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Child Care Business Basics

A guide to financial and accounting concepts

Table of Contents

Introduction

Developed in 2017, the Early Childhood Education Fiscal Hub (Fiscal Hub) focuses on improving the financial stability of early childhood education (ECE) providers in Philadelphia through resources, technical assistance, and policy advancement. Seeing the need for child care owners and directors to better understand financial management fundamentals, the Fiscal Hub partnered with Vanguard's financial experts in 2020 to develop a financial guide specifically for child care businesses. For more information on the Fiscal Hub and resources, please visit our website at: https://ecebizopssupports.phmc.org/our-programs/early-childhood-education-fiscal-hub

If you manage a child care program—or are thinking about becoming an operator—you are aware of all the hard work that has to happen before you even open your doors. A brief list of tasks may include signing a lease for a location in your desired neighborhood; hiring staff that will help you deliver quality services; creating and designing marketing materials to attract families that will enroll their children; and researching, navigating, and complying with all the regulations that govern your business.

Even once you tackle all those items, you may run into one area that seems a bit thorny: financial management. You and your staff may have decades of experience caring for children, but calculating revenues and expenses and tracking assets and liabilities can be overwhelming.

This manual will provide a basic understanding of key concepts that will help you manage the financial side of your business and think about how to grow it over the long term. It covers accounting principles, provides an overview of financial statements, and describes the benchmarks and ratios you can use to judge the success of your operations over time. The information on the following pages will also help you navigate the conversations you may have with grant makers, loan officers, and regulators.

Getting started

To manage your business, it's a good idea to purchase accounting software such as QuickBooks or WAVE to help you track many aspects of your finances, including revenue and expenses, paid and unpaid invoices, and payroll. While this software can simplify accounting, users must know exactly what they are being asked to input, as the usefulness of such tools is only as good as the data entered into it. This manual is laid out in a similar order to what you may encounter with most financial and accounting software templates.

We also stress the value of keeping accurate financial records. Think of it as similar to doing your taxes. Just as you need to have all your receipts handy when you fill out your return, you will want to track the money you receive for providing your service and any related expenses. While filing a tax return is an annual event, you will want to track the financial health of your business on a monthly, quarterly, and annual basis.

Another important point is to know your limitations. This manual simplifies complex concepts. It's recommended that every small-business owner hire an experienced bookkeeper and sit down with an accountant who can walk you through the best practices for managing your finances. This may help you avoid costly mistakes just as you are trying to grow.

Understanding basic financial concepts

You might be familiar with financial terms such as revenue, expenses, assets, and liabilities. But if pressed, you might not feel comfortable explaining exactly what they represent. This section defines some of the most common financial terms. The next section will show you how they are used to build financial statements.

Standard chart of accounts

Think of this document as being like the table of contents in a textbook. The standard chart of accounts will likely be one of the first things you are asked to build when you boot up your accounting software, and it looks much like a general ledger. It records every financial transaction and assigns each one to an account that has a name, number, description, and balance. Collectively, this chart of accounts tells your business's full financial story. The Fiscal Hub has developed a standard chart of accounts geared toward child care providers that can be used as a guide (see appendix). We'll start by explaining assets, and then move through liabilities and shareholder equity—the three main categories of accounts on a standard balance sheet. Then we'll discuss revenues and expenses—the two main categories of accounts on a standard income statement.

Balance sheet

Assets

These are resources owned by the organization that represent some form of future economic value. They are listed on the top half of the balance sheet under several categories.

- **Current assets.** These are short-term assets expected to be used in the standard course of business within the next year. They include cash, accounts receivable, inventory, and shares of stock. They can be easily sold if a business needs to raise funds in a pinch. A child care provider's current assets will likely be cash and accounts receivable (the outstanding invoices for the services you provided). Accounts receivable represent revenue or fees that you have earned but have not yet been paid.
- **Noncurrent or fixed assets.** These represent long-term investments. They can include resources a business owns for use in its operations, such as a facility and any equipment (vehicles, etc.), as well as investments a company makes in other businesses. They are listed on the balance sheet as their cost minus depreciation. Unlike current assets, they aren't easily sold.
- **Tangible and intangible assets.** Think of tangible assets as physical assets—land, equipment, computers, furniture, and inventory. However, intangible assets don't have a physical component but still have value. Your business' reputation and brand identity and its client wait list are examples.

SPOTLIGHT

Best practices for cash management

At the most basic level, cash can be viewed as the balance in your business's bank account(s) and is categorized as a short-term asset in the standard chart of accounts. Cash is critical to your business's ability to meet and fulfill daily transactions and cover short-term liabilities (for example, payroll and credit card bills that cover daily expenses), also referred to as "liquidity." Your liquidity is not only important for supporting ongoing operations, but it also helps protect against unforeseen events such as unexpected expenses or loss or delay of revenue.

