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ABSTRACT

This manual is designed to provide guidelines for the analysis of the costs of operating day care centers and not day care homes. Day care is defined as a broad term applied to a variety of programs that shelter preschool and school age children on something less than a 24-hour basis. The guidelines set forth by this manual aim to permit the following performance characteristics: (1) consistent application by day care centers possessing wide variations in bookkeeping sophistication; (2) enough flexibility to be applicable to centers operating at different hours, days, weeks, and months during a year, (3) isolation of significant differences in operating patterns, (4) separation of core costs from exogenous costs, (5) evaluation of the internal management and efficiency of day care centers, (6) development of accurate and detailed cost comparisons between day care centers, (7) application to other types of child care arrangements, (8) accumulation of normative data on the costs of operating day care centers, (9) an examination of the ratio of capitalization to operating costs, and (10) use by persons who do not have special training. The manual is divided into six main sections: Introduction, Reporting Income, Reporting Expenses, Attributing Total Operating Costs to the Functions Performed, Calculating the Units of Service Provided, and Cost Analysis. (CK)

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# Day care Cost analysis

A MANUAL OF INSTRUCTIONS

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prepared by:  
KEITH Mc Clellan  
Project Director

assisted by:  
Delia Zemont  
Carol Kelpsas

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## FOREWORD

Good fiscal information is a prerequisite to consistent, successful management and the foundation for sound patterns of financial support. Yet community funds, charitable organizations, foundations, private providers of social services, and agencies at all levels of government have long been hampered by a dearth of reliable information about the cost of social services. Cognizant of these facts, the Welfare Council of Metropolitan Chicago as early as 1964 initiated research into the cost of providing institutional care for children.

On the strength of five years of research on the utilization of time and cost data for children's institutions and two decades of involvement in research and planning for day care, the Welfare Council of Metropolitan Chicago received a grant from the Children's Bureau, U.S. Department of Health, Education, and Welfare in the winter of 1969-70 to develop this *Manual of Instructions for Day Care Cost Analysis*. From the outset, the project sought to overcome the difficulties that cost analysis had encountered in other areas of child care service. It sought to avoid the cost and degree of commitment required to undertake studies of staff time use and space utilization. Consequently, the manual focuses on standardized reporting of costs rather than on standardized bookkeeping or accounting of costs.

Like many other areas of child care, day care is a constantly changing mode of service. Day care is not simply a strategy for child care outside a child's own home. It is a strategy for helping children grow cognitively, physiologically, spiritually, and emotionally.

One of the core advantages of day care is its potential for contributing to constructive growth and development and forestalling the need later for the more costly child care arrangements such as institutions and group homes for dependent and neglected children, detention homes, correction homes, and homes for mentally or physically disabled children.

Day care centers currently form only one source of supply of day care, and a relatively small source at that. But this segment of the day care field can be expected to grow as the public becomes increasingly aware of the important service day care centers can render to both parents and children.

While the supply of good teachers and supervisors for day care centers is apparently quite elastic, the supply of satisfactory, responsible day care center management is relatively inelastic. The growth of the day care center segment of the day care industry is likely to be adversely affected by this inelastic supply of good management.

Good day care center management requires a rare combination of skills. It requires: (1) the ability to relate to financiers, staff, clients, and the community; (2) knowledge about what makes a good child care program; and (3) knowledge of the elements of program cost.

Whereas normal family experience and formal education and training are combining to meet the growing demand for good teachers and supervisors, a grasp of relevant fiscal knowledge is usually gained only through trial and error while on the job. This method of acquiring knowledge is both costly and time-consuming.

This manual is viewed as a management tool to assist in the training of day care center management both "on-line" and in the classroom. It is also viewed as a tool for developing normative costs for various kinds of day care service. Hence financiers and users of day care services, as well as day care center owners and managers, can be expected to benefit from this manual.

Finally, the manual was designed in such a fashion that it is applicable to infant care centers, after-school care centers, group homes, and foster homes as well as preschool day care centers.

In sum, we believe this manual will be an important contribution to both the ongoing effort to achieve fiscal accountability in the delivery of social welfare services and the effort to strengthen day care management.

John H. Ballard  
Executive Director



## PREFACE

This manual was developed as a product of the project of the Welfare Council of Metropolitan Chicago funded through the United States Department of Health, Education and Welfare, Children's Bureau, Office of Child Development. The objectives of the project and the manual are delineated in the introduction to the manual. The concepts, classification of day care, and guidelines for the analysis of costs were developed and made possible by the cooperation and assistance of many individuals and organizations. We are especially indebted to Dr. Charles P. Gershenson, Director of Research, Office of Child Development, Health, Education, and Welfare; William H. Ireland and Charles P. Webb of the Illinois Department of Children and Family Services; Mirl W. Whitaker, Child Care Association of Illinois; John P. Walsh, Community Fund of Chicago, Inc.; the Chicago Association for the Education of Young Children, American Montessori Society, Catholic Charities, Lutheran Charities, Jewish Welfare Services, Episcopal Charities, and all the day care centers that have been involved and will participate in the testing of the manual.

This manual provides a working guide and the tools to gather data on day care operating costs. It will be used to accumulate fiscal data for future analysis and planning.

The manual represents the work of Keith McClellan, Project Director, and his staff who have provided not only a comprehensive manual, but have contributed additional knowledge about child care services and delivery systems to the child care and development fields. The testing of this manual will almost certainly add even more useful knowledge to our understanding of day care operating costs and management.

Jean E. Bedger  
Research Director

## ACKNOWLEDGMENTS

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We owe a special note of thanks to the following day care center operators for showing us their programs and sharing their insights and experience with us: Mrs. Joan Bradbury, Coop School II; Mrs. Joahn W. Brown, La Petite Academy (Harvey, Illinois); Mrs. Katherine Cline, Junior Village (Glen Ellyn, Illinois); Mr. Robert Donnelly, Gay Time Nursery; Mrs. Evelyn Edwards, Chase House; Mrs. Ann Elrich, Chicago Association for Retarded Children; Mrs. Joan Gearay, Beverly Montessori; Mrs. Lila M. Gordon, Ancona Montessori School; Mrs. Ronald Harrigan, First Congregational Church Day School (Western Springs, Illinois); Mrs. Charles Haslett, Search School for Exceptional and Retarded Children; Mrs. Patrick Henneberry, Laren Montessori School; Mrs. Elizabeth Jacob, Virginia Frank Child Development Center; Mrs. Betty Johnson, Betty's Nursery and Kindergarten; Mrs. Dorothy Jones, Mary Crane Nursery School; Sister Mary Lawrance, Marillac House; Mrs. Madora R. Marshall, Chatham-Avalon Nursery; Mr. Burton Miller, Institute for Contemporary Education; Mr. James Monahan, Lt. Joseph Kennedy, Jr., School for Exceptional Children (Palos Park, Illinois); Mrs. Marion Obenhaus, Chicago Child Care Society, Mr. William Okrafosmart, Horizon House Head Start; Mrs. Dome Petrutis, Lithuanian Montessori Children's House; Mrs. Selma Pinko, Seton Montessori School (Clarendon Hills, Illinois); Miss Mona Podore, Hyde Park Cooperative Day Nursery; Miss Sara Raheja, Uptown Lutheran Day Care Center; Mr. Benjamin Robinson, Lawndale Day Care Center; Mr. Robert Schueler, Jolly Fun House; Dr. William Shields, St. Alexius Hospital Nursery; Dr. Laszlo Stein, Henner Hearing and Speech Center of Michael Reese Hospital; Mrs. Shirley Thompson, Tri-City Coop; Mrs. Muriel Tuteur, Amalgamated Clothing Workers Day Care Center; Sister Andrea Vaughan, DePaul Settlement Day Nursery; Mrs. Janet Vaughn, Center for Pre-School Education; and Mrs. Leona Watkins, Altgeld Gardens Nursery School. We also thank the 293 day care centers of metropolitan Chicago that responded to our questionnaire on day care operations and programming.

Miss Mary McLean edited the manual.

The constructive criticism of Dr. Charles P. Gershenson, Mr. William H. Ireland, Dr. C. T. Husbands, Mr. Thomas Burke, and my wife has been invaluable. However, I alone am responsible for any errors of omission or commission in the manual.

Keith McClellan

July, 1971

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# 1

## INTRODUCTION

Day care is a broad term applied to a variety of programs often having little in common except that they shelter preschool and school age children on something less than a 24-hour basis.<sup>1</sup> Day care can achieve continual care for dependent, retarded, or emotionally disturbed children by reducing the need to remove them from their families while solutions are being developed, or it can provide merely custodial care for the children of working parents. It can also be a method for affecting a child's development and learning, or a combination of any of the foregoing.

By and large, there are only two distinct types of day care settings—day care homes and day care centers. A *day care home* is a family home that is licensed to receive a limited number of children for care during the day. In Illinois, a maximum of eight children, including the family's natural or adopted children under 18 years of age who are in the home under full-time care, are permitted in a day care home setting. By contrast, the Illinois law defines *day care center* to mean "any child care facility receiving more than eight children for daytime care during all or part of a day."<sup>2</sup> This definition includes facilities commonly called "child care centers," "day nurseries," "nursery schools," "kindergartens," "play groups," and "centers or workshops for mentally or physically handicapped with or without stated educational purposes."

This manual is designed to provide guidelines for the analysis of the costs of operating day care centers and *not* day care homes. It is anticipated, however, that the procedures and reporting forms outlined in this manual will permit cost comparisons with other kinds of child care arrangements.

<sup>1</sup>Since the licensing of day care, nursery, and Head Start in most states does not differentiate between these types of programs, the term "day care" shall apply hereafter to all of them.

<sup>2</sup>*Standards for Licensed Day Care Centers and Night-time Centers* (Illinois: State of Illinois Department of Children and Family Services, January 1, 1970).

## THE MANUAL'S OBJECTIVE

The objective of this manual is to set out procedures for ascertaining the costs of operating day care centers. These procedures must permit all of the following performance characteristics:

1. Consistent application by day care centers possessing wide variations in book-keeping sophistication
2. Enough flexibility to be applicable to centers operating at different hours, days, weeks, and months during a year
3. The isolation of significant differences in operating patterns
4. The separation of core costs from exogenous costs
5. The evaluation of the internal management and efficiency of day centers
6. The development of accurate and detailed cost comparisons between day care centers
7. Application to other types of child care arrangements
8. The accumulation of normative data on the costs of operating day care centers
9. An examination of the ratio of capitalization to operating costs
10. Use by persons who do not have special training

## STRATEGY FOR COST ANALYSIS

### Standard Reporting

This cost analysis manual differs from the cost analysis manual prepared for *Utilizing Cost and Time Data in Agency Management*<sup>3</sup> in that it focuses on a standard reporting system for annual expenditures and income.

By focusing on standard reporting of income and expenditures, a wider variety of types of day care centers will be able to participate than would be possible if centers were asked to institute changes in bookkeeping procedures. Moreover, reliable cost analysis requires standard *reporting* of annual expenditures rather than a standard *accounting* system for those expenditures. A variety of accounting systems may potentially yield the necessary data for standard reporting, as is the case in income tax reporting. Hence, too much concern with the accounting systems used by day care centers may detract from energy better spent in making certain that the expenditures reported through standard reporting forms are appropriately handled so that the data generated will reflect comparable programming and levels of service.

<sup>3</sup>Leroy H. Jones, *Utilizing Cost and Time Data in Agency Management* (Chicago: Welfare Council of Metropolitan Chicago, 1969), Publication No. 7006.

### Accrual Accounting

Accrual accounting is recognized as the most realistic method of accounting. Currently, however, most day care centers record revenues only when they are *received* in cash and record expenses only when they are *paid* in cash. Such "cash-basis" accounting is what the average day care center owner or manager understands by budgeting and accounting. Since a center must meet its obligations on this basis, day care center owners and managers may assume that such accounting is adequate for financial reporting. "Cash-basis" accounting introduces such significant inaccuracies, however, that it is not considered acceptable for most commercial accounting.

Accounting on a cash basis produces serious distortions from year to year, even of regular items of revenue and expense. Consider, for example, the situation of a cash-basis organization with a biweekly pay period in a year that starts on a Wednesday or a Thursday and ends on a Friday. Under these conditions, an organization would have to report 54 weeks' worth of salary expense. The unpredictable expense variations caused by delayed billings for purchases near the end of a year are an even more important cause of distortions.

Another potentially serious deficiency of cash-basis accounting may occur when a day care center manager manipulates his center's expenses for a year simply by withholding and not paying some of its year-end bills. Thus, cash-basis accounting permits manipulations of one kind or another that could significantly distort day care cost analysis.

In accrual accounting, on the other hand, an agency records contributions, fees, and other forms of revenue when it obtains an "unqualified right" to receive them, and it records expenses, purchases, and other bills when it incurs a clear obligation to pay them. Fees for services rendered to a public agency, for instance, should normally be recorded as income when the services are rendered. Similarly, a day care center should normally record purchases of services or supplies as soon as they have been received.

The evident advantage of accrual-basis accounting over cash-basis accounting is that accrual accounting provides for the recognition of financial transactions in an organization's accounts in the period when they occur—normally the same month or year. The timing of this recognition depends only on the activities of the organization and is not subject to arbitrary shifting between periods.

The objective of accrual accounting is to recognize all *substantial* amounts receivable or payable by an organization as they occur. It would not be necessary, for example, for centers to accrue minor amounts of interest due on savings accounts but not yet credited, or of unbilled property taxes, or to set up as an asset the unexpired portion of a property insurance premium the benefit of which extends beyond the year of its payment.

To achieve consistency and comparability both between financial statements of successive years and between financial statements of different organizations, it is essential that day care centers adopt accrual accounting for assets and liabilities as the standard basis for preparing their annual reports.

Accrual accounting need pose no problem for centers whose year-end pledges or other accounts receivable or payable are relatively insignificant. For such organizations, cash-basis

and accrual-basis accounting are essentially the same. (It must be emphasized also that accrual accounting is needed only for preparation of annual financial statements for day care cost analysis.)

### Standard Definitions

In addition to employing accrual accounting, the standard reporting system outlined in this manual requires standard terminology, units of measurement, and functional categories. Standard terminology is most useful when it is specific rather than general. Indeed, the more detailed the definition of terminology, the easier it is to work with because it reduces the judgment needed in individual cases. Consequently, the instructions for making line entries contain definitions that are specific and detailed.

The problem of measuring service is confined to a measurement of gross output as contrasted to impact. For the sake of simplicity, the largest *common* denominator of service was sought. The largest denominator would appear to be cost per year of operation. However, some centers do not operate twelve months; some are open for only nine months. The same is true for using a week; not all centers operate the same number of days. In addition, day care centers vary in the number of hours they operate each day. Some centers are open only in the morning, while others are open twelve hours a day.

Therefore, the largest *common* denominator was considered to be the "hours of service."<sup>4</sup> "Hours of service" are then translated into "hours of service *per child*" by multiplying the hours of service by the number of children served during those hours of service.<sup>5</sup>

The use of functional categories for fiscal reporting entails focusing on specific aspects of the operation of any agency or business. The decision regarding which aspect of a day care center's operations should be the focus of attention involves a value judgment as to how much detail is useful to the promoters, financiers, and administrators of day care programs.

Public administrators, whether local, state, or federal, appear to be primarily concerned with overall accountability as measured by general audits and benchmark guides to normative costs. Operators of proprietary day care centers are basically concerned with staying in business and showing a profit. They are typically interested in the percentage of payroll expenditures to overall out-of-pocket costs. They are also interested in the amount of capital tied up in supplies, the cost of rent and utilities, and the value and cost of advertising. They do not appear to be particularly interested in research, social work, or counseling *per se*. Nor do they appear to be interested in a detailed breakdown on how staff time contributes to most of the functional aspects of their program.

Though useful, these data are usually seen as ancillary, since the average day care center is small enough that its owner or administrator knows the trade-offs involved in alternative use of staff and space over time. If he does not, it is unlikely that these data will help correct the situation.

<sup>4</sup>Two centers may operate the same number of hours but be open a different number of days and incur different expenses as a consequence. Hence, a record of the number of days the center operates is also requested.

<sup>5</sup>In some cases, this step may be relatively complex as a child care center will not serve the same number of children from month to month, week to week, day to day, or even from morning to afternoon.

