,000.00	$ 3,325.00	$ 2,040.00	$ 45,365.00	8.3125
2% Increase	$ 40,800.00	$ 3,391.50	$ 2,040.00	$ 46,231.50	8.3125

The MERC rate is based on a fiscal year running April to March. Thus, the first 9 months (75% of the year) is based on the current year's MERC rate and the last 3 months (25% of the year) is based on the estimated MERC rate. In this case, it was 8.25% and 8.5% respectively which calculates out to 8.3125? for the full fiscal year.

Once all salaries and wages for all staff are calculated for the status quo and the potential increase, they can be inserted into your budget for Wages/salaries/benefits.

If you have more projects than just the core Ministry funds and your Organizational funds (fundraising, interest, etc.), you may have staff that work spans across a few projects, especially your Executive Director. You will need to breakdown the pays for these staff by the time they spend within the project. Review the example below for assistance.

ABC Literacy Council
2026/27 Budget for Staff FTE (Full Time Equivalent)

Position	FTE 2026/27	LBS Program	Org Program	United Way	ESL Project	Overhd Costs	Total FTE
Executive Director	1.00	0.60	0.10	0.10	0.10	0.10	1.00
Coordinator	1.00	0.90		0.10			1.00
Program Assistant	0.75	0.30	0.10	0.20	0.10	0.05	0.75
Instructor	0.50	0.50					0.50
Instructor	0.25			0.25			0.25
Instructor	0.50	0.25			0.25		0.50
Bookkeeper	0.25	0.10		0.05	0.05	0.05	0.25
Cleaner	0.25					0.25	0.25

The staff highlighted in green can have their pay split up by the time they spend working in each project/program.

Contractors should be used for specific projects or specific jobs. For example, you may have an IT contractor, or you may need to have someone do an environmental scan because it is in your strategic plan to do this or you may have a specialized assessor for learning disabilities. There are many reasons to have a contractor, but that is why you need to think about who and what you need this year to provide extra services and put together a budget line for this. Research the costs for this or talk to the potential contractor to know what they expect as compensation. Starting your budgeting in December gives you time to do this kind of planning work.

Core Funding

Core funding usually comes from the Ministry of Labour, Immigration, Training and Skills Development and is the one and only revenue source in that fund. If you receive United Way funds, they would be the one revenue line in that fund. This is because project funders usually want a breakdown of how their funds are spent. Many years ago, different funders used to expect the organization to open up a separate bank account for their funds – fund accounting allows you to only have one bank account but keep track of the funding by using fund accounting bookkeeping.

Before budgeting this money, make sure to meet with staff and ask them where the programming needs money this year, besides payroll. It is important to involve all staff in budgeting. Not everything we want will be funded, but you can begin to prioritize these items together.

If your organization has been receiving the same core funding since 2016, you cannot have it cover the same amount of work from year to year. If you received $100,000 in core funding in 2016, to have the same buying power in 2025, you would need $127,358. This means that core funding is covering less and less. In 2016, core funding may have covered all wages, rent, utilities, office supplies, telephones, internet, travel, professional development, insurance, audit, bookkeeping and more. Now it may just cover a portion of those items or may not cover some of those items at all. This is where, in order to survive, organizations have to find other funds to supplement the work they do for their government contract. This is the reason programming needs to be cut back. For example, cutbacks could include only running the office for 4 days per week, removing professional development expenses for staff (only looking for free training) or working more remotely. You should discuss with your regional network and other orgs how this can be addressed in your annual Literacy Service Plan

The 15% allowance for administrative costs in our contracts is impossible to manage without additional funding and needs to be discussed with your Employment and Training Consultant.

Project Funding

Projects help to bring in other funds to your organization in the guise of administrative funds. Funders of projects usually allow a maximum of 15% for administrative costs. These funds can help to cover rent, utilities, administrative wages and anything that would not be considered a direct programming cost – also called overhead costs.