Best practices include:

- Establishing a separate bank account that segments business-related transactions from personal ones. This includes having separate business credit cards from personal ones.
- Determining a "liquidity target" for your business, often expressed in a ratio called "days cash on hand." This is a quick test of the adequacy of your operating reserve, or how long you could sustain operations if your revenue stopped coming in. It is important to have at least a 60 day reserve, but this can be customized in order to meet an organization's particular program needs (i.e., cover costs during summer months when enrollment is lower). **Days of cash on hand = (cash on hand – operating expenses)/365**
- Developing good operational habits that help preserve a healthy and timely cash flow (such as promptly invoicing parents and following up as required).
- Establishing an operating reserve or rainy day fund, which is a reserved amount of money to be used when regular income is disrupted or decreased in order for regular operations to continue. Rainy day funds can also be used to pay for one off projects or unplanned expenses.
- For family providers, understanding time-space percentage calculations as it relates to the business use of your home is needed. You will use this to determine how much of your shared business and personal expenses can be deducted from your taxes as a business expense. Your time-space percentage is determined by multiplying your time percent by your space percent. The time percent is determined by dividing the number of hours you work in your home for business purposes by the total number of hours in the year. The space percent is determined by dividing the number of square feet in your home that you use for business on a regular basis by the total number of square feet in your home. Your accountant or tax preparer can also assist you in doing these calculations.

Liabilities

A liability is something the company owes, necessitating a future payment. They offset the value of assets and detract from a company's net worth, and are listed below assets on the balance sheet.

Debt is the most common liability a business will incur. Debt is something borrowed – in most cases, it is cash – with a promise from the borrower to pay back the lender by a certain date. Debt has two components: the principal, which represents the original amount borrowed; and interest, the cost of borrowing that money which is paid back to the lender over time. Interest is typically paid monthly. The principal is repaid at the end of the loan. A mortgage used to fund the purchase of your facility is an example of debt. So, too, are business credit cards.

Just as with assets, liabilities are separated into several categories.

- **Current liabilities.** These are amounts due to be paid within the next fiscal or calendar year. There are several types:
  - Accounts payable. These are expenses owed but not yet paid. Payroll is a great example. So are payments provided to third parties such as a cleaning service for your facility or an office supplies distributor. Accounts payable will likely be one of the largest liabilities for child care providers.
  - Debt payable. If you took out a loan to help launch your business or to purchase your facility, this is the portion of that principal that is due within one year.
  - Interest payable. This is any interest currently due on company debt.
  - Taxes payable. This is the amount estimated by your accountant to have been incurred during the accounting period.
- **Noncurrent liabilities.** These are long term liabilities that are typically related to debt and have maturity dates that extend beyond the next year. If you took out a loan to launch your business, the principal that isn't due in the next year is a noncurrent liability.

Shareholder equity

Commonly referred to as "net worth" or "net assets," this account tracks what your organization is worth more holistically than simply looking at your bank account. It considers all assets and liabilities, including those that are short-term and liquid (for example, cash), as well as those that are long-term and illiquid (for example, buildings). Shareholder equity is listed at the bottom of the balance sheet.

- Total assets – total liabilities = net worth
- A positive number means your company has value.

Retained earnings

This line item in the shareholder equity section is the cumulative amount of profit left over once a company has paid a dividend to shareholders. (A dividend is a sum of money paid by some companies to their shareholders out of its profits.) A child care provider likely won't have shareholders. Retained earnings represent the money owners have reinvested back into the business to fund future growth.

Income Statement

Revenue

This is the income generated from normal business operations. Child care providers will likely have a few revenue streams, including:

- Tuition
  - **Private pay** – income received from parents to care for their children who do not receive a subsidy.
  - **Subsidized fees** – tuition from parent co-pays and Child Care Works Subsidy Program (CCW) and Department of Human Services (DHS). The amounts paid to the business through CCW and DHS are recorded by the state and the total amount for the year should be reported to you, and to the IRS, on Form 1099-NEC/1099-MISC.
  - **Other contracted sources** – funding from other contracted sources such as PHLpreK, Pre-K Counts, Early Head Start, and Head Start.

- Out of School Time (OST)—income received from the City of Philadelphia to subsidize care for the time school-age children spend outside of the traditional school day. This includes after-school, before-school, weekend, holiday, and summer programs.

- Food subsidy program—income received from the government as reimbursement for providing meals to children. Child and Adult Care Food Program (CACFP) is an example.

- Activity fees—income generated from attendance at certain events, field trips or programs.

- Grants and contributions—money received from various support organizations that are focused on child care.

- Private contributions, donations, and fundraising—income derived from individual giving or fundraising events held by your business.

Calculating revenue may seem straightforward. But there are nuances to keep in mind. For example, your service may accept students on a half-day or full-day basis and for a single day a week or several. You may provide a discount to families that enroll multiple children or use your services multiple times a week. You may also have families who pay in advance for, say, a semester of care. To track all of this correctly, you will use accrual accounting, a method that records revenue and expenses when a transaction occurs (even if the payment hasn't been received).

SPOTLIGHT

Timely revenue recognition and invoicing best practices

Revenue is defined as the income generated from the normal course of business. To calculate it, a company multiples the price it charges for its products or services by the number of products or services it sells. But the actual recognition of revenue on financial statements is not that straightforward. Software firms, for example, can charge their clients a licensing fee that provides access to a service over many years. Construction companies can receive revenue during the building process. The timing element of those situations complicates when a business can actually recognize revenue.

To record revenue on the income statement, accountants use accrual accounting. In general, this dictates that revenue can be recorded when a promised good or service is sold and delivered and a company receives the expected price in return.