If functional reporting categories are to be useful in making cost comparisons, they should be applicable to a wide variety of child care arrangements in addition to focusing on specific aspects of a day care center's operation. Consequently, the manual endeavors to use categories that could be used and applied to a wide variety of child care arrangements. Cost comparisons are thus permitted between day care and other types of child care arrangements. At the same time, the aspects of day care center operations that are useful to day care center promoters, financiers, and administrators are isolated for reporting purposes.

#### No Time Studies

One of the major obstacles to functional reporting is an accurate prorating of the salaries, payroll taxes, and fringe benefits paid to employees who perform more than one job function. Traditionally, time studies have been made of the activities of these employees as a basis for prorating their salaries, etc., to the appropriate functional categories.

A time study is the most accurate device for prorating the time and subsequently the salaries, etc., of multifunctional personnel. However, time studies are relatively costly and inconvenient to undertake. Moreover, unless a daily log is maintained that accounts for even short intervals of time, their accuracy is limited. Consequently, an analysis of work schedules and job titles and systematic estimates of the number of hours per week spent on various duties are recommended instead.

### FUNCTIONAL REPORTING SYSTEM

Functional *accounting* is a method (1) of structuring accounting books of original entry and the general ledger, or (2) of using a subsidiary ledger to facilitate the accumulation and allocation of costs and income by program or service function. In contrast, a functional *reporting* system simply concentrates on reporting the operating costs by program or service function. Functional reporting is an end product of functional accounting, but a functional accounting system is *not* a prerequisite to functional reporting.

Both functional accounting and functional reporting of operational costs tend to be costly and time-consuming since they usually entail an accounting of the use of staff time and facility space as well as a detailed accounting of financial outlays.

On the other hand, functional reporting of operating expenses permits administrators and funding agencies to make cross checks into the use of funds, thereby isolating management and fiscal problems before they become serious. It also provides insight into the nature of changes that occur within institutions and agencies over time.

The functional reporting system outlined in this manual identifies two kinds of functions: (a) program service functions, and (b) supportive service functions.

This manual recognizes six mutually exclusive **program service functions** of child care centers: (1) Supervision and Education; (2) Special Education; (3) Food Service; (4) Health Service; (5) Intake, Evaluations, and Referrals; and (6) Staff Development and On-the-Job-Training. Three **supportive service functions** are recognized: (1) Administration, (2) Occupancy, and (3) Transportation.

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Administration<sup>6</sup> and Occupancy are seen as overhead costs. As such, their cost must ultimately be prorated as part of the cost of providing program service functions. Transportation is also considered a supportive service function, but unlike Administration and Occupancy, it is not considered an overhead cost. Hence, Transportation costs are not attributed to the total cost of providing child care program services.

Under the procedures described in this manual, Occupancy is distributed against Administration and the six program service functions. Subsequently, Administration costs are distributed to the six program service functions.

One of the principal advantages of identifying Occupancy as an operating function to be distributed against program service functions is the isolation of the cost of performing program functions exclusive of Occupancy costs. This is particularly important in the case of rental costs, which vary widely between inner city and suburb and between cities.

Administration is defined as Management and General Administration. This distinction is made principally for operational analysis. It recognizes that not all administrative costs are management costs.

Thus, certain administrative costs are excluded from the definition of Management costs because they are necessary to the *overall* organization and maintenance of a day care center, not simply to the cost of managing an operation. At least five kinds of expenditures fall into this category: income and corporation taxes, licenses, uncollectible accounts, dividends, and net gains in working capital derived from operations. Ideally, income and corporation taxes should be prorated among the functions of an operating enterprise on the basis of the net income derived from each function. However, the functions performed by child care centers and the types of income attributable to their operation are such that the cost of arriving at net income exceeds its value.

Privately owned child care centers exist, at least in part, to make a profit, and unless they show a profit, they cease to operate. Hence, dividends or their noncorporate counterparts are necessary operating expenses of some day care centers and are to be reported as operating expenses under General Administration.

Perhaps the most unusual operating expense in this classification is "net gains in working capital derived from operations." This set of costs is a recognition that depreciation allowances by themselves are not sufficient for replacing capital goods. Depreciation allowances merely permit the replacement of capital goods based on the original purchase price. Inflation, changes in standards, and changes in quality, however, often make it impossible to replace capital goods at their original price. Hence, net increases in working capital from operations must be accumulated for most child care centers to remain in operation—regardless of their auspices.

For these reasons, up to 10 percent of the total amount of depreciation allowance claimed is to be considered an operating expense for the purposes of this manual and is to be allocated to the line item "net changes in working capital derived from operations." Net changes in working capital from sources other than operations, such as the issue of capital stock for cash, are *not* to be considered operating expenses.

<sup>6</sup>The total Administration cost to be prorated is the combined cost of Management and General Administration.



### Prorating Occupancy Costs

Typically, the costs of Occupancy are prorated among various program service functions being costed according to the percentage of total floor space occupied by each program service function.

This method of prorating Occupancy costs has a number of inherent weaknesses when applied to the analysis of the costs of operating day care centers. By and large, day care centers—particularly proprietary centers—use available space for a number of functions during the course of an operating day. Consequently, prorating of the space used for several purposes would require time studies of space-use before the cost of that space could be accurately apportioned. Such time studies would be complicated by changes in the use patterns of floor space during the course of a year. In addition, the prorating of common space such as halls, rest rooms, utility rooms, and storage space requires a special strategy when floor space is used as the device for distributing Occupancy costs. Furthermore, not all space is of equal value as assumed in this technique for distributing Occupancy costs. Moreover, how should the costs of grounds be prorated? Finally, it seems questionable to distribute heating and air conditioning costs on the basis of floor space when in fact the amount of cubic space being heated or cooled is the determinant of these costs.

An alternative method of prorating Occupancy costs is recommended in this manual. It calls for distributing Occupancy costs on the basis of the man-hours spent performing each of the functional services excluding Transportation. While this method of prorating creates mild biases,<sup>7</sup> it has two significant advantages. First and foremost, it is easy and inexpensive to compute. Second, in child care centers, there is a close parallel between the number of man-hours spent by persons engaged in various functions and the way in which space is used.

### Prorating Administration Costs

Once Occupancy costs have been distributed against Administration and the six program service functions, then the costs of Administration are to be prorated among the six program service functions.

Many functional reporting systems divide administration into general management and fund raising prior to prorating management costs. When fund raising costs are separated from other management costs, the total cost of fund raising is generally distributed among various program service functions on the basis of the percentage of total net expenses incurred by each function. This division is *not* recommended in this manual as it is difficult to relate fund raising efforts to specific program service functions in child care service centers.<sup>8</sup> For the same reason, procedures outlined in this manual do not call for calculating the net expenses for the six program service functions identified.

<sup>7</sup>At least two biases are created by using this methodology: (1) a mild reduction in the appropriate Occupancy costs charged to Supervision and Education because this function requires more space than other functions, and (2) a mild bias related to size, that is, the charging of the costs of common space to centers with small staffs or to centers with staffs just over the threshold requiring additional common space such as bathroom facilities.

<sup>8</sup>For purposes of organizational analysis, fund raising expenses have been separated from other management costs as a line entry in the Management category under Administration.

There are several possible methods of prorating Administration costs, whether or not fund raising is considered to be a part of Management.

Several functional accounting systems, including the one recommended by Community Fund of Chicago, Inc., use the percentage of the total cost of the salaries paid to persons engaged in the operating program functions as the mechanism for prorating Administration expenses to functional program services.<sup>9</sup> This method of distributing Administration costs has several significant weaknesses. The implication of the system is that it costs more to manage staff personnel who receive high salaries than those who receive low salaries. This is certainly a spurious assumption since higher salaries are often given to persons who have more experience and who exercise more independence and initiative. Furthermore, it assumes that the substitution of contract services for salary reduces administrative costs. Finally, the distribution of administrative costs such as licenses, telephone, and other communications expenses on the basis of dollar value of salaries paid also would appear to introduce distortions.

A second method of distributing Administration costs uses the percentage of total man-hours spent by staff in each of the program service functions as the basis for distributing Administration costs. To avoid the distortions introduced by the substitution of contract services for staff services, this method requires an adjustment for the man-hours spent by contractors in providing services in each of the program service functions.<sup>10</sup> This adjustment requires special accounting. If special accounting is available, the distribution of Administration costs by this method has advantages over the method based on the percentage of total salaries spent in each function, as it neutralizes distortions created by differences in salaries paid to personnel.

The third method of distributing Administration costs is the method recommended in this manual. It calls for computing the percentage of the total expenses spent on providing each functional program service and prorating Administration costs on this basis. While this method of distributing Administration costs is affected by differential salaries paid to personnel performing different program functions, the effect of this distortion is somewhat neutralized by accounting for contract services and nonpersonnel costs in the expenditures for each functional category. Furthermore, this method of distributing Administration costs avoids the necessity for keeping records on man-hours of time purchased through contract services.

#### **Development of a Data Base**

To undertake cost analysis, certain basic fiscal reports showing assets, liabilities, revenues, and expenses must be made.

<sup>9</sup>Community Fund of Chicago, Inc., *Accounting and Budget Manual*, November, 1966, Chapter 11, page 12.

<sup>10</sup>This argument does not apply to distributing Occupancy costs by man-hours of service since contract services typically do not require the use of building space, whereas management expenses are associated with the arrangement and assurance of appropriate delivery of contract services.

The first fiscal report required for cost analysis is a statement of annual income. Along with a report on expenditures, the statement of annual income is a primary source of fiscal data for the cost analysis procedures outlined in this manual. The statement of annual income requested is not a statement of cash flow. While a statement of cash flow would be of obvious value to day care promoters, financiers, and administrators, such a statement is beyond the purview of this manual.

The statement of annual income requested for the cost analysis procedures outlined in this manual focuses on the actual income received during the reporting year and designated for use in that year. It must reflect income from revenue, contributions, and grants. Both cash income and donated goods and services are to be reported in the income statement. The statement of annual income is needed to determine the financial solvency of a day care center during a given year.

The first expense statement requested is a record of total annual line item operating expenses. The manual outlines in detail the procedures for reporting such items as donated goods and services, depreciation, amortization, trade-ins, and unpaid bills. The second expense statement reports expenses in nine functional categories. Instructions for allocating the total operating costs to functional categories are furnished. Instructions for prorating personnel costs for employees and volunteers who perform services in more than one functional category are also furnished.

The third basic report required for cost analysis is a record on the number of child-hours of child care service provided. Because of the difficulty of calculating accurate average attendance data, the number of child-hours of day care service provided by the child care center is based on enrollment. A methodology for determining the number of child-hours of service using average daily enrollment is presented in Chapter 5.

### Cost Analysis

The purpose of cost analysis is to provide management tools for (a) exercising organizational control, (b) pricing goods and services, and (c) determining sound investment patterns. The indices and ratios outlined in this manual were selected to meet these objectives.

On the income side of the ledger the basic index is the percentages of total income derived from fees, interest, memberships, gifts/contributions, rentals/leases, sale of property, and special events. Similarly, the percentages of total expenditures spent on personnel, building occupancy, licenses, communications, advertising/fund raising/community relations, supplies, special services, and other expenses is viewed as a basic management tool on the expenditure side of the ledger.

Initially, these data can be used to compare *expected* patterns of revenue and expenditure with *actual* revenue and expenditures. As comparative data from centers using this manual become available, analysis of variance between centers with similar programs will be possible. Each of these comparisons will permit management to chart variations in income and in personnel expenditures and capital expenditures.

The derivation of percentages of the total costs for each of nine different functions common to child care centers and agencies is recommended as a basic management tool.

Such percentages make it possible to isolate idiosyncracies in the costs of delivering child care services because they separate ubiquitous services from special services.

Analyses of net changes in inventory and of the ratio between initial capitalization and annual expenditures are recommended.

Five forms of cost analysis, each of which provides a different type of knowledge about the costs of operating a day care center or a child care agency, are recommended. (See conclusions at the end of this chapter.) None of the data reported is of value, however, unless used to make decisions.

Finally, it should be kept in mind that financial indicators, including ratios, focus on a specific aspect of the operation of an agency or business. The decision as to the aspect of the business or agency on which to focus is a value judgment.

## **MAKING VALID COST COMPARISONS**

Making accurate cost comparisons requires more than standard reporting: it requires a clear understanding of what is being compared.

Day care centers, day care homes, and other types of day care arrangements differ widely in size, scope, clientele, child care objectives, and even in fiscal objectives. Operational day care centers currently range in size from centers serving six to eight children to centers serving upwards of 200 children. Their scope of service ranges from highly sophisticated preschool education to mere custodial care arrangement. Some day care centers serve children who are emotionally disturbed or physically handicapped, while other centers serve only normal children. Some centers emphasize the mastery of skills, while others emphasize the mastery of interpersonal relationships. Finally, some centers seek to minimize potential fiscal losses in their management strategy, while others seek to maximize potential fiscal gains.

Day care centers of different size, scope, clientele, child care objectives, and even fiscal objectives cannot be compared without a clear understanding of what is being compared. Obviously, comparing costs of day care centers that serve children who are deaf and blind with centers that serve normal children without reference to the difference in clientele would be misleading. Likewise, to compare the costs of operating a day care center that provides portal-to-portal transportation for its clients as a part of its service package with a center that does not would produce distortions. Classification of day care centers together with the identification of costs of exogenous services and their separation from the costs of core services are seen as a potential solution to these problems.

### **Program Classification**

Classification of day care centers begins with the hypothesis that selected ownership and program characteristics can be used to predict the clientele, facilities, staffing patterns, services, and organizational arrangements of day care centers. In turn, these variables are seen as predictors of variations in costs of operating day care centers of the same size.

To gather the necessary information on day care center characteristics to test this hypothesis, a census was conducted of the 543 preschool day care centers located in metropolitan Chicago and licensed by the State of Illinois as of February 1, 1970. A mailed, self-administered questionnaire, which was intended to take a maximum of 30 minutes to complete, was designed. The questionnaire was structured in five parts:

1. Ownership and management
2. Facilities
3. Measures of physical environment
4. Clientele
5. Program (i.e., learning and teaching techniques)

A total of 45 questions were posed. These questions yielded 332 separate pieces of information about each center. Each of these pieces of information became a potential variable for cross-classification analysis. Moreover, new variables could be produced by combining or editing information from the self-administered questionnaires, which was augmented by the insights gained from 33 selected, on-site reconnaissance visits consisting of open-ended interviews with administrative personnel.

By August 1, 1970, 293 responses had been received. These responses represented approximately 54 percent of the licensed day care centers in metropolitan Chicago. A slight bias in the responses has a distorting influence on the data when they are used to describe the characteristics of all day care centers in metropolitan Chicago. Proprietary centers, centers licensed for fewer than 30 children, and centers with insecure management, program, or financial status are somewhat underrepresented in the responses. (See Tables 1 and 2.) However, the value of the classification scheme is independent of this source of bias.

**TABLE 1**  
**AVERAGE DAILY ATTENDANCE IN LICENSED**  
**DAY CARE CENTERS, METROPOLITAN CHICAGO**

<u>Children Served</u>	<u>Total Number</u>	<u>0 - 29</u>		<u>30 - 59</u>		<u>60 +</u>	
		<u>No.</u>	<u>Percent</u>	<u>No.</u>	<u>Percent</u>	<u>No.</u>	<u>Percent</u>
Preschool	544	200	37	230	42	114	21
School-aged	29	8	28	11	38	10	34
Total:	573	208	-	241	-	124	-

Source: State of Illinois Department of Children and Family Services, February, 1970.

TABLE 2

**COMPARISON OF NUMBER OF CENTERS FOR PRESCHOOL CHILDREN  
THAT RESPONDED TO QUESTIONNAIRE AND NUMBER OF  
CENTERS LICENSED FOR PRESCHOOL CHILDREN**

Ownership or Auspices	Total Number of Centers		Average Daily Attendance									
			0 - 29		30 - 59		60 +					
	Sample No.	% Licensed	Sample No.	% Licensed	Sample No.	% Licensed	Sample No.	% Licensed				
Private	85	51	185	30	60	50	28	32	88	27	57	47
Church-related	66	55	131	33	57	58	21	45	47	12	46	26
Not-for-profit	110	55	221	50	59	85	39	41	95	21	51	41
Cooperative	5	71	7	2	50	4	3	100	3	0	-	0
<b>Total:</b>	<b>266*</b>	<b>-</b>	<b>554</b>	<b>115</b>	<b>-</b>	<b>197</b>	<b>91</b>	<b>-</b>	<b>233</b>	<b>60</b>	<b>-</b>	<b>114</b>

Sources: Illinois Department of Children and Family Services and information obtained from the 283 centers that responded to our questionnaire.