Budgeting for projects is just as important as your organizational budget. If the project is funded, you will have an agreement to spend the money they way you have indicated in the budget. Accuracy is extremely important because revisions may not be approved.

Project staff/contractors are usually paid more than permanent, full-time staff as the work is precarious and is not stable. They may only have so many months that they are paid for a project. You also want to make sure you have an individual with the experience and expertise to do the job. They also need strong references from organizations where they have done similar work. Ask other organizations what they pay to project contractors to develop a fair rate.

Develop the budget before formally writing a grant/project proposal. You want to know if the concept/idea is feasible under the maximum funding allowance by the funder. If a funder states the maximum they would fund is $100,000 and if you do the budget and it is $150,000, you know either the project does not work with this funder, or you need to majorly revise how the project runs. By doing the budget first, you would not have to re-write or feel that you have wasted time writing the proposal.

Remember to put in or ask yourself if you need the following project lines in the expense budget (this is not going to cover every expense line):

- Private Contractor or Staff
- Project Manager
- Trainers/Facilitators
- Audit
- Office Supplies
- Program Resources (books, workbooks, other items)
- Food (for learners in a field test group)
- Capital Costs (equipment, computers, etc.)
- Rent (does this require a different site to be rented?)
- Travel (staff and attendees)
- Field test sites (honorarium for sites; honorarium for attendees/learners)
- Printing costs
- Desktop Publishing

- Editing
- Meeting Costs
- Professional Development
- Evaluation
- Administration Fees

Think about in-kind funds. In-kind funds are expense items that are given for free to the project or services that your organization or another organization are offering. It shows to the funder that you have put "some skin" in the game.

What would fall under this?

- Does your Executive Director or Manager put in more than the share of their time that is included in "administrative fees?" You can include that as in-kind contributions
- Does your Desktop Publisher give you a charitable rate on the work they do? You can include that as in-kind contributions
- Is another organization giving you some staff time to work within the project? You can include that as in-kind contributions
- How many volunteers are going to be engaged in the project? Calculate their hours and give them an hourly rate (you can choose, but the average hourly wage in Ontario at that time can be used) and include that as an in-kind contribution
- A variety of services, wages and actual items can be considered in-kind if they are given as an added benefit to the project

Organizational Funding

This is what we consider to be "unrestricted funds," and they are spent at the Board's discretion. You can learn more about this under "CRA Rules."

This is one of the few budgets that will have more than one revenue line as you will see below.

Unrestricted funds can be:

- Fundraising dollars - If you state that the funds raised at your fundraisers support the work of the organization and adult learners, they are unrestricted. However, if you specify that these funds are used for a particular program or expense line, then they must be used for that, as they are then restricted funds
- Donations (if they are not directed to any specific program or project)
- Funds raised through the sale of items like resources or promotional items like hats, mugs, etc.

- Administrative fees – usually go towards administrative costs and help to cover those supplemental costs not covered by core funding
- Interest on investments
- If your organization offers paid workshops, the profits would be unrestricted funds
- Any revenue generated by the organization that is not designated for specific programming or projects may be allocated to organizational funding

Organizational funding helps to supplement core funding but also can allow the organization to expand in different ways as there are no restrictions from funders. However, all work done needs to relate back to your organization's mission and vision.

THE ACTUAL FUNDS

Accrual Accounting vs. Cash Accounting

CRA recommends the use of Accrual Accounting which is also the Canadian Generally Accepted Accounting Principles. Below is a table that briefly explains the differences between the two types of accounting.

Cash Accounting	Accrual Accounting
• Solely based on incoming and outgoing cash	• Generally Accepted Accounting Principles, and based on the period in which events occur
• Recognized when they occur	• Revenue recognized in the period in which it is earned, not when it is received
• Income recognized when it received, not when it is earned	• Expenses are reported in the period in which they are incurred, not when the bill is settled
• Expense is recorded when the payment is disbursed, not when it is incurred	• When a pledge is made, the income is recognized when the pledge is made, not when the donation is received

Most charitable organizations use accrual accounting. This video briefly explains the differences between the two kinds of accounting if you want to understand them further: https://www.youtube.com/watch?v=GEZZftO_VrE

Tracking Finances

Tracking or analyzing finances was shared in the Introduction to Foundational Training from CLO. Refer to that information for tracking your finances and analyzing what they mean.