Child care providers have several scenarios to consider. For example, a provider may get revenue from subsidies or public funding that is received well after services are provided. The provider may have families who pay upfront for several months of care. Or you may provide care to a child, but the family does not pay the invoice for several months. In both cases, you need to think through when you will recognize the revenue. If you provide care for a child for a week in January, you will recognize the revenue generated from that care in your first-quarter financial statements. You should also be recording any expenses related to providing that service in the same quarter.

Given the rules governing revenue recognition, you will want to produce timely invoices to your families to ensure you are receiving revenue in the same period as it is generated. It is recommended that you talk through revenue recognition with a certified accountant.

Expenses

These are the costs that businesses incur for providing services and products. Expenses must be recognized during the same period as the revenue they are used to generate. Child care providers may incur several types. A list of expense definitions and examples can be found in the appendix.

Staffing Costs

- Salaries, wages and benefits—costs related to paying your employees. This includes owner(s), directors, assistant directors, teaching staff (leads/assistants/aides), and other support, such as administrative or programmatic support. A best practice is to break the salaries down by age group so that you can understand your true cost of care for each age group served (infant, young toddler, older toddler, preschool, and school-age).
- Other staffing expenses – costs such as payroll taxes, employee benefits, professional fees and professional development/training costs.

Occupancy Costs. Occupancy costs are costs related to your facility for on-going and one-time costs. These include your rent or mortgage interest, utilities, telephone and internet, trash collection, security, cleaning, property taxes, and repairs and maintenance to your building and property. For family providers, the business use of your home is also an expense. Your accountant or tax preparer can assist in determining how much of your shared business and personal expenses can be deducted from your taxes as a business expense.

Other Operating Costs. Other operating costs are other essential costs to running your business. These include expenses like classroom equipment and supplies, office equipment and supplies, equipment rental, field trips, advertising/marketing, transportation (such as vehicles and buses), food, insurance, meals, entertainment, and travel, bank fees, legal and professional services, depreciation, bad debt, and operating reserve expense (or a rainy day fund).

Profit (or net income)

One of the most important barometers of the health of your business is profit, or net income, as it is called on the income statement. To calculate it, subtract revenue from expenses. What is left over is profit. The next section will describe in more detail certain measures of profit and the best practices for using this money to grow your business.

SPOTLIGHT

How compensation affects the growth of your business

The process of attracting and hiring employees can be time-consuming and costly. Corporations spend a lot of time on human capital management so that they can retain the best employees and develop a culture where their workers feel welcomed, challenged, and recognized.

While child care providers are not large corporations with thousands of employees, they will inevitably compete for employees with similar companies in the same or different neighborhoods. Your staff is arguably your most valuable asset. They provide care. They develop relationships with your families. They are the embodiment of your business. When you find good employees, you will want to keep them on your payroll and happy for years.

Though advocacy for equity of wages for early learning teachers is growing, reports show the average child care teacher in Pennsylvania makes around $10 an hour, or $20,000 a year. You should consider these as low baseline figures and be prepared to pay higher wages for more experienced candidates or to keep your best employees on staff. This is where budgeting comes into play. You may have to make tough decisions about paying certain employees top wages and paying less to entry-level workers, paying less to entry-level workers.

You may also want to think through the culture of your business. Studies have shown that diverse groups make better decisions, which can benefit businesses over the long-term. Think about building a staff that has diversity of personal characteristics, experience, and opinion. Studies have also shown companies can drive financial performance by creating a culture where employees feel welcomed and comfortable speaking out.

All of those factors should be part of your plan to grow your business.

Demystifying financial statements

The chart of accounts discussed in the previous section contains the building blocks for financial statements. These allow businesses to track financial health and provide standardized templates (reports) for sharing information with interested third parties (such as a bank or grant provider). Your business will likely concentrate on two of these financial statements—the income statement and the balance sheet—but we'll touch on the cash flow statement as well. Accounting software such as QuickBooks makes creating these statements easy after you provide the necessary input, but understanding how to interpret and use them is still critical to monitoring your ongoing financial health.

You can find examples of the balance sheet, income statement, the cash flow statement, and budget projections in the appendix or on the Fiscal Hub website at: https://ecebizopssupports.phmc.org/our-programs/early-childhood-education-fiscal-hub

Balance sheet

As described previously, the balance sheet includes three main sections: assets, liabilities, and equity. Think of it as a financial snapshot of what your business is worth at a specific point in time that should be studied and compared with previous versions (ideally monthly) to spot trends. Questions that you will then be able to answer include:

- Do I have enough cash or other assets to pay my bills (am I financially solvent)?
- How much is my business worth?

Income statement

As described previously, the income statement, or profit and loss statement, records a business's revenues and expenses during a particular period. If the balance sheet is a snapshot of a single point in time, think of the income statement as an aggregation of your business's activities over a specific length of time. It provides insight into where your main sources of revenue are and what parts of your operations cost the most and, like the balance sheet, should be analyzed month-to-month.

While you cannot tell a business's total net worth by looking at its income statement, you can get a detailed understanding of whether its ongoing operations are making or losing money, and the main causes of each. That's why it is a critical part of monitoring ongoing financial health.