Note: As of February 1, 1970.

\* In addition, 27 centers responded to the questionnaire but did not estimate average daily attendance. These were distributed as follows: Private-10; Church-related-6; Not-for-profit-11.

Initially, dependent variables such as sources of income, full-time staff members with college education, the presence of central purchasing, the use of contract services, service to ethnic minorities, service to handicapped or mentally disturbed, and service to the neighborhood of location were run against 16 different ownership-auspices arrangements. After making successive tests in which categories were merged with other categories, it was found, on the basis of the dependent variables used, that four categories adequately described the 16 types of ownership-auspices arrangements originally tested. The four categories that emerged were labelled (1) private ownership, (2) church-related, (3) not-for-profit, and (4) cooperative. Private ownership includes individual proprietorships, partnerships, and corporations. Church-related centers were considered to be not-for-profit organizations with church affiliation. Not-for-profit is a category used to identify all not-for-profit organizations without church affiliation. Among these are centers with university affiliation, centers managed by governmental bodies, and centers managed by unions. The category titled "cooperative" is self-explanatory.

Programs can be identified in a variety of different ways. To disentangle the complex set of ingredients that comprise a program, a classification was devised in terms of four factors: success-orientation, type of supervision, strategy for skill-development, and type of reward motivation. Each of these variables was dichotomized, the components of each being labelled as: (1) **Success-orientation**: mastery of skills/mastery of interpersonal relationships; (2) **Supervision**: directed learning/nondirected learning; (3) **Skill Development**: fixed tasks/flexible tasks; and (4) **Reward-Motivation**: operant conditioning/positive reinforcement. (See Illustration 1)

**Success-orientation** was used to identify a day care center's criterion for measuring a child's developmental progress. The management and teaching personnel of all day care centers appear to hold out two primary goals for their preschool clients: (1) the mastery of skills, and (2) the mastery of interpersonal relationships. In no case do the management and staff of individual day care centers place equal emphasis on these two objectives. It was our hypothesis that the philosophical decision as to which of these two objectives was primary would have a meaningful impact on the design and operation of a day care center's program. Hence, all day care centers were identified as stressing either the mastery of skills or the mastery of interpersonal relationships.

The second basic component of day care programs was identified as **Supervision**. It was observed that day care centers are characterized by either teacher-directed learning or by nondirected learning. Teacher-directed programs are currently more prevalent than nondirected learning programs, but a growing number of centers have nondirected learning arrangements such as those associated with the name of Montessori.

The third basic component of day care programming was identified as attitude toward **Tasks**. Some day care programs, particularly but not exclusively the Montessori programs, rely upon a fixed group of tasks or routines around which learning and motor skills are developed. In contrast, many day care centers emphasize creative free time as well as set

Success Orientation	Mastery of Skills				Mastery of Interpersonal Relationships				
	Directed Learning		Nondirected Learning		Directed Learning		Individualized Learning*		
	Fixed Tasks	Flexible Tasks	Fixed Tasks	Flexible Tasks	Fixed Tasks	Flexible Tasks	Fixed Tasks	Flexible Tasks	
Supervision									
Skill Development									
Reward-Motivation	O	PR	O	PR	O	PR	O	PR	O
O = Operant PR = Positive Reinforcement									

Note: An interpersonal relationship oriented program with nondirected learning would produce an unstructured play environment, hence this set of cells would be blank. A new category was introduced here to account for a special set of programs that could not otherwise be accounted for.

ILLUSTRATION 1. PRELIMINARY CLASSIFICATION OF DAY CARE PROGRAMS



routines. These centers typically reward children who create their own learning and motor skill development activities.<sup>11</sup>

A pilot test of the program classification scheme outlined above revealed that one preliminary modification was advisable.<sup>12</sup> It was discovered that none of the programs oriented toward the mastery of interpersonal relationships would admit to having nondirected learning. To do so would have placed these programs in the category of the Swedish Park-Ant programs, or worse yet would have required an admission that they have no program at all. The pilot test also revealed a small category of programs that were oriented to interpersonal relations and at the same time oriented to dealing with individuals. In every case, these centers were attempting to treat hard-core, emotionally disturbed preschool children. In short, the blank cell that would normally have occurred in the design, as a consequence of the unwillingness of day care center managers to admit to having an unstructured play environment, was replaced by a variable titled "mastery of interpersonal relations, individualized learning." (Illustration 2)

The hypothesis that a classification system based on program and ownership arrangement can be used as a predictive device to isolate clusters of day care centers sharing similar expenditure and income patterns was shown to be worthy of further testing.

An analysis of day care costs entails the development of appropriate units of measurement, a method of identifying and isolating exogenous costs, the determination of a basis for treating donated goods and services, and a standard procedure for allocating expenditures to appropriate functional cost categories. The test of the accuracy of these procedures is their ability to provide insight into such matters as good management strategies, optimum sizes of day care centers, suitable fee schedules, proper ratios between indebtedness and net income, and appropriate staffing patterns.

This insight can be gained only when cost comparisons are made between comparable services. The evidence gathered to date indicates that the use of the classification system outlined above will be appropriate for achieving the manual's objectives.

## CONCLUSIONS

The cost data developed through application of the guidelines outlined in this manual are intended for two distinctly different kinds of comparisons: comparisons between different functions within the same child care center or agency, and comparisons between the

<sup>11</sup>On-site visits to a representative sample of day care centers revealed that Montessori preschool centers focus on learning tasks that have carry-over value for adult life, whereas child development centers focus on creative arts and play. Both Montessori and child development centers, however, encourage adult-life role modeling. By contrast, the kibbutz, as viewed by Bruno Bettelheim, permits peer-group-centered role-modeling to occur. See *Children of the Dream* (London: Macmillan Company, 1969).

<sup>12</sup>Reward-motivation was the fourth basic component of day care programming identified by the project. This variable refers to a spectrum of philosophies including operant-conditioning and positive reinforcement. The amount of information needed to classify day care programs on this variable was beyond the scope and resources of this project. Consequently, the fourth variable was not utilized in day care program classification.

<b>Cooperative</b>	Interpersonal-relationships-oriented, Directed Learning
	Individual-oriented, Directed Learning
	Task-oriented, Nondirected Learning
	Task-oriented, Directed Learning
<b>Not-for-profit</b>	Interpersonal-relationships-oriented, Directed Learning
	Individual-oriented, Directed Learning
	Task-oriented, Nondirected Learning
	Task-oriented, Directed Learning
<b>Church-related</b>	Interpersonal-relationships-oriented, Directed Learning
	Individual-oriented, Directed Learning
	Task-oriented, Nondirected Learning
	Task-oriented, Directed Learning
<b>Private</b>	Interpersonal-relationships-oriented, Directed Learning
	Individual-oriented, Directed Learning
	Task-oriented, Nondirected Learning
	Task-oriented, Directed Learning

Note: Each program category must be controlled by size to insure reliable findings.

**ILLUSTRATION 2. HYPOTHESIS FOR CLASSIFICATION OF DAY CARE PROGRAMS**

operating costs of different child care centers or agencies. Comparisons between the operating costs of different child care centers or agencies depend upon a classification system to assure the validity of comparisons. Four types of cost comparisons between different child care centers are recommended:

1. Comparisons of the operational differences in cost and program between two or more child care centers
2. Comparisons of the operational differences in cost and program between two or more groups or classes of child care centers
3. Comparisons of how widely individual centers in the group vary
4. Establishment of norms and determination of the deviation of individual child care centers and groups of child care centers from these norms

Comparisons between operating costs per child per hour of service, source of income, and sources of revenue among day care centers having common characteristics, and cost comparisons between the costs per child per hour of services for centers with different levels of initial capitalization and of different size are seen as useful measures of the types of difference listed above, particularly when the costs for common, core services are being compared.

Useful internal comparisons might focus on any number of issues. This manual focuses on seven basic internal comparisons:

1. The ratio of capital investment to annual operating expenses
2. The ratio of personnel costs to total operating costs
3. The percentage of total operating costs spent on each functional category of the center's operations
4. The ratio of management costs to program operating costs
5. The ratio of "fund raising costs" to "funds raised" and "funds raised" to "operating expenses"
6. The ratio of the value of the capital assets accumulated during the year to total income
7. The total cost per child per hour of day care service

## 2

# REPORTING INCOME

This manual is not a bookkeeping manual. It is a uniform set of procedures for reporting income and expenses in such a way that the costs of operating a child care center can be determined. In practice, this means that a child care center need not change its method of accounting and bookkeeping as a prerequisite to undertaking a cost analysis of its operations.

The concept of uniform reporting may necessitate some adjustments in the reporting of pledges, accounts receivable, donated goods and services, accounts payable, and depreciation allowances. These adjustments are most likely to occur for centers using cash-basis accounting. Furthermore, some centers may have personnel who work for less than the commercial rate or who even volunteer their services without pay, and these situations must be reported uniformly. Finally, depreciation expenses must be calculated and reported in the same way for all child care centers using the procedures outlined in this manual.

The income and expense forms that follow provide guidelines for making all necessary adjustments. Both income and expenditures should be reported only for the period of time a center operates during a calendar year. This period should not exceed a calendar year.

Making out the statement of annual income (Form A) will require little change in procedure from that required to complete the income statement already being used by centers. The major differences will be in donated goods and services and capital fund pledges. Worksheets are supplied at the end of this chapter to assist in compiling the information required for donated goods and services. These worksheets will also be used for completing the expense statement. A worksheet for calculating the amount of capital fund pledges to be reported annually is also included. (See Exhibit I)

### PLEDGES

The reporting of ordinary pledges as contributions in the operating statement of the year for which they are made is entirely compatible with the practice of soliciting contributions for the next year's operations (which permits a not-for-profit center to budget on the

**CAPITAL FUND PLEDGES WORKSHEET**  
 (Prorated over the half-life of the asset)

Amount Received	Estimated Years Life of Fixed Asset	Date Received	AMOUNT REPORTED									
			1972	1973	1974	1975	1976	1977	1978			
\$10,000	10	1970	\$2,000	\$2,000	\$2,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
5,000	5	1971	2,000	1,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
15,000	10	1972	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	-0-
3,000	3	1973	-0-	2,000	1,000	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total Amount Reported:			\$7,000	\$8,000	\$6,000	\$3,000	\$3,000	\$3,000	\$ -0-	\$ -0-	\$ -0-	\$ -0-



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basis of cash and firm pledges actually in hand). Federated fund raising organizations provide the most conspicuous illustration of this practice. The practice requires consideration, however, of the way in which these pledges should be reported in the year when they are made.

Capital fund pledges are not intrinsically associated with any one year, but are designed to finance acquisition or construction of land, buildings, and other assets to be used for several years. Consequently, pledges to a building or other capital fund campaigns require different treatment in a center's operating statements from pledges made to support activities for a particular year. A separate record should be kept of pledges to buildings and other capital fund campaigns. The *total* of pledges to a capital fund campaign, less a 10 percent allowance for uncollectible pledges, should be prorated over a period not to exceed the anticipated half-life of the buildings, equipment, or other property acquired. (See Exhibit I and Form 1)

The accounting for pledges and grants receivable may be summarized as follows:

1. Pledges and grants are to be recognized for year-end reporting as income, to the extent that they are judged to be reasonably certain to be collected.
2. Pledges and grants that by their nature or terms were intended for support of activities of a particular year, or that were not specified as for another year and were to be paid during a particular year, are also to be included in public support and revenue in an agency's operating statement for that year.
3. Pledges and grants receivable are to be reported during the year for which they are designated.
4. Separate records are to be kept on capital fund pledges, and only a prorated portion of those pledges are to be reported for any one year.

## ACCOUNTS RECEIVABLE

If services have been given and business transactions completed, income not yet received from tuition, special fees, sale of goods, and rentals should be considered accounts receivable and included as income for the reporting period. If an account for accounts receivable is not carried in a center's books, the amount of receivables to be included as income may be computed by using the invoice register in the following manner:

- Step 1. Total the invoices unpaid at the end of reporting period
- Step 2. Total the invoices paid during the reporting period for business transacted during the previous period
- Step 3. Subtract total of Step 2 from total of Step 1, and include the resulting amount when reporting income on lines 2 and 8 of Form A, Statement of Annual Income

If Step 2 is *less* than Step 1, the total income reported on lines 2 and 8 of Form A will be *greater* than actual cash payments received

If Step 2 is *greater* than Step 1, the total income reported on lines 2 and 8 of Form A will be *less* than actual cash payments received

If an accounts receivable is carried on the books, it is simply a matter of identifying the amount of money to be reported on lines 2 and 8 of Form A.

## **DONATED GOODS AND SERVICES**

The basic guideline for imputing the costs of donated goods and services is to calculate the difference between what the day care center pays for goods and services and the commercial rate for those goods and services the center receives either at a cost substantially less than the commercial rate or free of charge.

To be included as an imputed cost, a donation should meet the following criteria:

- It has a measurable commercial value
- It is usable by the center for its institution service
- It is furnished directly to the center and under its administrative control and is not routinely provided all children as a community service. Thus, public schools, tax-supported transportation, or scouting and recreation facilities are not included as imputed costs.

Generally speaking, imputed personnel services fall into three classes: (1) unpaid volunteers who do center work; (2) religious personnel who work in the agency and receive a stipend substantially less than the commercial rate of pay, or who receive no pay; (3) persons who do work for a center but are paid by an outside organization other than the parent organization.

Reasonable reductions from fair market value (not to exceed 75 percent of fair market value) should be made when the center did not seek or has no appreciable use for the service donated, but at the same time cannot afford, for one reason or another, to reject volunteer service. Because of the highly individual nature of volunteer services, the amount of such reductions must be left to the judgment of the reporting center.

### **Worksheets for Donated Services**

The worksheets for donated services will provide the needed data for estimating the dollar value of donated services. They will also provide the necessary information required for completing the allocation of professional fees and personnel costs to the appropriate functional category.

The following definitions will be used in this manual for the purpose of reporting donated services and expenses by line item:

**Volunteers:** parents of children who are receiving services from the day care center and other persons who do not render professional services as defined below. This would include religious personnel who receive either a stipend substantially less than the commercial rate of pay or no pay. (See Exhibit II and Form 2) In no case should voluntary services be computed at less than the federal minimum wage.

**Professional Donated Services:** specialists' services that the center would otherwise have to pay for. This includes firms and individuals who would normally be paid on a retainer fee or individual contract basis. A volunteer who gives this type of service should be reported on Form 3, Worksheet for Professional Donated Services.

A completed worksheet for volunteers who gave a variety of services for varying periods of time is shown in Exhibit II.

1. One parent who works three (3) hours per day twice a week for one (1) year
2. One volunteer who works five (5) hours per day per week for six months and also helped with fund raising
3. One volunteer who works one full day per week, for one year and also helped with fund raising
4. One parent who helped with fund raising
5. One volunteer whose service was given irregularly, one-half hour one day, two hours on another day, one hour on another day, and who in this fashion donated ten hours of service throughout the entire year
6. A nun who received a stipend only and who worked in the center as a teacher

#### **Completing the Worksheet**

The headings in Columns A, B, C, D, and E in Form 2 are self-explanatory. Difficulty arises only when volunteer services are not on a regular basis or when they combine regular and irregular hours. Volunteer number five (5) in the example donates irregular hours of service. In this case only the total number of hours can be entered. Volunteers numbers 2 and 3 combine regular and irregular hours. Here the regular hours per day per week per number of weeks are entered, and only the total number of days given to fund raising are shown in the column headed "number of days per week." The total number of hours (Column F) equals Column C times Column D times Column E.