It is important to be able to trust the financial information you are given. When you are analyzing your finances, it is important to question income and expenses that don't seem to match your expectations. Remember, our bookkeepers are human and are going to make mistakes. As a leader of an organization, you are the second set of eyes on the numbers.

Keep these thoughts in mind when thinking about the financial health of your organization:

- What are the current financial strengths and weaknesses of our organization?
- Do we have the funds to make our payroll and pay our bills? How are the current financials comparing to the annual budget we set?
- What are our long-term financial strengths and weaknesses?
- Do we have an adequate financial reserve? This is determined by each organization's board of directors. The rule of thumb is to have three to six months of operating expenses.
- Are our programs performing well financially or are we supplementing them with other funds?
- What are the trends happening that could affect our financials? This includes the good and bad.
- Do our stakeholders see us as efficient and effective financially?
- Look at your overhead costs and determine if they are reasonable? Do they stay within 15% of your budget? Look at your statement of financial position – are your assets more than your liabilities – if not this could put you into financial jeopardy.

Remember it is okay to have a planned deficit in a fiscal year if you also have a plan to recover that loss. If the deficit is in the LBS funds from the Ministry, you must get approval for the deficit from the Ministry.

CRA Rules:

Donations

An organization can only provide charitable receipts when they are designated by CRA as a charitable organization

Nonprofit organizations without a charitable designation cannot provide charitable receipts to a donor

Fundraising

The CRA has some very specific rules around fundraising for charitable organizations. Your auditor has probably recommended that you have a revenue and an expense line for fundraising – this is because you must report on fundraising in your charitable tax return (Form T3010).

There are also other rules that need to be kept in mind and you can find them at https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/policies-guidance/fundraising-registered-charities-guidance.html . It is recommended that all charities read these rules.

The one point we will focus on here is regarding the ratio of expenses to funds raised. This is in Section G – Point 85:

- **Ratio of costs to revenue over fiscal period – under 35%**
  This ratio is unlikely to generate questions or concerns by the CRA.
- **Ratio of costs to revenue over fiscal period – 35% and above**
  The CRA will examine the average ratio over recent years to determine if there is a trend of high fundraising costs. The higher the ratio, the more likely it is the CRA will be concerned the charity is engaged in fundraising that is not acceptable, requiring a more detailed assessment of expenditures.
- **Ratio of costs to revenue over fiscal period – above 70%**
  This level will raise concerns with the CRA. The charity must be able to provide an explanation and rationale for this level of expenditure to show that it is not engaged in unacceptable fundraising.

No organization wants to invite a federal audit. Keeping fundraising costs down is important. However, certain fundraising events like golf tournaments are not going to follow this ratio very well (the cost per golfer for golf and a meal can be a high percent of the funds raised). That is why you will find on the T3010 a variety of 'types" of fundraisers to select. CRA is aware there are some fundraisers that will not fit the ratio above.

Other information on running a not for profit/charitable organization can be found at https://www.canada.ca/en/revenue-agency/services/charities-giving/charities/operating-a-registered-charity.html

Restricted Contributions

There are 3 levels of restrictions that contributions will fall under:

- Unrestricted Contributions: These funds can be spent on any activity over any length of time as decided on by the Board of Directors
- Temporarily Restricted Contributions: These funds are to be spent fully on a specific activity. The best example of this is project funding. The funds are to be used specifically for the budget that was agreed upon with the funder
- Permanently Restricted Contributions: These funds can ONLY be used for the work they were designated for. Examples of this includes:
    - An endowment fund where the funds are directed to be used to help a specific group of people (e.g. single mothers).
    - A donation for a specific program or development area (e.g. family literacy)

Organizations cannot use these funds for any other reason without the approval of the donor

Cashflow Statements

Cashflow statements are a financial report that shows the movement of money in and out of the organization over a period of time. It can be thought of as very similar to keeping track of your personal income and expenses on a spreadsheet.