Cash flow statement

The third financial statement you are likely to see is the cash flow statement, which tracks all the inflows a company receives for its products and services and all the outflows of cash used to pay for ongoing business activities. Unlike the income statement, which may use accrual accounting, the cash flow statement uses cash accounting, which records revenues and expenses in the period when cash is received and paid.

The cash flow statement has three sections: cash flow from operations, investing, and finance. Cash flow from operations lists the outflows from a company's core business activities. Cash flow from investing lists the cash spent on items such as equipment and physical spaces such as a facility. Cash flow from financing measures the cash a company uses to pay down debt or has received from issuing stock.

Making sense of your business's financial results

At this point, you may be wondering, "What exactly do all these numbers tell me about my business?" This section explains the trends revealed by financial statements that can help you answer some important questions.

One of the easiest ways to analyze financial statements is to calculate financial ratios. These can tell you how profitable your business is or whether you have enough cash to cover your bills. Listed below are some helpful financial targets for your business that are specific to early childhood education. These are critical metrics and ratios for fiscally sustainable and high-quality child care operations.

Please note that "per FTE child" metrics are calculated by the total number of full-time equivalent (FTE) children enrolled. A child (birth through age five) is considered one FTE if he/she is enrolled for five days per week for five hours or more per day). School age children may have varying FTE values based upon their participation in school-year versus year-round programming.

Profitability

Income

Revenue per FTE child = Total revenue/total number of FTE children enrolled
The amount of revenue earned per FTE child from various private and public funding sources. The higher revenue the better. This should be reviewed alongside operating cost per child to help determine whether program revenue fully covers the cost of operating a seat/slot.

Revenue per indoor square foot = Total revenue/total indoor square footage
The amount of revenue earned per indoor square foot. The higher the revenue the better.

FTE enrollment as percentage of operating capacity = Total FTE children enrolled/ Total operating capacity
This percentage shows how the number of FTE enrolled children relates to the total operating capacity (the number of children that could fit in the room according to program standards). The higher the percentage the better. This should be at 90% or greater as programs maximizing space (enrollment meets program capacity targets) will generate greater revenue.

Expenses

Operating Cost per FTE child = (Total salaries + occupancy + all other expenses related to operations)/Total FTE children enrolled
The expenses associated with the maintenance and administration of a business on a day-to-day basis relative to the number of FTE children enrolled. The lower the operating cost the better. This should be reviewed alongside revenue per child to help determine whether program revenue fully covers the cost of operating a seat/slot.

Occupancy expense per indoor square foot = Total occupancy expense/total indoor square footage
The amount spent on rent/mortgage per indoor square foot. Occupancy expenses are costs related to occupying a space, including but not limited to: rent or mortgage, property taxes, insurance, facility improvements, ongoing maintenance, utilities, trash collection, security, cleaning, telephone, and internet. The lower the occupancy expenses the better. Occupancy costs are generally controllable expenses and can often be negotiated. The ability to keep these types of overhead costs low frees revenue to support staffing and/or generate an operating surplus. Occupancy expenses should be at 15% or less of total expenses (or $15/square foot or less).

Growth and Earnings

Revenue growth per FTE child = (Current fiscal year's total revenue per FTE child/Last fiscal year's revenue per FTE child)-1
The change in revenue that a provider is earning or losing per FTE child from year to year. The higher the revenue growth the better. The cost of goods and services generally increases year-over-year (i.e. utilities, rent, and materials). In order to at least break even, revenue needs to increase by the same rate or more. A cost of living adjustment (COLA) based upon the consumer price index (CPI) is a helpful measure of the average change over time for consumer goods and services and can be used as a benchmark for revenue growth.

Operating margin = (total revenue – total operating costs)/total revenue
The percentage of each dollar of revenue that remains after operating expenses is considered. The higher the operating margin the better. Child care providers should aim to break even or better.

Liquidity

Days cash on hand = (Total cash/total operating expenses)/365
The number of days that an organization can continue to pay its operating expenses, given the amount of cash available. The higher the number the better. It is important to have at least 60 days, but this should be customized in order to meet an organization's particular program needs (i.e., cover costs during summer months with lower enrollment).

Current ratio = current assets/current liabilities
This is a measure of a company's ability to pay off its liabilities coming due within a year. The higher the number, the better.

Solvency

Debt-to-equity ratio = total debt/shareholder equity
This is a measure of how burdened a company is with debt. A high number may signal to lenders that a business could have trouble paying off its debt obligations.

Debt Service Coverage Ratio (DSCR) = Net Operating Income/Total Debt Service

This measures a company's ability to make the required payments on the Total Debt Service. Total debt service refers to current debt obligations, meaning any interest, principal, sinking fund, and lease payments that are due in the coming year. On a balance sheet this will include short-term debt and the current portion of long-term debt. Current Principal Debt Obligation and debt. A high ratio indicates the business is generating enough profit to cover these debt obligations.

Important questions about your business's financial health

Financial statements will help you answer questions you may be asking yourself or be fielding from bankers, regulators, or other interested parties.

What is my company's net worth?

Someone asking this question is typically trying to assess whether your company has more assets than liabilities. In its simplest form, net worth can be calculated by subtracting total liabilities from total assets.

What is the financial health of my business?

A person who asks this question could be looking at net worth. But they are also likely interested in trends over time, such as increasing profits over many quarters or years, revenues rising at a greater pace than expenses, or increases in revenue that indicate demand for your service. All of these can be indicators of a healthy business.