Column G headed "estimated dollar value" has not been completed in Exhibit II because there is such variance in the value of donated services to centers that any example given may not in fact be a good example. Exhibit II does show, however, that once the number of hours of service is calculated, it is simply a matter of multiplying this number by an appropriate hourly rate to compute the estimated dollar value. In the case of volunteer 6,



**WORKSHEET FOR SERVICES DONATED BY VOLUNTEERS  
DURING REPORTING PERIOD**

A	B	C	D	E	F	G	H	I	J
Name	Service Provided	Number of Hours Per Day	Number of Days Per Week	Number of Weeks	Total Number of Hours	Estimated Dollar Value*	Stipend Paid	Total Amount Reported as Personnel Expenses (Col. G plus H)	Functional Category
1. Jaan Smith	Food preparation	2	2	40	160	\$	\$	\$	5
	Supplied transportation	1	2	40	80				9
2. Ann Johnson	Fund raising	2	15 days	-	30				1
	Assisted dance teacher	4	3	20	240				4
	Supplied transportation	1	3	20	60				9
3. Mary White	Assisted teacher	8	1	40	320				3
	Fund raising	2	10 days	-	20				1
4. Matthew Brown	Fund raising	2	6 days	-	12				1
5. Joan Murray	Assisted teacher	-	-	-	10				3
6. Sister Paula Monore	Teacher	8	5	40	1,600		500	500 plus Column G	3
<b>TOTALS:</b>					<b>2,532</b>	<b>\$</b>	<b>\$ 500</b>	<b>\$</b>	

Column G used for income reporting.  
Column G or Column I used for expense reporting.

\* This column has not been completed because there is such a variance in the value of donated services to centers that any example given may not, in fact, be a good example.

the estimated value should equal the imputed salary less the amount of stipend paid. Hence Column I, which equals G plus H, results in total imputed salary for volunteer 6.

In Column J, enter the number of the functional category that describes the type of service rendered. The nine functional categories are described in detail in the instructions given for completing Form C.

Nonprofessional donated services need be reported only when a person completes 10 hours or more service during the reporting period. However, all professional donated services should be accounted for.

A completed worksheet for the following professional donated services is shown in Exhibit III.

1. Speech therapist who donated one (1) hour per day
2. Firm of accountants whose annual contribution to the center takes the form of auditing the books of the center and issuing end-of-the-year financial statements
3. Public relations firm that contributes 50 percent of its fee as a donation to the center. This firm gave six (6) hours of services of which only three (3) were charged to the center
4. Program planning specialist who gave two (2) hours of consultation
5. Mortgage banker who gave consultation on investments at various times throughout the year. The total amount of time given was three (3) hours
6. Radio station that gave air time to publicizing the day care center or its activities

#### Instructions for Completing Inventory of Donated Goods, Assets, and Services

In order to facilitate the completion of Form D in the expense section, the following order of donated goods, assets, and services is suggested:

<u>Supplies and Services</u>	<u>Land, Buildings, Equipment, and Furniture</u>
Office	Occupancy
Educational	Office
Special Educational	Educational
Food	Special Educational
Health	Kitchen
Housekeeping	Health
Auto	Auto, Buses, Trucks

The completed inventory for the following donated goods and assets is shown in Exhibit IV (an illustration of Form 4): general office, educational and food supplies, land, rent below par, and a typewriter.

Since the imputed cost is the important information required, it is not always necessary to enter the quantity supplied. In the example shown, the quantity was not reported for

WORKSHEET FOR SERVICES DONATED BY PROFESSIONALS  
DURING REPORTING PERIOD

A	B	C	D	E	F	G	J
Name	Service Provided	Number of Hours Per Day	Number of Days Per Week	Number of Weeks	Total Number of Hours	Estimated Dollar Value	Functional Category
1. June Miller	Speech therapy	1	5	40	200	\$	4
2. John Taylor & Associates	Accounting	-	-	1	40		1
3. Robt. Black & Associates	Public relations	-	-	-	3		1
4. Laura Hill	Program planning	-	-	-	2		1
5. Paul Ross	Investment consulting	-	-	-	3		1
6. Radio Station WXYZ	Publicity	-	-	-	-		1
TOTAL:					248	\$	

**INVENTORY OF GOODS, ASSETS, AND SERVICES  
DONATED DURING REPORTING PERIOD**

**I DONATED GOODS AND ASSETS**

(a) <u>Supplies</u>	<u>Quantity</u>	<u>Estimated Value</u>
<u>General Office Supplies</u>	—	\$ 30.00
<u>Educational Materials</u>	—	40.00
<u>Orange Juice</u>	100 cans	20.00
	<b>Supplies Subtotal:</b>	<b>\$ 90.00</b>

(b) <u>Land, Building Equipment &amp; Furniture</u>	<u>Quantity</u>	<u>Estimated Value</u>
<u>Land</u>	<u>Playground</u>	<u>\$7,000.00</u>
	1 year @ 50%	
<u>Rent below par</u>	<u>of cost</u>	<u>500.00</u>
<u>Typewriter</u>	<u>1</u>	<u>350.00</u>
	<b>Land, Building, Equipment &amp; Furniture Subtotal:</b>	<b>\$7,850.00</b>
	<b>Donated Goods and Assets TOTAL:</b>	<b>\$7,940.00</b>

**II DONATED SERVICES (See Worksheets for Donated Services)**

	<u>Number of Persons</u>	<u>Number of Hours</u>	<u>Estimated Value</u>
<b>Volunteers:</b>	_____	_____	\$ _____
	_____	_____	_____
<b>Professionals:</b>	_____	_____	_____
	_____	_____	_____
	<b>TOTAL:</b>	_____	<b>\$ _____</b>

office and educational supplies. However, the number of typewriters donated was reported. The quantity column may also be used for additional comments as in the case of rent below par.

Using the guidelines given in this section, the dollar value of goods and assets should be reported in the column headed, "Estimated Value." The amount reported for rent below par is the difference between market value and the amount paid by the center. The *Donated Goods and Assets Total* should be entered on Line 5-f, Form A, Statement of Annual Income.

The number of persons, hours, and estimated value for donated services should be taken from the Worksheets for Services Donated by Volunteers and Professionals, Columns A, F, and G. The *Donated Services Total* should then be entered on Line 5-e, Form A, Statement of Annual Income.

STATEMENT OF ANNUAL INCOME

For the period \_\_\_\_\_ through \_\_\_\_\_ .

1. Total Income for Year . . . . . \$ \_\_\_\_\_
2. Fees and Direct Payments
  - (a) Tuition . . . . . \_\_\_\_\_
  - (b) Registration Fee . . . . . \_\_\_\_\_
  - (c) Special Fees and Sales . . . . . \_\_\_\_\_
  - (d) Transportation Charges . . . . . \_\_\_\_\_
  - (e) Insurance Fees . . . . . \_\_\_\_\_

subtotal \_\_\_\_\_
3. Interest on Deposits by Clients . . . . . subtotal \_\_\_\_\_
4. Memberships . . . . . subtotal \_\_\_\_\_
5. Gifts and Contributions
  - (a) Unencumbered Cash Gifts . . . . . \_\_\_\_\_
  - (b) Designated Cash Gifts . . . . . \_\_\_\_\_
  - (c) Legacies, Memorials and  
Bequests . . . . . \_\_\_\_\_
  - (d) Participation in Federated  
Fund raising Campaigns . . . . . \_\_\_\_\_
  - (e) Volunteer Service . . . . . \_\_\_\_\_
  - (f) Donations of Grounds,  
Furniture, Buildings,  
Equipment, and Goods . . . . . \_\_\_\_\_

subtotal \_\_\_\_\_
6. Grants
  - (a) Public . . . . . \_\_\_\_\_
  - (b) Private . . . . . \_\_\_\_\_

subtotal \_\_\_\_\_
7. Investment Income . . . . . subtotal \_\_\_\_\_
8. Income from Franchises, Rentals and  
Leases, and Royalties . . . . . subtotal \_\_\_\_\_
9. Sale or Exchange of Property . . . . . subtotal \_\_\_\_\_
10. Special Events . . . . . subtotal \_\_\_\_\_

## Instructions for Form A

**Line 1 Total Income for Year.**—Total income includes the total sum of all fees and direct payments; interest on deposits by clients; memberships; gifts and contributions; grants; reimbursable expenses; investment income; income from franchises, rentals and leases, and royalties; and income from the sale or exchange of property. The total income for the year includes the imputed value of donated goods and services, anticipated revenues from accounts receivable to which the center has unqualified right, and pledges receivable judged to be reasonably certain to be collected. *It excludes payments toward pledges and accounts receivable reported in the previous year, but collected during the year under consideration.*

**Line 2 Fees and Direct Payments.**—Fees received for a center's primary service and special payments made by clients for registration, transportation, insurance, special lessons and accounts receivable should be reported on this line.

- (a) **Tuition:** Payments by parents, guardians or sponsors of clients for day care service. Tuition would also include purchase of service and grants-in-aid from governmental agencies and the courts, whether paid through vouchers or direct payments. Tuition due to a center as an account receivable should be included here.
- (b) **Registration Fee:** Payments that are not a part of normal tuition charges but which are paid for the right of registration should be reported on this line.
- (c) **Special Fees:** Special payments or assessments for field trips, parties, music lessons, dancing lessons, admission fees, etc. should be reported as "special fees." Also include income from sale of goods.
- (d) **Transportation Charges:** Payments by clients for both portal-to-portal transportation and for field trips should be entered on this line. Payments for reimbursable travel expenses made to the center by an agency or other benefactor should also be included as income from transportation, unless this income goes directly to a staff member and is not reported on the agency books as either an expenditure or as income.
- (e) **Insurance Fees:** Payments made by clients to the center for insurance paid for by the center should be reported on this line.

**Line 3 Interest on Deposits by Clients.**—When clients are required to make a deposit of money as a prerequisite to receiving service, such as the payment of tuition for two months of service prior to the receipt of the first month of service, the fair market value of interest normally paid on deposits but not paid to clients should be imputed and reported as income to the center on this line.

**Line 4 Memberships.**—Membership fees paid by individuals and agencies for benefits such as the right to vote, to receive publications and services, or to use facilities should be considered as membership dues and reported on this line.

**Line 5 Gifts and Contributions.**—Cash or donated goods and services other than formal grants from governmental agencies and foundations, whether given through a spontaneous or voluntary act or as a result of direct solicitation, should be reported on this line. The fair market value of volunteer services and donated goods made as gifts to the center during the year should be imputed and accounted for as income from gifts and contributions. Pledges to which the center has an unqualified right or are judged to be reasonably certain of collection, should be reported on this line as current income even if uncollected at the year's end.

- (a) **Unencumbered Cash Gifts:** All cash donations except memorials, legacies, and bequests that are undesignated for specific uses should be reported on this line regardless of the source of

giving. Funds contributed by business corporations, affluent citizens, clubs and organizations—including fraternal and civic groups as well as social and service organizations, guilds, and trade unions, so long as unencumbered—should be entered as gifts and contributions on this line. Funds gathered by volunteers making house calls, and from coin containers, should be entered on this line unless part of a federated fund raising campaign.

- (b) **Designated Cash Gifts:** Donations that are designated for specific uses, and hence cannot be spent for the general needs of the day care center, should be entered on this line. Funds gathered for a building program or for other major capital expenditures should be reported on this line.
- (c) **Legacies, Memorials and Bequests:** Legacies, memorials, bequests, and endowments are special contributions that are typically unpredictable sources of income. If not identified separately from other gifts and contributions, it would be impossible to determine whether they are having a distorting influence on the income pattern of gifts and contributions.
- (d) **Participation in Federated Fund Raising Campaigns:** Funds received through participating in federated campaigns such as United Funds or Community Chests should be reported on this line.
- (e) **Volunteer Services:** The services of unpaid volunteers should be given a fair cash value and imputed as income from gifts and contributions on this line. Also include a fair market value for publicity donated by television, radio, or other media. Donations that would otherwise require purchase pose no real problem. On the other hand, reasonable reductions from fair market value (not to exceed 75 percent of fair market value) should be made when the center did not seek or has no appreciable use for the service donated, but cannot afford, for one reason or another, to reject volunteer service. Because of the highly individual nature of volunteer services, the amount of such reductions must be left to the judgment of the reporting center.
- (f) **Donations of Grounds, Buildings, Equipment, Furniture, and Goods:** Noncash donations such as imputed costs of freehold leases (free use of space), rents below normal market value, office supplies, drugs or medicines, and gifts of buildings and grounds, furniture and equipment, should be given a fair market dollar value and reported on this line. Donations of materials that the center does not want, cannot use, or would not normally prize highly enough to pay for need not be reported. Items such as discarded magazines, tools and household articles should not be reported as income, because they are not items of marketable value.

**Line 6 Grants.**—All revenue awarded to the center through grants-in-aid from city, county, and state government bodies and grants from private foundations should be reported on this line. Do not include grants for individual children from courts or governmental agencies in this line—See line 2-a. Purchase-of-service fees and income from contracts for services should also be reported on Line 2-a.

**Line 7 Investment Income.**—Income from stocks, bonds, securities and interest on invested funds should be reported on this line. Interest from invested funds should not include interest already reported on Line 3 of this form. Losses from such investments should be reported as expenditures on Form B, Statement of Financial Operating Expenses, Line 9. Investments covered in this category should also be reported as income on this line. When investments from the ownership of the center are pooled with investments from other sources it is important that appropriate prorrations of income should be made and attributed to investment income on this line.

**Line 8 Income From Franchises, Rentals, Leases, and Royalties.**—Income from the sale of franchises, the rental or leasing of properties and from royalties held by the day care center should be reported on this line. The sale of supplies, insignias, books, pamphlets, and educational materials, however, should be reported on Line 2-c.



**Line 9 Sale or Exchange of Property.**—Revenue from the sale or exchange of property including land, buildings, motor vehicles, equipment, furniture, and other items of property other than stocks, bonds, and securities. Income from the sale of stocks, bonds, and securities should be reported on Line 7.

**Line 10 Special Events.**—Funds generated by an agency or its volunteer workers by conducting affairs in which entertainment or something else is offered to the public in exchange for financial support. Income from special events might include but would not be limited to income from dinners, dances, bazaars, card parties, cookie and candy sales, and fashion shows. When such events are conducted by volunteers, fraternal or other organizations at *no cost to the benefited agency*, the amount of income to be reported should include (1) actual funds raised and (2) imputed cost of raising the funds.

**CAPITAL FUND PLEDGES WORKSHEET**

(Prorated over the half-life of the asset)

Amount Received	Estimated Years Life of Fixed Asset	Date Received	AMOUNT REPORTED								
			19	19	19	19	19	19	19	19	
			\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Total Amount Reported:</b>			\$	\$	\$	\$	\$	\$	\$	\$	\$



**WORKSHEET FOR SERVICES DONATED BY VOLUNTEERS  
DURING REPORTING PERIOD**

A Name	B Service Provided	C Number of Hours Per Day	D Number of Days Per Week	E Number of Weeks	F Total Number of Hours	G Estimated Dollar Value*	H Stipend Paid	I Total Amount Reported as Personnel Expenses (Col. G plus H)	J Functional Category
						\$	\$	\$	
<b>TOTAL:</b>						\$	\$	\$	

Column G used for income reporting.  
Column G or Column I used for expense reporting.

\* Estimated dollar value should not be less than the current minimum federal hourly wage.



WORKSHEET FOR SERVICES DONATED BY PROFESSIONALS  
DURING REPORTING PERIOD

A	B	C	D	E	F	G	J
Name	Service Provided	Number of Hours Per Day	Number of Days Per Week	Number of Weeks	Total Number of Hours	Estimated Dollar Value	Functional Category
						\$	
<b>TOTAL:</b>						\$	

**INVENTORY OF GOODS, ASSETS, AND SERVICES  
DONATED DURING REPORTING PERIOD**

**I DONATED GOODS AND ASSETS**

(a) <u>Supplies</u>	<u>Quantity</u>	<u>Estimated Value</u>
_____	_____	\$ _____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
	<b>Supplies Subtotal:</b>	<b>\$ _____</b>

(b) <u>Land, Building Equipment &amp; Furniture</u>	<u>Quantity</u>	<u>Estimated Value</u>
_____	_____	\$ _____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
	<b>Land, Building, Equipment &amp; Furniture Subtotal:</b>	<b>\$ _____</b>
	<b>Donated Goods and Assets TOTAL:</b>	<b>\$ _____</b>

**II DONATED SERVICES (See Worksheets for Donated Services)**

	<u>Number of Persons</u>	<u>Number of Hours</u>	<u>Estimated Value</u>
<b>Volunteers:</b>	_____	_____	\$ _____
	_____	_____	_____
<b>Professionals:</b>	_____	_____	_____
	_____	_____	_____
	<b>TOTAL:</b>	_____	<b>\$ _____</b>

### 3

## REPORTING EXPENSES

For uniform annual financial reporting, the reporting of expenses incurred by child care centers should be standardized. This means that certain adjustments have to be made for supplies and services received but not yet paid for at the end of a period.