Personally, money comes into your bank account as individual when you get paid. If an individual is paying rent, you need to make sure the money is in your bank account to cover that cost at the end or beginning of the month. You may also plan to pay credit card bills mid-month when another pay cheque is coming in.

Keeping track of this is what you would call a cash flow. It can just become a little more complicated if you have more than one means of revenue. It is usually broken down into three different activities:

- Operating activities – this includes the day-to-day financial activities of an organization – grant payments, donations, etc. for revenue and payroll, rent, etc. for expenses.
- Investing activities – this includes the buying and selling of long-term assets – for example, buying new equipment or selling property (think of agencies that provide housing to clients)
- Financing activities – items in this category would be loans, mortgages, lines of credit, etc.

This is an example of a cash flow statement. If you have the suggested $60,000 in the bank to start you can then follow to ensure you have enough funds to cover the “shortfall” for each month. You can see if you do not have a base amount in the bank, you will need a line of credit to cover you until June.

Many smaller nonprofits do not keep regular cash flow statements as they have more understanding of what money is coming in and going out.

Cash Flow Projection: [Name of Organization]

Current Month	**January**
Current Cash Balance	**$60,000**
Annual Operating Expenses	**$222,200**

KEY:
Yellow = INPUT (data entry)
Grey = OUTPUT (No data entry)

	Jan	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*	*TOTAL*
CASH RECEIPTS													
Contributions & Support													
Foundations						55,000							$ 55,000
United Way	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	$ 18,000
Individual donations	100	100	100	100	100	100	100	100	100	1,000	1,500	1,000	$ 4,400
[additional line item]													$ -
Government Contracts													
Federal													$ -
Provincial	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	10,400	$ 124,800
Municipal	8,000											2,000	$ 10,000
Other Revenue													
Investment income													$ -
Program service fees													$ -
Special events													$ -
Fundraising events			7,500					2,500					$ 10,000
[additional line item]													$ -
Total Cash Receipts	**$20,000**	**$12,000**	**$19,500**	**$12,000**	**$12,000**	**$67,000**	**$12,000**	**$14,500**	**$12,000**	**$12,900**	**$13,400**	**$14,900**	**$ 222,200**
CASH DISBURSEMENTS													
Monthly operating expense estimate	18,517	18,517	18,517	18,517	18,517	18,517	18,517	18,517	18,517	18,517	18,517	18,517	$ 222,200
Adjustments (+ / -)													$ -
Total Cash Disbursements	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$18,517**	**$222,200**
Excess (Shortfall) from operations	**$1,483**	**($6,517)**	**$983**	**($6,517)**	**($6,517)**	**$48,483**	**($6,517)**	**($4,017)**	**($6,517)**	**($5,617)**	**($5,117)**	**($3,617)**	**$0**

Investments

The provincial government wrote a guide entitled, “Charities and Social Investments” https://www.publications.gov.on.ca/store/20170501121/Free_Download_Files/300779.pdf

It is suggested that organizations use an accredited professional when putting any funds into investments. The organization also needs to clearly define what kinds of funds they will invest in (e.g. they may not want to support any company using child labour) and how much they want to remain in Canadian corporations.

If you have a professional financial advisor, it does not take away the fiduciary duty of the board. The financial reports need to be reviewed and approved by the board.

In closing, remember to check the Canada Revenue Agency site for Charities and giving regularly for any updates or changes
https://www.canada.ca/en/services/taxes/charities.html

Watch for financial training workshops from Ontario Nonprofit Network and Charity Village and take advantage of the free and low-cost training available. Also do not hesitate to ask for help, your auditor, regional and provincial support organizations are here to assist you.

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