How am I generating money, and what are my greatest costs?

Increases in revenue indicate that families want the service your company provides. Costs will increase in line with revenue because it takes money to provide more services. But in some cases, efficient production processes can reduce costs and lead to higher profits. This may be a factor when you think about the number of children your staff can care for at one time. As your enrollment increases, you may be able to generate more revenue while keeping payroll expenses the same, until you need more staff to care for your new families.

Financial statements will help you determine if you have met the goals you set for your business. Revenue trends can indicate whether you need to increase enrollment. By looking at expenses, you can identify where you may be overpaying or need to renegotiate rates with vendors. The figures may also signal whether you need to find a new location (to pay less rent or enroll more children) or better prices for office supplies.

What you learn will help you see whether you are charging the right amount of money for your service. And that could determine the success or failure of your business.

SPOTLIGHT

Budgeting: short and long-term planning

One of the key steps to building a sustainable child care business is smart planning of short- and long-term budgets. A budget projects the revenue you will generate and the costs you will incur from providing your service, and you will want to monitor it on a regular basis (weekly, monthly, or quarterly). But you will also want to construct a budget that projects what your business might look like over the long-term. A budget template can be found in the appendix.

Making projections is an inexact science. Your business may have 25 children. While you hope those children stay enrolled, families move or sometimes can't afford to continue paying for care. Child care can also be seasonal. It is hard to predict the future, so projections are best guesses that help you make sensible decisions with the information you have. (If your center has been in business for many years historical financial performance will help you build better budgets.)

Projections used to craft a short-term budget will allow you to determine week-by-week if the revenue you are generating can cover any current expenses you may have, such as rent and salaries. If revenue does not cover expenses, you will need to dip into your cash reserves.

It may be beneficial to build a scenario analysis as you make your projection by looking at best-, worst-, and base-case scenarios. As a child care provider, you could project your business's revenue based on various levels of enrollment. For example, the base case could be your breakeven enrollment, where the revenue you generate equals the expenses you incur. Your best- and worst-case scenarios could be, say, a 20% increase or decline from the breakeven number. As you run the numbers, you should see trends develop that will give you clarity about your short-term budget expectations. A 20% drop in enrollment could show that you will burn through all your savings in a few months. A 20% increase could show profits will double this year.

Even if you just opened your business, you will still want to create a long-term budget. For example, if your enrollment projections show you will outgrow your current space in two years, you want to be saving for a move to a new location now. Similarly, if enrollment is strong, it may help you determine if you will be able to add another staff member next year. The budget can help you efficiently earmark any profits as you plan for equipment and computer upgrades or maintenance of your facility. If done right, it will help you anticipate any surprises that could provide obstacles to the growth of your business.

Conclusion

While financial management is often an overlooked component of child care operations, it is a critical piece of providing high-quality child care and sustaining your business for the future. By understanding the key accounting and financial concepts within this guide, we hope this helps you build the foundation needed to address short- and long-term fiscal issues that may arise.

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Glossary of common terms

To help with your understanding of the income statement, below are some common terms used on that document and definitions.

Staffing

Salaries and Wages

Owner – refers to persons who owns the business.

Director and Assistant Director – refers to persons in charge of facility and administrative responsibilities.

Teaching Staff (Lead/Assistant/Aides) – if a teacher is staffed for multiple care levels, the teacher's salaries and wages should be allocated to the age group in which he/she is scheduled to spend the majority of his/her time.

- Infant (birth-12 months)
- Young Toddlers (13-24 months)
- Older Toddlers (25-36 months)
- Preschool (37 months until kindergarten)
- School-Age (kindergarten - 13 years)

Other Support

Administrative Support – refers to regularly paid staff responsible for office support, such as dedicated financial staff, bookkeepers, data entry assistants, etc.

Programmatic Support – refers to regularly paid staff responsible for program delivery to children and families, such as floaters, substitutes, family support specialists, education coordinators, etc.

Other – refers to regularly paid staff that are not included in Administrative or Program Support, such as kitchen staff, security, etc.

Other Staffing Expenses

Payroll taxes – taxes on employee wages.

Employee benefits – includes benefits that do not change the expense line; health, vision, reduced child care, clearances.

Professional fees – costs for people for whom you do not pay benefits, who operate independently, and who receive a 1099 from you. These are program related contractors (e.g., music/yoga instructor). Excludes contracted services (legal, financial, and other administrative contractors), which are found in other operating costs. Some providers may not have any people who fit in this category.

Professional development/training – costs for staff to attend conferences, workshops, trainings, payments for staff continuing education, etc.

Occupancy

Rent or mortgage principal and interest—the monthly payment you make to your property owner or the principal payment made toward your facility loan. For family providers, rent expense may need to be allocated as a percent of use of home vs. business.

Facility improvement – one-time costs associated with renovating and upkeep of your facility.

Building maintenance – ongoing costs associated with regular upkeep of your facility, like fixing leaky faucets or unclogging pipes.

Property maintenance – ongoing costs associated with regular upkeep of your property, like snow-plowing, landscaping, CAM charges, etc.

Utilities – costs to pay for water, electricity, gas, etc. For family providers, utilities may need to be allocated as a percent of use of home vs. business.