In the discussion that follows, the section on depreciation cost is longer than any other cost discussed in this chapter. This does not imply that depreciation costs carry any greater importance than other costs. Rather it points up the need to consider depreciation costs as being important to a cost analysis and offers information on initial cost and methods that can be used in estimating annual depreciation and amortization allowances.

The following guidelines are given to assist in reporting certain liabilities, donated goods and services, and depreciation and amortization allowances as expenses.

### LIABILITIES TO BE REPORTED AS EXPENSES

In a center's year-end accounting, two types of liabilities need to be recognized: (1) Accounts payable, and (2) Accrued expenses.

#### Accounts Payable as Expenses

Accounts payable consist of ordinary bills such as invoices for individual purchases, or statements summarizing a month's transactions—for example, maintenance services or utilities. If an account for accounts payable is not carried in a center's books, the amount of payables to be included as expense may be computed by using the unpaid bills and the check register (or cancelled checks) at the end of the reporting in the following manner:

Step 1. Total the bills unpaid at end of the reporting period.

Step 2. Total the bills paid during the reporting period for business transacted during the previous period using check register (or cancelled checks).

Step 3. Subtract total 2 from total 1 and include the resulting amount on the appropriate line or lines of the expense statement.

If Step 2 is *less* than Step 1, the total expense reported will be *greater* than the actual cash payments made.

If Step 2 is *greater* than Step 1, the total expense reported will be *less* than the actual cash payments made.

If an accounts payable is carried on the books, it is simply a matter of identifying the amount of money to be reported on the appropriate line or lines of the expense statement.

#### **Accrued Expenses**

Accrued expenses consist of expenses that accumulate or accrue, to some extent automatically, with the passage of time; for example, salaries, property taxes, and mortgage interest payments. Bank loans or loans from an affiliated organization if they exist, are other liabilities requiring recognition.

Accruing salary expenses simply requires that standard payroll accounting be applied to shorter-than-standard pay periods at the beginning and at the end of a reporting year when working days are not included in the pay periods regularly reported for the year.

#### **Donated Goods and Services as Expenses**

If donated goods and services have a measurable commercial value and are necessary to the operation of a center, the value must be reported as expense. (See section on donated goods and services in Chapter 2.) The value to be reported will be found on the worksheets for donated goods and services (Form 4). In no case should the donated services be reported at below U. S. minimum wage standards.

### **DEPRECIATION**

If day care centers fail to take depreciation into account, they may appear to be operating in a solvent manner when actually they are living off of initial capital investments. Consequently, determining depreciation allowances is an important part of a cost analysis.

Depreciation allowances are introduced because they reduce maintenance and capital acquisition costs that would otherwise fluctuate irrationally from year to year. Depreciation allowances eliminate the possibility that large cost outlays for equipment and property will be attributed to the operating expenses of any given year. Instead, such expenses are spread over a number of years.

Assets to be considered as subject to depreciation allowances should include donated property and equipment as well as property and equipment being purchased or already purchased.

Requirements for computing depreciation are: (1) cost of the asset, (2) estimated years of life, and (3) residual or scrap value.

### Cost

Included in cost are *all expenditures* made in acquiring the asset and putting it into a place and condition in which it can be used as intended in the operating activities of the business.

**Cost of Equipment** includes invoice price, freight and installation costs, cost of overhaul if second hand (making good depreciation prior to purchase), and betterment cost (additional accessories purchased for use with the equipment).

**Cost of Land** includes purchase price, broker's commission, fees for examining and recording title, surveying, draining, cleaning (less salvage) and landscaping. Any interest accrued at the date of purchase on mortgages or other encumbrances paid by the purchaser and any accrued taxes paid by the purchaser are part of the cost of land. Land improvement expenses not subject to depreciation are also charged to land account.

**Cost of Purchasing a Building** should include repair costs incurred to make good the depreciation prior to acquisition and the cost of any subsequent improvement.

**Cost of Constructing a Building** includes payments to contractors, fees for permits and licenses, architects' fees, superintendents' salaries, and insurance and similar expenditures during construction period. It is permissible to charge interest costs incurred during the period of construction on money borrowed for the payment of construction costs.

If any fixed asset is constructed by a company for its own use, it should be recorded at cost, not at the market price if purchased from outsiders.

**Cost of Donated Property and Equipment** should be the estimated value of the asset if it were to be sold on the open market.

### Trade-ins

There may be some difficulty in determining the cost of an asset where a trade-in allowance is involved. The following is a case in point:

List price of new equipment . . . . .	\$1,500
Cash paid . . . . .	\$1,000
Trade-in allowance . . . . .	\$ 500
Book value of old asset (cost less depreciation) . . . . .	\$ 400
Cash value of old asset if sold . . . . .	\$ 250

Setting the cost of the new asset at \$1,500 cash payment plus trade-in allowance is questionable because it involves taking a profit of \$100 in disposing of the old asset—although a loss of \$150 would have resulted in selling it. The “profit” is so related to the purchase of the new asset that its realization is debatable.



Using an alternative method that follows the general rule "cost equals the cash value of the consideration parted with" (cash payment plus cash value of the old asset if sold), one would arrive at the amount \$1,250. This necessitates a recognition of a loss of \$150 in disposal of the old asset.

A third method, the total of the unexpired cost or book value plus the cash payment, would set the new asset cost at \$1,400. This last method is normally followed as it complies with the income tax rule that no recognition is given to gains or losses resulting from trading one asset as part payment for another.

#### **Estimated Years of Life**

Assets have no average useful life that is recognized as applicable to all child care centers. In determining the life expectancy of a capital asset, therefore, consideration should be given to physical deterioration caused by use or the action of the elements, obsolescence, the age of the item when it was acquired, and the center's policy on repairs and upkeep. The useful life of depreciable property should be determined on the basis of the particular operating conditions and experience of the center being evaluated. If its experience with a particular item of property has not been complete enough to provide an adequate guideline, the center may use the general experience of comparable centers as a guideline until such time as the center has acquired enough experience to form an adequate basis for such determination.

(Revenue Procedure 62-21 published by the Internal Revenue Service is a useful source of reference.)

#### **Reasonable Depreciation**

Federal law requires that the allowance for depreciation be reasonable. The reasonableness of the depreciation allowance is dependent upon all the facts known at the end of the tax year for which it is to be figured.

Depreciation allowances should be based on cost less residual or scrap value.

In no case may the total amount of depreciation deducted over the estimated useful life of the property be more than the cost of the asset less salvage, where salvage is a factor.

#### **Salvage Value**

Salvage value is the estimated amount that can be realized from an asset when it is no longer usable in a business. A center's own practice has a great deal to do with the amount of estimated salvage value. If it is the policy to dispose of assets while they are still in good working condition, the salvage value probably will be a substantial amount. But if it is customary to use assets for the entire period of their useful life, then the salvage value will probably be no more than junk value.

Where removal costs will be incurred at the end of the useful life of an asset, the salvage value may be reduced by such removal costs, provided this practice is consistently followed. In some instances, this may result in a zero salvage value, as might happen in the case of buildings or fences, and perhaps other property.

## Methods of Figuring Depreciation

There are numerous methods of estimating periodic depreciation. The three most generally used are (1) the straight-line method, (2) the declining-balance method, and (3) the sum-of-the-years'-digits method. Each item is treated individually in whichever method is chosen. The method chosen must be used consistently throughout the useful life of the asset.

1. **The Straight-Line Method.** Under this method the total amount of depreciation (cost less salvage) is divided by the number of years of estimated useful life to arrive at the annual amount of depreciation expense. This is the simplest method.

2. **The Declining-Balance Method.** The maximum rate of depreciation under this method may not exceed twice the rate that would be used under the straight-line method. For example, if property has a useful life of five years, the depreciation rate under the straight-line method is 20 percent. Under the declining balance method, annual depreciation on such property may be figured at a rate that does not exceed 40 percent. The amount of depreciation taken each year is subtracted from the remaining unexpired cost (cost less salvage less depreciation in previous year) before figuring the next year's depreciation.

Under this method, the largest depreciation deduction is taken in the first year, and a gradually smaller allowance is taken in each of the following years by applying the same percentage to a reduced or declining balance each year of operation.

3. **The Sum-of-the-Years'-Digits Method.** This method also produces a diminishing annual charge to depreciation expense and is another device for obtaining a larger depreciation during the early years of the life of a fixed asset than during the later years. In this method a smaller fraction of the adjusted cost of the asset is charged each year to expenses. The denominator or bottom of the fraction is the total of the numbers representing the years of useful life of the asset. For example, if the useful life is 5 years, the denominator is 15 (1 + 2 + 3 + 4 + 5 equal 15). The numerator or top of the fraction is the number of years of life remaining at the beginning of the year for which the computation is made. For the first year of a five-year life, the numerator would be 5, the second year 4, etc. Thus, for property with a useful life of five years, the fraction to be applied to the total amount of depreciation (cost minus salvage) to figure depreciation for the first year is 5/15. The fraction for the second year is 4/15, and so on.

### Comparison of Depreciation Methods: (See Exhibits V and VI.)

Cost of playground equipment . . . . .	\$3,700	
Residual or scrap value . . . . .	<u>100</u>	
Total depreciation to be charged to expense during the total life expectancy of the equipment . . . . .	<u>\$3,600</u>	
Estimated useful life . . . . .		8 years

COMPARISON OF METHODS FOR  
COMPUTING DEPRECIATION

Year	Annual Depreciation		
	Straight Line (12½%)	Declining Balance (25%)	Sum-of-the-Year's-Digits
1 . . . . .	\$ 450	\$ 900	\$ 800
2 . . . . .	450	675	700
3 . . . . .	450	505	600
4 . . . . .	450	380	500
5 . . . . .	450	285	400
6 . . . . .	450	214	300
7 . . . . .	450	160	200
8 . . . . .	450	120	100
Total Accumulated Depreciation	\$3,600	\$3,239	\$3,600
Scrap Value and/or Book Value	100	461 *	100
Cost of Equipment	\$3,700	\$3,700	\$3,700

\* If the equipment is *not* retired at the end of the 10th year, depreciation may still be computed yearly at 25 percent of the unrecovered cost, until the salvage value of \$100 is reached, and then no further depreciation may be taken.

Any taxpayer, except a trust, may elect to deduct on his tax return an additional first year depreciation allowance on new or used tangible personal property purchased, which has a useful life, in his hands, of 6 years or more when purchased. The additional allowance is 20 percent of the cost (not reduced by salvage) and may be obtained only in the first tax year a depreciation deduction is allowable on such property. The cost upon which the additional allowance may be based may not exceed \$10,000 on a separate return and \$20,000 on a joint return. The additional allowance may be taken even though the property was not owned the full year. After taking this additional allowance you may also take the regular depreciation to which you are entitled for the year, computed after adjusting the basis of the property for the additional allowance.

This tax regulation is added purely for its informational value. For the purpose of this cost analysis it is being ignored to achieve greater consistency in computing depreciation allowances.

**EXHIBIT VI**

**DEPRECIATION SCHEDULE FOR FIXED ASSETS**

Example: Cost of asset \$3,700  
 Salvage value 100  
 Depreciation balance \$3,600  
 Estimated life 8 years

Straight Line = 12 1/2% of depreciation balance annually  
 Sum of digits = 8/36 1st year, 7/36 2nd year,  
 6/36 3rd year . . . . . 1/36 8th year.

Declining Balance = 25% of depreciation balance in the first year,  
 thereafter 25% of value at end of previous year.\*

Asset	Value Cost	Salvage Value	Depreciable Balance	Estimated Years Life	Method Used	Rate %	19-- Depreciation	19-- Value End of Year*	19-- Value End of Year*
Playground equip.	\$3,700	\$ 100	\$3,600	8	Straight-Line	12 1/2%	\$ 450	\$3,150	\$2,700
Playground equip.	3,700	100	3,600	8	Sum of Digits Declining	--	800	2,800	2,100
Playground equip.	3,700	100	3,600	8	Balance	25	900	2,700	2,025

\* Value at end of year can be computed (1) original depreciation balance (cost less salvage) less total depreciation already taken, or (2) value at end of previous year less current year's depreciation allowances.



## AMORTIZATION

The usefulness of such assets as patents, copyrights, franchises for limited periods, leaseholds, and leasehold improvements is limited by law, regulation, contract, or the nature of the asset. The maximum period of life is that period fixed by law, regulation, or contract. However, with some intangible fixed assets the usefulness may expire before that period, and in such cases the shorter life should be used for the purpose of computing annual amortization allowances.

### Patents

The cost of a purchased patent is its purchase price, and this should be amortized over 17 years, the period for which it is issued. The exception is that if the patent is purchased after the expiration of a portion of the 17-year period, the period of amortization is the *remaining* years of life. The patent could be written off over a shorter period if it is probable that the device or product will become obsolete before the 17-year period ends.

### Copyrights

The copyright fee is usually too small to justify capitalization and amortization. However, if the costs involved justify such an accounting procedure, then the legal useful life is 28 years. Since publications rarely have an active market for that number of years, it would be advisable to amortize over a much shorter period.

### Franchises

Franchises, if perpetual, need not be amortized. If they are granted for a definite period of time, then the cost should be amortized over that period.

### Leasehold Improvements

Where leases provide that the lessee pay the cost of improvement on alterations which he desires, such costs should be amortized over the period of the lease. Such improvements could be built-in shelving, partitions, new fronts, etc. Even though such alterations become part of the real estate and revert back to the owner of the property, amortization is justified because the lessee obtained the intangible right to benefits from such improvements during the life of the lease.

### Method of Computing Amortization

The straight-line method discussed under depreciation is the most popular method used for amortization.

STATEMENT OF ANNUAL OPERATING EXPENSES  
For the Period \_\_\_\_\_ through \_\_\_\_\_.

- 1. Total Expenditures for year . . . . . \$ \_\_\_\_\_
- 2. Personnel
  - (a) Salaries . . . . . \_\_\_\_\_
  - (b) FICA and other payroll taxes paid by employer . . . . . \_\_\_\_\_
  - (c) Fringe benefits . . . . . \_\_\_\_\_
  - (d) Donated services other than lines 6 and 8 . . . . . \_\_\_\_\_
  - (e) Bonding Insurance . . . . . \_\_\_\_\_
  - (f) Memberships (individual) . . . . . \_\_\_\_\_
  - subtotal \_\_\_\_\_
- 3. Building Occupancy
  - (a) Rent . . . . . \_\_\_\_\_
  - (b) Contracts and payments (for housekeeping, maintenance, and repair of buildings and grounds) . . . . . \_\_\_\_\_
  - (c) Utilities . . . . . \_\_\_\_\_
  - (d) Insurances . . . . . \_\_\_\_\_
  - (e) Moving expenses . . . . . \_\_\_\_\_
  - (f) Building permits . . . . . \_\_\_\_\_
  - subtotal \_\_\_\_\_
- 4. Licenses
  - State/City/County . . . . . \_\_\_\_\_
  - subtotal \_\_\_\_\_
- 5. Communications
  - (a) Telephone & telegraph . . . . . \_\_\_\_\_
  - (b) Mailing & shipping (other than fund-raising) . . . . . \_\_\_\_\_
  - subtotal \_\_\_\_\_
- 6. Advertising/Fund-Raising/Community Relations
  - (a) Advertising . . . . . \_\_\_\_\_
  - (b) Personal promotions . . . . . \_\_\_\_\_
  - (c) Public and community relations . . . . . \_\_\_\_\_
  - (d) Memberships (center) . . . . . \_\_\_\_\_
  - (e) Mailing (fund-raising) . . . . . \_\_\_\_\_
  - subtotal \_\_\_\_\_

7. Supplies, Depreciation of Furniture & Equipment
- (a) Educational materials . . . . . \_\_\_\_\_
  - (b) Office materials . . . . . \_\_\_\_\_
  - (c) Housekeeping supplies . . . . . \_\_\_\_\_
  - (d) Food . . . . . \_\_\_\_\_
  - (e) Health supplies . . . . . \_\_\_\_\_
  - (f) Depreciation on autos,  
buses & trucks . . . . . \_\_\_\_\_
  - (g) Depreciation on kitchen equipment . . . . . \_\_\_\_\_
  - (h) Depreciation on office equipment . . . . . \_\_\_\_\_
  - (i) Depreciation on classrooms,  
playground & educational  
equipment . . . . . \_\_\_\_\_
  - (j) Depreciation on health service  
equipment . . . . . \_\_\_\_\_
  - (k) Personal property taxes . . . . . \_\_\_\_\_
- subtotal \_\_\_\_\_
8. Special Services and Professional Fees
- (a) Transportation . . . . . \_\_\_\_\_
  - (b) Printing costs (other than  
advertising) . . . . . \_\_\_\_\_
  - (c) Speech and/or physical therapy  
and/or occupational therapy . . . . . \_\_\_\_\_
  - (d) Medical-dental expenses . . . . . \_\_\_\_\_
  - (e) Music and dancing lessons . . . . . \_\_\_\_\_
  - (f) Legal, investment, architect &  
accounting fees . . . . . \_\_\_\_\_
  - (g) Planning & consultation fees . . . . . \_\_\_\_\_
  - (h) Field trips and special  
educational experiences . . . . . \_\_\_\_\_
  - (i) Security guards . . . . . \_\_\_\_\_
  - (j) Subscriptions & reference materials . . . . . \_\_\_\_\_
- subtotal \_\_\_\_\_
9. Uncollectible Accounts . . . . . \_\_\_\_\_
10. Other Expenses
- (a) Dividends paid . . . . . \_\_\_\_\_
  - (b) Income tax . . . . . \_\_\_\_\_
  - (c) Net changes in working capital  
from operations . . . . . \_\_\_\_\_
- subtotal \_\_\_\_\_

## Instructions for Form B

### STATEMENT OF OPERATING EXPENDITURES FOR REPORTING PERIOD

Note: ALL AMOUNTS TO BE REPORTED ON THIS FORM ARE TAKEN FROM COLUMN X OF FORM D EXCEPT FOR LINES 2-d and 6-b.