Trash collection – costs to pay for trash removal.

Security – costs to maintain the security of your building, like camera fees, security guard, technology related to security, etc.

Cleaning – costs to keeping your facility clean and safe, like cleaning companies, supplies, etc.

Property taxes – costs paid for taxes on your facility.

Telephone and internet – costs paid to telephone and internet providers.

Other occupancy costs – any occupancy costs not identified in the list above.

Other Operating Costs

Classroom equipment and supplies – program related costs for furniture and materials, such as chairs, tables, cubbies, cabinets, toys, games, arts and crafts, consumables, etc.

Office equipment and supplies – administrative related costs for furniture and materials, such as office desks, file cabinets, paper, etc.

Equipment rental – costs to rent administrative equipment, like copiers, fax machines, telephone systems, etc.

Field Trips – costs related to taking children to participate in activities outside of your facility.

Advertising/marketing – costs related to generating marketing materials and advertising for your business.

Fundraising – costs to raise money from donors, like holding events, solicitation materials, etc.

Transportation – costs for vehicles, buses, parking, tolls, etc.

Food services – costs for meals and snacks for children. Excludes personnel, which should be accounted for in salaries and wages in staffing section.

Licensing, dues, and fees – costs paid for membership or association dues and fees.

Meals, entertainment, and travel – staff costs for business meals, entertainment, and travel.

Insurance – includes forms for facility (liability, fire, theft); vehicle, accident insurance for children; workers compensation; etc. Does not include health insurance or any other insurance that are part of employee benefits in staffing section.

Banking and Payroll Processing – fees paid to payroll processing providers and bank or credit card fees, like Paypal, Stripe, Square, etc.

Contracted services – costs for people to perform services for your business, like legal, financial services, and other business related contracted services. Excludes program related contractors (e.g., music/yoga instructor).

Depreciation – when you purchase property to use in your business, you generally can't take a business deduction for the full cost in the year you acquire the property. Instead you must usually deduct the cost over a period of years. By deducting a part of the cost each year, you eventually get business expense deductions for the entire cost. Examples that may deprecate include equipment that the business owns like playground, computers, vehicles, and appliances or real estate the busines owns such as the facility itself.

Amortization – like depreciation, amortization is a cost that is spread over many months versus taken in the year that the expenses occurs. Expenses that are amortized are startup costs that occur before the business is open and are intangible assets. An intangible asset is a resource that has no physical presence and has long-term value for a business. Examples may include your goodwill like reputation, brand identity and recognition, customer (family) loyalty and waitlist, and perhaps an especially talented workforce.

Bad debt – the proportion of revenue (tuition, fees, and co-pays) that is non-collectable. If your business practices cash basis accounting, this does not apply since you are only recording revenue actually received.

Other interest expense – other interest paid not identified in other line items.

Other miscellaneous taxes – other taxes paid not identified in other line items.

Indirect – costs paid to a parent organization.

Operating reserve expense (rainy day fund) – a reserved amount of money to be used when regular income is disrupted or decreased in order for regular operations to continue. Rainy day funds can also be used to pay for one off projects or unplanned expenses.

Miscellaneous – costs that are not included in any other line item.

All templates can be found on the Fiscal Hub website at: https://ecebizopssupports.phmc.org/our-programs/early-childhood-education-fiscal-hub

Income statement template

Fiscal Hub - Standard Chart of Acccounts (Philadelphia)

Income Statement

(12 months of FY 20XX)

Revenue

Fill out using your accounting system's Profit and Loss statement for the 12 month year end.

Private Pay	________
Child Care Works (CCW) Subsidy Program – Provider Payments	________
Child Care Works (CCW) Subsidy Program - Parent Co-Pays	________
Pre-K Counts	________
Head Start	________
Early Head Start	________
PHLpreK	________
Child and Adult Care Food Program (CACFP)	________
Out of School Time (OST)	________
Department of Human Services (City of Philadelphia)	________
Educational Improvement Tax Credit Program (EITC)	________
Keystone STARS Grants and Awards	________
Other Grants	________
Inter-Agency Subsidy	________
Fees Related to Field Trips	________
Contributions	________
Fundraising Events	________
Other Charges	________
Miscellaneous	________
Total Revenue From Profit and Loss	0

Expenses

Staffing

Fill out using your accounting system or payroll reports for the 12 month year end.

Salaries and Wages

Owner	________
Director and Assistant Director	________
Teaching Staff (Lead/Assistant/Aides)	
If a teacher is staffed for multiple care levels, please indicate the care level in which the teacher is scheduled to spend the majority of his/her time.	
Infant (birth-12 months)	________
Young Toddlers (13-24 months)	________
Older Toddlers (25-36 months)	________
Preschool (37 months until kindergarten)	________
School-Age (kindergarten - 13 years)	________
Other Support	
Administrative Support	________
Programmatic Support	________
Other	________

Other Staffing Expenses

Payroll Taxes	________
Employee Benefits	________
Professional Fees	________
Staff Professional Development/Training Costs	________
Total Staffing Expense from Accounting System or Payroll Reports	0

Occupancy

Only enter cost that your business covered (not from donations or if a parent organization covers any of these costs).