**Line 1 Total Expenditures for Year.**—Total expenditures include gross cash outlays, expenses incurred during the year but not paid for during the year, and the dollar value imputed to donated goods and services used in the operation of the day care center. It excludes payment of accounts payable from previous year.

Enter amount from Line 10.

**Line 2 Personnel.**—Personnel costs include salaries, payroll taxes, and fringe benefits to staff, the costs of donated services except those reported on Lines 6 and 8, bonding insurance expense, and membership fees for individual personnel to national and/or local organizations.

- (a) **Salaries:** Enter amount from Line 1-a.
- (b) **FICA and other Payroll Taxes Paid by Employer:** Enter amount from Line 1-b.
- (c) **Fringe Benefits:** Enter amount from Line 1-c.
- (d) **Donated Services Other Than Lines 6 and 8:** Subtract Column E on Line 1-d from Column X on Line 1-d and enter the resulting amount here.
- (e) **Bonding Insurance:** Enter amount from Line 3-a.
- (f) **Memberships:** Enter amount from Line-8-k (ii).

**Line 3 Building Occupancy.**—All costs arising from a day care center's occupancy and use of owned or leased lands, buildings and offices. Salaries and supplies which are reported in Line 2-a and Line 7-c, should not be included.

- (a) **Rent:** Enter amount from Line 2-a.
- (b) **Contracts and payments (for housekeeping, maintenance, and repair of buildings and grounds):** Enter amount from Line 2-b.
- (c) **Utilities:** Enter amount from Line 2-c.
- (d) **Insurances:** Enter amount from Line 3-b.
- (e) **Moving Expenses:** Enter amount from Line 2-d
- (f) **Building Permits:** Enter amount from Line 3-e.

**Line 4 Licenses.**—Fees for state, county and city licenses and permits are to be entered on this line except for automobile and bus licenses which are to be entered on Line 8-a. Licenses would include, but not necessarily be limited to, authorization for child care arrangements, health permits, permits to levy sales tax, and commercial business licenses.

Enter the **SUM** of Lines 3-f, 3-g, 3-i, 3-j, and 3-m.

**Line 5 Communications.**—All business communications other than those associated with advertising should be entered on this line.



- (a) **Telephone and Telegraph:** Enter amount from Line 4-a.
- (b) **Mailing and Shipping** (other than fund raising): Enter amount from Line 4-b (ii).

**Line 6 Advertising/Fund-Raising/Community Relations.**—This line includes the total cost of all advertising, both actual payment made and imputed value of donated advertising; the value of time donated by parents and volunteers for fund-raising promotions; the cost of public and community relations; and the cost of the center's membership in national and local organizations and councils.

- (a) **Advertising:** Enter amount from Line 7-b.
- (b) **Personal Promotions:** Enter the **SUM** of Lines 1-d Column E, 5-a, 5-c, 7-a (i) and 7-a (ii).
- (c) **Public and Community Relations:** Enter the **SUM** of Lines 5-d, 5-e, 5-f, 8-h, and 8-m.
- (d) **Memberships:** Enter the amount from Line 8-l (i).
- (e) **Mailing** (fund-raising only): Enter the amount from Line 4-b (i).

**Line 7 Supplies, Depreciation of Furniture and Equipment.**—Payment for *rental* of educational, classroom, office and kitchen equipment and furniture are here defined as supply costs. This line includes the cost of all educational classroom, office, housekeeping, and food supplies; depreciation of equipment; and personal property taxes.

- (a) **Educational Materials:** Enter the **SUM** of Lines 6-b and 6-c.
- (b) **Office Materials:** Enter the amount from Line 6-a.
- (c) **Housekeeping Supplies:** Enter amount from Line 6-f.
- (d) **Food:** Enter amount from Line 6-d.
- (e) **Health Supplies:** Enter amount from Line 6-e.
- (f) **Depreciation on Autos, Buses, and Trucks:** Enter amount from Line 6-l.
- (g) **Depreciation on Kitchen Equipment:** Enter amount from Line 6-j.
- (h) **Depreciation on Office Equipment:** Enter amount from Line 6-g.
- (i) **Depreciation on Classroom, Playground and Educational Equipment:** Enter the **SUM** of Lines 6-h and 6-i.
- (j) **Depreciation on Health Service Equipment:** Enter amount from Line 6-k.
- (k) **Personal Property Taxes:** Enter amount from Line 3-k.

**Line 8 Special Services and Professional Fees.**—All fees and expenses for professional practitioners and consultants who are not employees of the day care center and who are employed as independent contractors for specified services on a retainer fee or individual contract basis; transportation costs; and the costs of all other special services.

- (a) **Transportation:** Enter the **SUM** of Lines 3-d, 3-h, 5-b, and 6-m.
- (b) **Printing Costs** (other than advertising): Enter amount from Line 7-a (iii).
- (c) **Speech and/or Physical Therapy and/or Occupational Therapy:** Enter the **SUM** of lines 8-a, 8-b, and 8-c.
- (d) **Medical-Dental Expenses:** Enter the **SUM** of Lines 3-c and 8-d.

- (e) **Music, Dancing and Foreign Language Lessons:** Enter the **SUM** of Lines 8-e and 8-f.
- (f) **Legal, Accounting, Investment, and Architect Fees:** Enter amount from Line 8-g.
- (g) **Planning and Consultation Fees:** Enter amount from Line 8-i.
- (h) **Field Trips and Special Educational Experiences:** Enter amount from Line 8-j.
- (i) **Security Guard Service:** Enter amount from Line 8-n.
- (j) **Subscriptions and Reference Materials:** Enter amount from Line 8-l.

**Line 9 Uncollectible Accounts.**—Bad debts arising from uncollectible customers' accounts and other claims and related costs including collection fees should be entered here. Losses due to investments should also be entered on this line, as should the costs of preparing unsuccessful bids, applications or proposals for potential government and non-government contracts, projects or applications for financial assistance other than professional and contract services, and costs incurred for interest on borrowed capital for temporary use of endowments (however represented) for the purchase of equipment other than that associated with building occupancy or with transportation.

Enter amount from Line 9-a.

**Line 10 Other Expenses:**

- (a) **Dividends Paid:** Enter amount from Line 9-b.
- (b) **Income Tax:** Enter amount from Line 3-1.
- (c) **Net Changes in Working Capital Derived from Operations:** Enter amount from Line 9-c.

DEPRECIATION SCHEDULE FOR FIXED ASSETS

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Asset	Value Cost	Salvage Value	Depreciable Balance	Estimated Years Life	Method Used	Rate %	19__		19__	
							Depreciation	Value End of Year*	Depreciation	Value End of Year*
	\$	\$	\$				\$	\$	\$	\$
	\$	\$	\$				\$	\$	\$	\$

\* Value at end of year can be computed (1) original depreciation balance (cost less salvage) less total depreciation already taken or (2) value at end of previous year less current year's depreciation allowance.



## ATTRIBUTING TOTAL OPERATING COSTS TO THE FUNCTIONS PERFORMED

Several advantages accrue where total operating costs are attributed to the various functions performed by an agency or business enterprise. Attributing costs to functions or services performed enables owners, managers, and financiers to evaluate and maintain accountability over the internal management and efficiency of their operation by isolating significant variations in operating patterns within the enterprise and between similar enterprises. It also provides insight into the nature of changes that occur within institutions and agencies over time.

On the other hand, the functional reporting of expenses tends to be costly and time-consuming because it usually entails an accounting of the use of staff time and facility space as well as a detailed accounting of financial outlays.

In recognition of both these considerations, a functional cost reporting model consisting of nine categories was developed. This model attempts to keep the amount of time and expense necessary for allocating costs by function to a minimum, while at the same time producing accurate information.

The functional cost reporting model outlined in this section contains nine functional categories: (1) Administration; (2) Occupancy; (3) Supervision and Education; (4) Special Education; (5) Food Service; (6) Health Service; (7) Intake, Evaluations, and Referrals; (8) Staff Development and On-the-Job Training; and (9) Transportation. Administration includes Management and General Administration expenses. Fund raising expenses are considered to be management expenses, but this model will enable them to be isolated from other management costs.

Child care, particularly day care, is a labor-intensive industry (a high ratio of personnel expenses to equipment and occupancy expenses).<sup>13</sup> This means that the principal task in

<sup>13</sup>See Florence Heller Graduate School for Advanced Studies in Welfare, *Cost Analysis in Day Care Centers for Children* (Waltham, Massachusetts: Brandeis University, May 31, 1966); Department of Social Services, State of Michigan, *A Study of the Costs of Eight Day Care Centers* (Lansing, Michigan: January, 1970). (Mimeographed.); Department of Children and Family Services, State of Illinois, *Operating Costs of Voluntary Agency Day Care Centers, 1969* (Springfield, Illinois: Office of Planning and Community Development, September, 1970). Despite their small samples, these independent studies indicate that from 65 to 80 percent of all day care center costs are directly related to personnel costs (for example, salaries, payroll taxes, and fringe benefits).

attributing total operating costs to the functions performed by day care and other child care centers is to make the appropriate assignment of personnel costs to operational functions.

The assignment of personnel costs to operational functions is accomplished in five steps: (1) Inventory of Personnel; (2) Identification of Multifunctional Personnel and the Functions they perform; (3) Determination of appropriate prorating of the work time of Multifunctional Personnel via information on a typical work day or a typical work week, depending upon which is the most accurate representation; (4) Establishment of Total Employee Compensation Costs for each staff member and volunteer; and (5) Prorating the Personnel Costs of staff members and volunteers to functional categories.

The Personnel Inventory was designed to elicit information on the work assignment of each employee, their annual earnings, and the number of hours they were on the job during the reporting period. It was also designed to elicit several pieces of information that are not necessary to the prorating of personnel costs, but which will assist the financiers and operators of child care centers to pinpoint the causes of variations in personnel costs. The questions on title, status, education, and experience of the work staff are of this nature.

After personnel costs have been appropriately prorated by function, the nonpersonnel line-item expenses identified in the "Statement of Annual Operating Expenses" must be distributed by function. Together, these two sets of costs make up the "Statement of Annual Operating Expenses as Imputed to Functional Operating Categories." (See Form C)

Finally, Occupancy costs are prorated against the other functional categories of cost, excluding Transportation. Subsequently, Administration costs are prorated to the six program service functions: (1) Supervision and Education; (2) Special Education; (3) Food Service; (4) Health Service; (5) Intake, Evaluation, and Referrals; and (6) Staff Development and On-the-Job Training. The result is a "Summary Statement of Total Expenditures by Function." (See Form D)

## SHARED EXPENSES

The problem of expenses, or costs incurred by more than one distinct operation of a single corporate body or by two or more different corporate bodies, is one of the most difficult problems associated with cost analysis.

To illustrate this problem, consider for example the difficulty of determining the operating costs of a day care center that is part of an adult job-training center serving a rural area. The purpose of the center is to train welfare recipients for jobs requiring possible skills. Many welfare recipients have young children, however, and these children must be cared for if unemployed female heads-of-household are to be eligible for job training. Hence, day care services are initiated to make it possible for more unemployed persons to participate in a job training program available at the centers. Because the center is located in a rural area, a subsidized transportation system is initiated to transport participants to the training center. Young children are also permitted to accompany

their parent on the bus as a means of getting to the day care center.

Obviously, the transportation system is a shared facility benefiting the day care center. The difficulty of prorating transportation costs is not easily resolved, however. It can be argued that the transportation program must be provided whether or not the day care center utilizes the service, and hence that none of the costs of the transportation service should be charged against the day care center. Conversely, it can be argued that if the day care center did not have access to transportation, it would have to pick up the cost equal to the entire costs of the transportation service. Hence, all transportation costs should be charged against the day care center.

Finally, there could be logical grounds for dividing the transportation charges to reflect the relative portion of the transportation costs benefiting each service. This alternative, however, has all the disadvantages of King Solomon's famous "half-a-baby solution," as it does not permit the transportation system to be duplicated if the two service systems separate, and it is open to year-to-year fluctuations reflecting changes in the balance of usage between the programs being served.

If shared costs are limited to identifiable services, the cost of these services should be imputed as if there were a contractual arrangement. However, if shared costs extend to Administrative or Occupancy arrangements, Administrative or Occupancy costs should be prorated to each operation on the same basis as Administrative or Occupancy costs are attributed to the functional operations of day care services.

The amount prorated to the day care operation must then be prorated as described in the final steps in completing Form D.

## PERSONNEL INVENTORY

The inventory of personnel (Form 6) should be completed for the same period of time as is reported on the statements of income and expense. (Forms A, B, and C) The Personnel Inventory along with the Worksheets for Donated Services (Forms 2 and 3) will identify and classify *all* personnel who conduct the day care center's operations. It should account for all of the center's personnel including full-time, part-time, or shared-time staff who are on the payroll. It should also include staff who resigned or retired during the reporting period.

The Personnel Inventory will also serve as a cross-check for the reporting and allocation of personnel costs to functional category.

The following definitions are given solely for the purpose of achieving consistency in reporting, and no other interpretation is implied.

**Full-time:** Any employee engaged and paid for 35 hours or more per week. If a center is open less than 35 hours per week, it is conceivable that no full-time employees will be reported, although employees may be present at all times when the center is open.

**Part-time:** Any employee engaged and paid for less than 35 hours per week.

- Shared-time:** All employees who are engaged by more than one corporate body, business, or not-for-profit organization, or who work for more than one center or agency owned by the same individual, partnership, or corporation.
- Multifunctional:** Any employee who works in more than one of the functional categories used in this manual.
- Unifunctional:** Any employee who works in only one of the functional categories described in this manual.

#### **Instructions for Completing Personnel Inventory Form**

The names of all personnel who worked in the center during the reporting period should be entered in the first column. Include full-time, part-time, and shared-time staff as well as staff who resigned or retired during the reporting period.

A job title should be given to each person and the job coded to correspond with the job title listed on Form 6-a. For staff who are engaged in more than one position, the job title reported should be the position in which that person spends the major part of his time. However, if a person has been promoted within the reporting period, both titles or job positions should be reported listing the present position first and the previous position second.

The fourth column (Status) should be used to indicate whether personnel are full-time, part-time, or shared-time (F, P, or S).

*Yes* or *no* responses should be used when completing the column headed "Education completed." No column should be left blank.

All pertinent job experience should be reported. The column headed "In position -in" should be used to report the month and year in which a person was hired in or promoted to his present position. The column headed "In position -out" need only be completed for staff who retired, resigned, or were promoted during the reporting period.

Personal judgment will be involved in accounting for related experience. If an employee was a teacher's aide prior to becoming a teacher, then the number of months of such experience, calculated to the nearest half-month, should be reported in column headed "Months of related experience." However, if prior to becoming a teacher in a center, the person was a cook, this would *not* be classified or reported as related experience. In some cases it may be more appropriate to report the number of years. If reporting years and not months, insert the word "years."

When reporting the average number of hours per week, it is important that only the number of hours worked in the center is reported for "Shared-time Staff."

Actual year's earnings are the actual salary paid to employees during the period being reported. For promoted personnel, this total amount should be broken down and the amount earned in each position reported.

The column "Meals provided" should not be left blank but should be completed with *yes* or *no* responses. Snacks should not be considered meals.

## MULTIFUNCTIONAL PERSONNEL FORMS

Supervisory personnel and teachers are likely to be engaged in more than one functional activity during the course of a day. The most accurate device for prorating the portion of time spent by personnel in these positions is the time study. However, the cost of undertaking time studies of day care personnel exceeds its value to the analysis of the costs of operating most day care centers. Consequently, an analysis of work schedules and lesson plans is suggested in lieu of time studies.<sup>14</sup> While an analysis of work schedules and lesson plans cannot be considered as accurate as actual time studies, they are sufficiently accurate for the task at hand.

### Work Schedule for a Typical Day

To undertake an analysis of work schedules and lesson plans, a log should be made of the activities engaged in during a typical day. This log should account for each 15-minute block of time spent in employment during the day. (See Form 7)

Ideally, such a composite log of activities should be based on actual lesson plans, work schedules, or log reports of activities for a representative sample of work days. Where available, these records should be used to determine the amount of time spent on various activities by multifunctional personnel. In reality, however, most day care centers do not have records of this kind. In this case, each person on the staff who may perform in more than one function should be asked to make out a work schedule using Form 7, accounting for every 15 minutes of time during a typical day. Persons making out such work schedules should be advised to take into account the following considerations: (1) seasonal variations in activities, and (2) administrative duties that do not occur daily but that do occur at regular intervals. Unusual fluctuations in work schedules, such as assuming the responsibilities for an absent or temporarily handicapped colleague or special activities engaged in only a few times during the year (less than 10 work days per year), should be disregarded for purposes of developing a work schedule for a typical day.

After completing the Work Schedule for a Typical Day, work time must be assigned to the following nine functional categories: (1) Administration, (2) Occupancy, (3) Supervision and Education, (4) Special Education, (5) Food Service, (6) Health Services, (7) Intake, Evaluation, and Referrals, (8) Staff Development and On-the-Job Training, and (9) Transportation. This is simply a matter of inserting in the right-hand column the number of the functional category that best describes the activities reported for each 15 minutes. Definitions of these functions are found in the Instructions for Form C.

When assigning work time to functional category number (1) Administration, it may be of interest to the center to know the cost of time spent in Management, Program

<sup>14</sup> Those interested in undertaking time studies should consult the following references: Leroy H. Jones, *New Tools for Administration of Children's Institutions* (Chicago: Welfare Council of Metropolitan Chicago, 1967), Publication No. 1026; and Leroy H. Jones, *Utilizing Cost and Time Data in Agency Management* (Chicago: Welfare Council of Metropolitan Chicago, 1969), Publication No. 7006. Robert Elkin and Delroy L. Cornick, *Analyzing Costs in a Residential Group Care Facility for Children* (Washington, D. C.: Child Welfare League of America, Inc., 1969).



Planning and Research, and Fund Raising. Separate lines are provided so that each of these three components of the Administration category can be reported in the Summary at the bottom of the second page of "Work Schedule of a Typical Day." For the purpose of cost analysis as shown in this manual, however, it is not necessary to break down the use of work time within the functional category. It is sufficient to report time spent in function 1 on line titled "Management."

The time spent in each functional category should be summarized and entered in Column A of Form 7 on the appropriate lines. The average number of hours per week taken from the Personnel Inventory should be entered on total line of Column B. The number of hours per functional category should then be divided by the total number of hours per day and the result multiplied by the average number of hours per week. This should be done for each functional category and the result entered in Column B. This operation is shown in the following formula:

$$\frac{\text{Column A, Line C}}{\text{Total Column A}} \times \text{Total Column B} = \text{Column B, Line C}$$

#### Summary of a Typical Week

Form 8 should be used for multifunctional staff whose activities vary to the extent that there is not a typical day but rather a typical week. An example could be a teacher who drives a bus one or two hours on one or two days per week. The names of such staff should be listed along with each of the jobs they perform. An approximation in hours of the time spent on each job in an average week should be entered. Remember that weekly and seasonal variations are likely to occur in the way in which multifunctional personnel are utilized. An estimate of the average amount of time spent on each job each week is sought. Do not worry about minor distortions, as their influence on final data are likely to be inconsequential. After completion of Form 8, the time should be assigned to the functional categories that best describe the job performed, and, as stated in the instructions for "Work Schedule for a Typical Day," time spent in functional category (1) Administration need not be subdivided unless it is of interest to the center to do so.

#### TOTAL EMPLOYEE COMPENSATION WORKSHEET

Employees to be reported on Form 9 should be the same as those reported on the "Personnel Inventory" and should include: (1) full-time, part-time, and shared-time employees; (2) employees who resigned or retired during the reporting period; and (3) unfunctional and multifunctional employees. It is necessary to compute total employee compensation cost by employee in order that total employee cost can be distributed to the appropriate functional categories on Form 10.

Total employee compensation includes salaries paid to employees and that portion of taxes and fringe benefits *paid by the center* for employees. Taxes and fringe benefits include but are not limited to, FICA; Workmen's Compensation; Health Insurance (Blue

Cross, etc.); Retirement; Life and Accident Insurance; and Payroll Protection. Automobile Insurance for employees should *not* be reported as part of personnel cost, but should instead be reported on Form D, Line 3.

### ALLOCATION OF WORK TIME AND PERSONNEL COST

On Form 10, "Allocation of Work Time and Personnel Cost to Functional Category," list the name and job code number of each employee who was reported on the "Personnel Inventory." Only the job code number for the present position of promoted staff need be entered on this form. The total cost for each employee should be taken from "Total Employee Compensation Worksheet, Form 9" and entered in Column 10, under cost. The total hours to be reported for each staff member in Column 10 should equal the number of work hours per week reported on the "Personnel Inventory" times the number of weeks worked. The number of weeks worked by staff who were hired, resigned, or retired during the reporting period can be computed from the "Personnel Inventory" using the column headed "Months in position."

Allocating hours and cost for unfunctional staff simply means entering, in the appropriate functional category, the hours and cost reported in Column 10. Where centers have not subdivided administration costs, the amount should be reported under "Management."

Some calculations are required in allocating time and cost for multifunctional staff. The time reported in Column B, on either Form 7 or Form 8 should be multiplied by the number of weeks the employee worked in the center and the results entered under "Hours" in the appropriate functional categories on Form 10, "Allocation of Work Time and Personnel Cost to Functional Category." The number of hours in the functional category is then multiplied by the hourly rate—Column 10 cost divided by Column 10 hours. This is shown in the following formula:

$$\frac{\text{Cost, Column 10}}{\text{Hours, Column 10}} \times \text{Hours, Column C} = \text{Cost, Column C}$$

**STATEMENT OF OPERATING EXPENSES FOR REPORTING  
PERIOD AS IMPUTED TO FUNCTIONAL  
OPERATING CATEGORIES**

**1. Administration**

**(a) Management**

- (i) personnel—administration and supervision .....
- (ii) program planning and research .....
- (iii) advertising .....
- (iv) community, parent and public relations .....
- (v) communications .....
- (vi) office supplies .....
- (vii) personal property taxes on office equipment .....
- (viii) depreciation on office equipment .....
- (ix) printing costs .....
- (x) legal, investment, architect & accounting fees .....
- (xi) bonding insurance .....
- (xii) memberships (center) .....
- (xiii) fund-raising .....

subtotal \_\_\_\_\_

**(b) General Administration**

- (i) licenses .....
- (ii) uncollectible accounts .....
- (iii) dividends .....
- (iv) income tax .....
- (v) net changes in working capital  
derived from operations .....

subtotal \_\_\_\_\_

**2. Occupancy**

- (a) Personnel Costs .....
- (b) Rent .....
- (c) Maintenance .....
- (d) Utilities .....
- (e) Insurance .....
- (f) Moving expense .....
- (g) Building permits .....
- (h) Housekeeping supplies .....

subtotal \_\_\_\_\_

**3. Supervision and Education**

- (a) Personnel costs for teachers, assistant  
teachers and aides .....
- (b) Educational supplies and materials .....
- (c) Personal property taxes on educational equipment .....
- (d) Depreciation on classroom, playground  
and educational equipment .....

subtotal \_\_\_\_\_

FORM C  
(cont'd.)

4. Special Education		
(a) Personnel costs	_____	
(b) Educational supplies and materials	_____	
(c) Depreciation on special education equipment	_____	
(d) Personal property taxes on special education equipment	_____	
(e) Field trips and special educational experiences	_____	
	subtotal	_____
5. Food Service		
(a) Personnel costs for food preparation and mealtime supervision	_____	
(b) Food	_____	
(c) Depreciation on kitchen equipment	_____	
(d) Personal property taxes on kitchen equipment	_____	
	subtotal	_____
6. Health Service		
(a) Personnel costs	_____	
(b) Medical-dental expenses	_____	
(c) Insurance fees to protect health	_____	
(d) Depreciation on health service equipment	_____	
(e) Personal property tax on health service equipment	_____	
(f) Health service supplies	_____	
	subtotal	_____
7. Intake, Evaluations, and Referrals	_____	
8. Staff Development and On-the-Job-Training		
(a) Student teaching	_____	
(b) Learning and professional conferences, and conventions and meetings	_____	
(c) Memberships (individual)	_____	
(d) Subscriptions and reference works	_____	
	subtotal	_____
9. Transportation		
(a) Personnel costs	_____	
(b) Operational costs	_____	
(c) Licenses for vehicles	_____	
(d) Depreciation on motor vehicles	_____	
(e) Rent	_____	
	subtotal	_____
10. TOTAL Expenses	_____	_____

## Instructions for Form C

### STATEMENT OF OPERATING EXPENSES FOR REPORTING PERIOD BY FUNCTIONAL CATEGORIES

Note: ALL AMOUNTS TO BE REPORTED ON THIS FORM ARE TAKEN FROM FORM D.

**Line 1 Administration.**—Includes all expenses related to the administration of a day care center. The salaries and fringe benefits paid to administrative and supervisory personnel not directly engaged in the transportation, education or direct supervision of students are to be considered management costs. Staff members engaged in bookkeeping, reception, general clerical activities, the operation of a switchboard, advertising, community and parental relations, mail distribution, filing and related services, and fund-raising should also be considered management costs. Wages and fringe benefits paid to personnel who perform educational or maintenance tasks in addition to administrative tasks should be prorated and that portion of their salaries associated with management should be allocated to this function.

Expenditures for program planning and research, advertising, communication—including telephone and telegraph expenses, licenses, personal property taxes and depreciation on office equipment, legal and accounting fees, printing costs, and uncollectible accounts—are to be considered management costs. All expenses incurred in the course of fund raising campaigns and special events should also be attributed to management costs.

(a) **Management:**

- (i) **Personnel—Administration and Supervision:** The salaries, wages, and fringe benefits paid to a day care center's regular administrative and clerical employees, whether full-time or part-time, should be reported on this line. Directors, assistant directors, program directors, supervisors, bookkeepers, clerks, office managers, receptionists, secretaries, stenographers, typographers, telephone operators, and typists would be considered administrative and supervisory personnel.

Enter amount from line 1 subtotal Column C.

- (ii) **Program planning and research:** Typically program planning and research activities are undertaken as a normal part of the management of a day care center. When these activities are performed by management personnel as a part of their management function, they will be reported as a part of the wages and fringe benefits paid to management personnel under Item 1-a-i of this section. However, when teaching personnel use a portion of their time to engage in program planning and research for the activities of the center, as contrasted to time spent in their own classroom, their wages and fringe benefits should be prorated and appropriate costs should be entered on this line. In addition, payments made to consultants and special personnel for program planning and research activities should also be reported on this line. Purchase of special materials, books, and reports that are used primarily for program planning should be reported on this line rather than on Line 1-a-vi. However, if it proves difficult to identify these latter costs and these costs are relatively small, it is not necessary to separate costs for special materials used for program planning from other office supplies as these items will be added together in the subtotal for management costs.

Also included is staff time spent with interested persons who phone or visit to gain knowledge about the children or the program for academic or research purposes. Staff activity includes preparing materials, talking with, instructing and advising such persons. Do not include student teachers' time (see 8-a). Also include clerical and secretarial work related to research including typing of reports, records and letters. Also include time spent by staff members in doing research as part of their activities at the day care center.

Enter Column D Total.

- (iii) **Advertising:** Enter the **SUM** of lines 5-c, 7-a(i), and 7-b Column C.
- (iv) **Community, parent and public relations:** Payments made to public relations firms, special costs incurred for public relations reasons—such as attendance at events—should be charged to this line. Costs associated with parent councils, community advisory councils and the like should be reported on this line. Costs of special coffees, buffets, dinners, *etc.*, that are aimed at promoting community, parent and public relations should also be reported on this line. Also included in this line are contributions to door-to-door solicitors and financial aid to clients.

Enter the **SUM** of lines 5-d, 5-e, 5-f, 8-h, and 8-m, Column C.

- (v) **Communications:** Enter the amount from line 4-a, Column C.
- (vi) **Office supplies:** Enter the **SUM** of lines 6-a(i), 6-a(iii), and 6-a(iv) Column C.
- (vii) **Personal property taxes on office equipment:** Enter the amount from line 3-k Column C.
- (viii) **Depreciation on office equipment:** Enter amount from line 6-g Column C.
- (ix) **Printing costs:** Enter amount from line 7-a(iii) Column C.
- (x) **Legal, investment, architect and accounting fees:** Enter amount from line 8-g Column C.
- (xi) **Bonding insurance:** Enter amount from line 3-a Column C.
- (xii) **Memberships (center's):** Enter amount from line 8-k(i) Column C.
- (xiii) **Fund-raising:** Cost of organizing financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions. By their nature, fund-raising efforts may include a very wide range of activities. The following are illustrative of types of fund-raising costs:
  1. Purchasing, preparing and revising mailing lists; recruiting and training volunteer solicitors and other campaign workers; solicitations in person or by mail; acquisition and distribution of seals and other enclosures with appeals for funds, of campaign kits of coin containers and other fund-raising materials.
  2. Solicitation of bequests, foundation grants and other special gifts—e.g., from corporations, from affluent individuals.
  3. Participation in local federated fund-raising campaigns such as **United Funds**.
  4. Preparation and distribution of fund-raising manuals and instructions.

5. Participation in fund-raising special events by employees of the agency benefited.

A dollar value should be imputed for the time spent by parents and volunteers on fund-raising activities and entered on this line.

The cost of organizing fund-raising events incurred by volunteers or fraternal groups should also be included on this line.

Enter Column E Total.

- (b) **General Administration:** Administrative costs necessary to the *overall* organization and maintenance of a day care center and *not* included in "Management" (Line 1-a). Included on this line are licenses, uncollectible accounts, dividends, income and corporation taxes, and net changes in working capital derived from operations.
- (i) **Licenses:** Enter the **SUM** of lines 3-f, 3-g, 3-i, 3-j, and 3-m Column 1-b.
  - (ii) **Uncollectible accounts:** Enter amount from line 9-a Column 1-b.
  - (iii) **Dividends:** Enter amount from line 9-b Column 1-b.
  - (iv) **Income tax:** Enter amount from line 3-1 Column 1-b.
  - (v) **Net changes in working capital derived from operations:** Enter amount from line 9-c Column 1-b.

Line 2 **Occupancy.**—All costs arising from a day care center's occupancy and use of owned or leased lands, buildings, and offices.

- (a) **Personnel Costs:** Wages and fringe benefits paid to the center's maintenance personnel as well as the prorated wages and fringe benefits of other staff who spent time in maintenance of lands, buildings, and offices.