Rent or Mortgage

Annual Mortgage Interest Payment	
Annual Mortgage Principal Payment	
Annual Rent	

Other Occupancy

Facility Improvement (one-time costs)	
Building Maintenance (ongoing)	
Property Maintenance (ongoing-snow plowing, landscaping, CAM charges)	
Utilities (gas, electric, water)	
Trash Collection	
Security	
Cleaning	
Property Taxes	
Telephone and Internet	
Other Occupancy Costs	
Total Occupancy	0

Other Operating Costs

Classroom Equipment	
Classroom Supplies	
Office Equipment and Supplies	
Equipment Rental	
Field Trips	
Advertising/Marketing	
Fundraising (events, materials)	
Transportation (vehicles, buses)	
Food Services (excluding personnel)	
Licensing, Dues, and Fees	
Meals, Entertainment, and Travel (for staff)	
Insurance	
Banking and Payroll Processing	

Contracted Services

Legal	
Financial Services	
Other Contracted Services	

Other

Depreciation and Amortization	
Bad Debt	
Other Interest Expense	
Other Miscellaneous Taxes	
Indirect	
Miscellaneous	
Operating Reserve Expense (rainy day fund)	
Total Other Operating Costs	0
Total Expenses	0
Net Operating Income	0

Other Income

Gain (Loss) on Sale of Assets	
Interest Income	
Total Other Income	0
Net Income (Loss) or Change in Net Assets	0

Balance Sheet
(end of FY 20XX)

Assets

Current Assets

Cash	
Operating Accounts	
Food Program Account	
Escrow Deposit Account	
Petty Cash	
Total Cash	0
Accounts Receivable	
Parents Fees, Net of Allowance	
Subsidized and Program Fees Receivable	
Accounts Receivable - Other	
Other Current Assets	
Prepaid Expenses	
Other	
Total Current Assets	0

Fixed Assets

Land & Buildings	
Furniture & Equipment	
Leasehold Improvements	
Construction In-Progress	
Other Fixed Assets	
Less: Accumulated Depreciation	
Total Fixed Assets (net of depreciation)	0

Other Assets

Long-Term Restricted Cash	
Long-Term Accounts Receivable	
Due From Other Parties	
Total Other Assets	0
Total Assets	0

Liabilities and Equity

Current Liabilities

Accounts Payable	
Accrued Expenses	
Deferred Revenue	
Accrued Payroll	
Accrued Vacation	
Current Portion of Long-Term Debt	
Other Current Liabilities	
Total Current Liabilities	0

Non-Current Liabilities

Deferred Tuition Fees	
Deferred Charges	
Parent Deposits	
Long-Term Debt	
Due to Other Parties	
Total Non-Current Liabilities	0
Total Liabilities	0

Owners' Equity or Net Assets

Non-Profit	
Unrestricted Net Assets - Board Designated	
Unrestricted Net Assets	
Temporarily Restricted Net Assets	
Permanently Restricted Net Assets	
For Profit	
Paid In Equity	
Retained Earnings	
Owner's Equity or Total Net Assets	0
Total Liabilities + Owner's Equity or Total Net Assets	0

Check	
Assets = Liabilities + Owner's Equity or Total Net Assets	TRUE

Cash flow statement template

12 Month Cash Flow

SCORE
FOR THE LIFE OF YOUR BUSINESS

Please note that this cash flow template has been modified by the Early Childhood Fiscal Hub (Fiscal Hub) to be tailored to child care providers. For more information about the Fiscal Hub, contact FiscalHub@phmc.org or visit our website at www.ecebizopssupports.phmc.org.

Cash Flow (12 months)

Enter Organization Name Here **Fiscal Year Begins:**

	Pre-Startup EST	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total Item EST
Cash on Hand (beginning of month)		0	0	0	0	0	0	0	0	0	0	0	0	0
CASH RECEIPTS														
Private Pay														
Child Care Works (CCW) Subsidy Program – Provider Payments														
Child Care Works (CCW) Subsidy Program - Parent Co-Pays														
Pre-K Counts														
Head Start														
Early Head Start														
PHLpreK														
Child and Adult Care Food Program (CACFP)														
Out of School Time (OST)														
Department of Human Services (City of Philadelphia)														
Educational Improvement Tax Credit Program (EITC)														
Keystone STARS Grants and Awards														
Other Grants														
Inter-Agency Subsidy														
Fees Related to Field Trips														
Contributions														
Fundraising Events														
Other Charges														
Miscellaneous														
TOTAL CASH RECEIPTS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Cash Available (before cash out)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CASH PAID OUT														
STAFFING														
Salaries and Wages														
Owner														
Director and Assistant Director														
Teaching Staff (Lead/Assistant/Aides)														
Infant (birth-12 months)														
Young Toddlers (13-24 months)														
Older Toddlers (25-36 months)														
Preschool (37 months until kindergarten)														
School-Age (kindergarten - 13 years)														
Other Support														
Administrative Support														
Programmatic Support														
Other														
Other Staffing Costs														
Payroll Taxes														
Employee Benefits														
Professional Fees														
Staff Professional Development/Training														
OCCUPANCY														
Rent or Mortgage														
Annual Mortgage Interest Payment														
Annual Mortgage Principal Payment														
Annual Rent														
Other Occupancy														
Facility Improvement (one-time costs)														
Building Maintenance (ongoing)														
Property Maintenance (ongoing)														
Utilities (gas, electric, water)														
Trash Collection														
Security														
Property Taxes														
Telephone and Internet														
Other Occupancy Costs														

12 Month Cash Flow

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Cash Flow (12 months)

Enter Organization Name Here **Fiscal Year Begins:**

	Pre-Startup EST	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total Item EST
OTHER OPERATING COSTS														
Classroom Equipment														
Classroom Supplies														
Office Equipment and Supplies														
Equipment Rental														
Field Trips														
Advertising/Marketing														
Fundraising (events, materials)														
Transportation (vehicles, buses)														
Food Services (excluding personnel)														
Licensing, Dues, and Fees														
Meals, Entertainment, and Travel (for staff)														
Insurance														
Banking and Payroll Processing														
Contracted Services														
Legal														
Financial Services														
Other Contracted Services														
Other														
Depreciation and Amortization														
Bad Debt														
Other Interest Expense														
Other Miscellaneous Taxes														
Indirect														
Miscellaneous														
Operating Reserve Expense (rainy day fund)														
SUBTOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan principal payment														
Capital purchase (specify)														
Other startup costs														
Reserve and/or Escrow														
Owners' Withdrawal														
TOTAL CASH PAID OUT	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Position (end of month)	0	0	0	0	0	0	0	0	0	0	0	0	0	0

ESSENTIAL OPERATING DATA (non cash flow information)														
Sales Volume (dollars)														
Accounts Receivable														
Bad Debt (end of month)														
Inventory on hand (eom)														
Accounts Payable (eom)														
Depreciation														

Budget template

Fiscal Hub
Annual Budget Projections (3 years)

Organization:	
Current Year:	

		Current Year		
REVENUE		**Year 1**	**Year 2**	**Year 3**
	Private Pay			
	Child Care Works (CCW) Subsidy Program – Provider Payments			
	Child Care Works (CCW) Subsidy Program - Parent Co-Pays			
	Pre-K Counts			
	Head Start			
	Early Head Start			
	PHLpreK			
	Child and Adult Care Food Program (CACFP)			
	Out of School Time (OST)			
	Department of Human Services (City of Philadelphia)			
	Educational Improvement Tax Credit Program (EITC)			
	Keystone STARS Grants and Awards			
	Other Grants			
	Inter-Agency Subsidy			
	Fees Related to Field Trips			
	Contributions			
	Fundraising Events			
	Other Charges			
	Miscellaneous			
TOTAL REVENUE		$ -	$ -	$ -

		Current Year		
EXPENSES		**Year 1**	**Year 2**	**Year 3**
STAFFING				
Salaries and Wages				
	Owner			
	Director and Assistant Director			
	Teaching Staff (Lead/Assistant/Aides)			
	Infant (birth-12 months)			
	Young Toddlers (13-24 months)			
	Older Toddlers (25-36 months)			
	Preschool (37 months until kindergarten)			
	School-Age (kindergarten - 13 years)			
	Other Support			
	Administrative Support			
	Programmatic Support			
	Other			
Other Staffing Expenses				
	Payroll Taxes			
	Employee Benefits			
	Professional Fees			
	Staff Professional Development/Training			
	TOTAL STAFFING COSTS	$ -	$ -	$ -
OCCUPANCY				
Rent or Mortgage				
	Annual Mortgage Interest Payment			
	Annual Mortgage Principal Payment			
	Annual Rent			
Other Occupancy				
	Facility Improvement (one-time costs)			
	Building Maintenance (ongoing)			
	Property Maintenance (ongoing)			
	Utilities (gas, electric, water)			
	Trash Collection			
	Security			
	Cleaning			
	Property Taxes			
	Telephone and Internet			
	Other Occupancy Costs			
	TOTAL OCCUPANCY COSTS	$ -	$ -	$ -

Fiscal Hub
Annual Budget Projections (3 years)

Organization:	
Current Year:	

		Current Year Year 1	Year 2	Year 3
REVENUE				
OTHER OPERATING COSTS				
	Classroom Equipment			
	Classroom Supplies			
	Office Equipment and Supplies			
	Equipment Rental			
	Field Trips			
	Advertising/Marketing			
	Fundraising (events, materials)			
	Transportation (vehicles, buses)			
	Food Services (excluding personnel)			
	Licensing, Dues, and Fees			
	Meals, Entertainment, and Travel (for staff)			
	Insurance			
	Banking and Payroll Processing			
Contracted Services				
	Legal			
	Financial Services			
	Other Contracted Services			
Other				
	Depreciation and Amortization			
	Bad Debt			
	Other Interest Expense			
	Other Miscellaneous Taxes			
	Indirect			
	Miscellaneous			
	Operating Reserve Expense (rainy day fund)			
	TOTAL OTHER OPERATING COSTS	$ -	$ -	$ -
TOTAL EXPENSES		$ -	$ -	$ -
NET OPERATING INCOME		$ -	$ -	$ -

OTHER INCOME		**Year 1**	**Year 2**	**Year 3**
	Gain (loss) on sale of assets			
	Interest income			
	TOTAL OTHER INCOME	$ -	$ -	$ -
Net Income (Loss) or Change in Net Assets		**$ -**	**$ -**	**$ -**