Enter the **SUM** of line 1 subtotal Column 2 and line 8-n Column 2.

- (b) **Rent:** Enter amount from line 2-a Column 2.
- (c) **Maintenance:** Enter amount from line 2-b Column 2.
- (d) **Utilities:** Enter amount from line 2-c Column 2.
- (e) **Insurance:** Enter amount from line 3-b Column 2.
- (f) **Moving Expense:** Enter amount from line 2-d Column 2.
- (g) **Building Permits:** Enter amount from line 3-e Column 2.
- (h) **Housekeeping Supplies:** Enter the amount from line 6-f Column 2.

Line 3 **Supervision and Education.**—Includes all expenses related to the supervision and education of a day care center's clients. Includes the salaries and fringe benefits paid to teaching staff *not* directly engaged in either the management of the day care center or the transportation of clients. Also includes the costs of educational supplies and materials, as well as the personal property taxes paid on educational equipment and depreciation on classroom, playground and educational equipment. (Note: Do *not* include the cost of *special education* personnel, supplies and equipment on this line. See Line 4.)

- (a) **Personnel Costs for Teachers, Assistant Teachers and Aides:** The salaries, wages and fringe benefits paid to a day care center's regular teaching and supervisory staff (but not administrative staff), whether full-time or part-time should be reported on this line. Such staff would include teachers, assistant teachers, teachers' aides. Do not include wages and fringe

benefits paid to special education personnel—see Line 4. Wages and fringe benefits paid to personnel who perform administrative, maintenance, or other tasks, in addition to teaching and supervisory tasks should be prorated and only that portion of their salaries and fringe benefits associated with supervision and education of the children should be allocated to this function.

Enter amount from line 1 subtotal Column 3.

- (b) **Educational Supplies and Materials:** Enter amount from line 6-b Column 3.
- (c) **Personal Property Taxes on Educational Equipment:** Enter amount from line 3-k Column 3.
- (d) **Depreciation on Classroom Playground and Educational Equipment:** Enter amount from line 6-h Column 3.

**Line 4 Special Education.**—All expenses related to the functioning of a special education program or the services of special education personnel (if the center offers either a special education program or the services of a special education program or the services of special education personnel).

- (a) **Personnel Costs:** The salaries, fringe benefits and wages paid to special education staff engaged in teaching and supervision of the mentally retarded, emotionally disturbed or physically handicapped children as well as the salaries and fringe benefits paid to staff engaged in cultural enrichment programs. Special education personnel includes special education teachers, speech therapists, physical therapists and occupational therapists. Staff engaged in cultural enrichment programs include music, dancing, and foreign language teachers.

Enter the **SUM** of subtotal line 1, line 8-a, 8-b, 8-c, 8-e, and 8-f, Column 4.

- (b) **Educational Supplies and Materials:** Enter amount from line 6-c Column 4.
- (c) **Depreciation on Special Education Equipment:** Enter amount from line 6-i Column 4.
- (d) **Personal Property Taxes on Special Education Equipment:** Enter the amount from line 3-k Column 4.
- (e) **Field Trips and Special Education Experiences:** Enter amount from line 8-j Column 4.

**Line 5 Food Service.**—Includes the expenses for salaries and fringe benefits for food service staff, food, depreciation on kitchen equipment.

- (a) **Personnel Costs for Food Preparation and Mealtime Supervision:** Includes time spent by food service staff in activities directly connected with planning, preparing and serving meals and snacks, and time spent in supervising children while they eat. If teachers or staff other than regular food service personnel supervise during eating times or otherwise spend time in planning, preparing and serving meals and snacks, part of their time should be allocated to food service costs on this line. Also included is the cost for the acquisition and storage of supplies and the daily clean-up associated with serving meals. Food Service would also include the imputed value of services donated to the Food Service function.

Enter amount from line 1 subtotal Column 5.

- (b) **Food:** Enter **SUM** of lines 6-d Column 5 and 6-f Column 5.
- (c) **Depreciation on Kitchen Equipment:** Enter amount from line 6-j Column 5.
- (d) **Personal Property Tax on Kitchen Equipment:** Enter amount from line 3-k Column 5.

**Line 6 Health Service.**—Dollar value of all activities directly connected with the physical health of children should be reported on this line.



- (a) **Personnel Costs:** Staff time spent in supervising and assisting with examination for illnesses, infections and injuries should be given a dollar value and reported on this line as should the clerical and secretarial work provided in connection with health services.

Enter amount from line 1 subtotal Column 6.

- (b) **Medical-Dental Expenses:** Enter amount from line 8-d Column 6.
- (c) **Insurance Fees to Protect Health:** Enter amount from line 3-c Column 6.
- (d) **Depreciation on Health Service Equipment:** Enter amount from line 6-k Column 6.
- (e) **Personal Property Tax on Health Service Equipment:** Enter amount from line 3-k Column 6.
- (f) **Health Service Supplies:** Enter amount from line 6-e Column 6.

**Line 7 Intake, Evaluations, and Referrals.**—All activities directly associated with the possible enrollment of an individual child including entrance screening (except health and dental screenings), referrals, intake, after-care, follow-ups and parents' counselling. All of the costs associated with action on inquiries and applications regarding specific children should be reported on this line. Relevant activities include interviews with applicants at the school or center or at their homes, talks with children, etc., prior to the admission of the child to the regular, daily program and talks with parents by telephone regarding admission. Referrals—providing applicants with name(s), address(es), and related information about other centers, schools, and forms of service for meeting medical, dental, financial, social and emotional problems. All or an appropriate portion of the wages and fringe benefits for social workers, teachers and management personnel who are involved in evaluations, intake procedures and referrals should be reported on this line.

Enter amount from line 1 subtotal Column 7.

**Line 8 Staff Development and On-the-Job Training.**—Includes the costs associated with student teaching, learning conferences, professional conferences, memberships, research, conventions and professional meetings.

- (a) **Student Teaching:** That portion of staff's time used in arranging for, supervising, instructing and evaluating student teachers should be determined and an appropriate portion of the salaries and fringe benefits paid to staff should be reported on this line. If in the course of supervising and teaching the children a regular staff member or teacher is also instructing a student teacher, then that staff member's time should be divided between "Education and Supervision" on Line 3-a and this line.

Enter amount from line 1 subtotal Column 8.

- (b) **Learning and Professional Conferences, and Conventions and Meetings:** Enter amount from line 5-b Column 8.
- (c) **Memberships (individual):** Enter amount from line 8-k(ii) Column 8.
- (d) **Subscriptions and Reference Works:** Enter amount from line 8-l Column 8.

**Line 9 Transportation.**—Expenses for and related to travel and transportation for clients and staff should be reported under Transportation. Transportation associated with conventions, professional meetings, and investment opportunities should not be reported as Transportation costs, but should be reported under either Line 1 or Line 8.

- (a) **Personnel Costs:** The wages and fringe benefits paid to Transportation staff as well as the prorated wages and fringe benefits of other staff who spent time in the Transportation function.

Enter amount from line 1 subtotal Column 9.

- (b) **Operational Costs:** Enter the **SUM** of lines 6-m Column 9 and line 3-d Column 9.

- (c) **Licenses for Vehicles:** Enter the amount from line 3-h Column 9.

- (d) **Depreciation on Motor Vehicles:** Enter the amount from line 6-1 Column 9.

**Line 10 Total Expenses:** Enter amount from line 10 Column X.

OPTIONAL WORKSHEET FOR SPECIAL EDUCATION COSTS

A. COSTS OF SPECIAL EDUCATION FOR CHILDREN WITH PHYSICAL AND EMOTIONAL DIFFICULTIES

Sources of Costs	Speech Therapy Costs	Physical Therapy Costs	Occupational Therapy Costs	Other Therapy Costs	Total
(a) Personnel					
(b) Related educational supplies and materials					
(c) Depreciation on related equipment					
(d) Personal property taxes on related equipment					
TOTAL					

B. COSTS OF ENRICHMENT PROGRAMS FOR CHILDREN

Sources of Costs	Music Lessons Costs	Dancing Lessons Costs	Foreign Language Costs	Field Trips and Other Educational Experiences Costs	Other Costs	Total
(a) Personnel						
(b) Related equipment and materials						
(c) Depreciation on related equipment						
(d) Personal property taxes on related equipment						
TOTAL						

## Instructions for Optional Worksheet for Special Education Costs

### OPTIONAL WORKSHEET FOR SPECIAL EDUCATION COSTS

**Special Education.**—Includes all expenses related to the functioning of a special education program or the services of special education personnel, if the center offers a special education program or the services of special education personnel. The salaries, fringe benefits and wages paid to special education staff engaged in teaching and supervision of the mentally retarded, emotionally disturbed or physically handicapped children as well as those staff engaged in cultural enrichment programs should be included on this line.

- A. **Costs of special education for children with physical and emotional difficulties:** Includes all expenses related to the supervision and education of children with mental, emotional, or physical handicaps.
- (i) **Speech therapy:** Includes the salaries, fringe benefits and other payments made to specialists in speech correction and therapy and the costs of special materials used by these specialists. Also includes depreciation allowances and personal property taxes on related special equipment.
  - (ii) **Physical therapy:** Includes the cost of the salaries and fringe benefits of physical therapists and the costs of related equipment and materials as well as depreciation allowances and personal property taxes on related equipment.
  - (iii) **Occupational therapy:** Includes the costs of salaries and fringe benefits of occupational therapists and the costs of related materials. Also included are the depreciation allowances and personal property taxes on these related materials.
  - (iv) **Other:** Includes the costs of salaries, fringe benefits, equipment, materials, depreciation and personal property taxes and equipment for special education not included heretofore.
- B. **Costs of enrichment programs for children:** Includes the costs of such "enrichment" activities as music lessons; dancing lessons; foreign language teaching; field trips to museums, farms, and other points of educational interest.
- (i) **Music lessons:** Includes the costs of the salaries and fringe benefits of music instructors and the costs of sheet music, instrument rental, purchase of instruments as well as depreciation allowances and personal property taxes on the owned instruments. If regular teaching staff are trained in the area of music and give lessons to the students, the cost of salaries and fringe benefits for these staff should be divided between this line and Line 3-a.
  - (ii) **Dancing lessons:** Includes the costs of salaries and fringe benefits of dancing instructors and the costs of records and the rental or purchase of phonographs as well as depreciation allowance and personal property taxes on equipment should be included in this line. If regular teaching staff are trained in teaching dancing and give lessons to the students, the cost of salaries and fringe benefits for these staff should be divided between this line and Line 3-a.

- (iii) **Foreign language:** Includes the costs of salaries and fringe benefits of foreign language instructors and the costs of foreign language tapes and records, books and other related materials as well as depreciation and personal property taxes on related equipment.
- (iv) **Field trips and other educational experiences:** Includes entrance fees and admission costs to zoos, museums, historical landmarks and the like; and the cost of special transport arrangements, such as transportation for special trips. Whether or not a center has its own transportation service, the cost reported on this line should be the cost of contracting for transportation.
- (v) **Other:** Includes the costs of salaries, fringe benefits, equipment, materials and depreciation, and personal property taxes on equipment related to enrichment programs but not included elsewhere on this form.

**PERSONNEL INVENTORY**

Name	Title/Job Position	Code No.	Status	Education Completed			Job Experience		Average No. of Work-Hours Per Week	Actual Year's Earnings	Meals Provided
				High School	Some College	B.A. or B.S.	B.A.+ or B.S.+	In Position			



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CODE NUMBERS FOR JOB POSITIONS

Code No.

01	Executive Director
02	Director
03	Assistant Director
04	Administrative Aide
05	Business Manager
06	Accountant/Bookkeeper
07	Secretary
08	Receptionist
09	Clerk
10	Director of Public Relations
11	Director of Program—Education
12	Registrar
15	Social Worker/Case Worker
20	Teacher
21	Assistant Teacher
22	Teacher's Aide
23	Substitute Teachers
24-28	Special Teachers: (24) Music, (25) Drama Arts, (26) Photography Worker, (27) Psychodramatist, (28) Language Teachers
30-37	Medical Professionals: (30) Medical Doctors, (31) Dentists, (32) Audiologist, (33) Optometrists, (34) Psychiatrists, (35) Psychologists,
40-44	Therapists: (40) Speech, (41) Physical, (42) Occupational, (43) Gross Motor Instructors, (44) Other
45	Recreation Worker
46	Foster Grandparent
50	Maintenance Man and Attendant
51	Cook/Dietician
52	Cook's Helper
53	Bus Driver

**Multifunctional Personnel  
WORK SCHEDULE FOR A TYPICAL DAY**

Name \_\_\_\_\_

Center \_\_\_\_\_

Functional  
Category

7:00 - 7:15	
7:15 - 7:30	
7:30 - 7:45	
7:45 - 8:00	
8:00 - 8:15	
8:15 - 8:30	
8:30 - 8:45	
8:45 - 9:00	
9:00 - 9:15	
9:15 - 9:30	
9:30 - 9:45	
9:45 - 10:00	
10:00 - 10:15	
10:15 - 10:30	
10:30 - 10:45	
10:45 - 11:00	
11:00 - 11:15	
11:15 - 11:30	
11:30 - 11:45	
11:45 - 12:00	
12:00 - 12:15	
12:15 - 12:30	
12:30 - 12:45	
12:45 - 1:00	
1:00 - 1:15	
1:15 - 1:30	
1:30 - 1:45	
1:45 - 2:00	



	Functional Category
2:00 - 2:15	
2:15 - 2:30	
2:30 - 2:45	
2:45 - 3:00	
3:00 - 3:15	
3:15 - 3:30	
3:30 - 3:45	
3:45 - 4:00	
4:00 - 4:15	
4:15 - 4:30	
4:30 - 4:45	
4:45 - 5:00	
5:00 - 5:15	
5:15 - 5:30	
5:30 - 5:45	
5:45 - 6:00	
6:00 - 6:15	
6:15 - 6:30	
6:30 - 6:45	
6:45 - 7:00	

After Hours  
Specify Time  
and Work

Functional Category	SUMMARY	
	A Number of Hours Per Day	B Average No. of Hours Per Week
C Management		
D Program Planning & Research		
E Fund-Raising		
1. Sub-Total Administration		
2. Occupancy		
3. Supervision & Education		
4. Special Education		
5. Food Services		
6. Health Services		
7. Intake, Evaluation, and Referral		
8. Staff Development and On-the-Job Training		
9. Transportation		
Total		

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**WORK SCHEDULE FOR A TYPICAL YEAR  
BY FUNCTIONAL CATEGORIES**

Estimate and indicate the percentage of your work-time which you spend in the following categories during the course of a year.

Functional Category	Percent of Work-Time Spent in Category
Management	
Program Planning & Research	
Fund Raising	
Occupancy	
Supervision & Education	
Special Education	
Food Service	
Health Service	
Intake, Evaluations, and Referrals	
Staff Development & On-The Job Training	
Transportation	
Total	100%

TOTAL EMPLOYEE COMPENSATION WORKSHEET

		Portion of Taxes and Fringe Benefits Paid for By Employer								
Name	Salary	FICA	Workmen's Compensation	Health Insurance	Retirement	Life & Accident Insurance	Payroll Protection	Other	Total*	
Total										

\* This form is only offered as a convenient method of computing the total employee cost and should be used in the manner most appropriate to each center's record keeping system.



ALLOCATION OF WORK TIME AND PERSONNEL EXPENSE

NAMI	Job Code	1 Administration			E		2		3		4		5		6		7		8		9		10		
		C	D	E	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	
		Management	Program Planning & Research	Fund-Raising	Occupancy	Supervision & Education	Special Education	Food Service	Health Services	Intake, Evaluation, & Referral	Staff Development & On-the-job Training	Transportation	Total												
		Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost	Hrs.	Cost

SUMMARY STATEMENT OF TOTAL EXPENDITURES BY FUNCTIONAL CATEGORY

Line Item Expense	Supporting Services Indirect Costs						Program Services Indirect Costs					Supporting Services Exogenous Costs				
	X	C	D	E	1a	1b	1	2	3	4	5		6	7	8	9
	Total	Management	Program Plan and Research	Fund Raising	Total Management	General Admin.	Administration	Occupancy	Supervision and Educ.	Special Education	Food Service	Health Service	Intake, Eval. and Referral	Staff Development On-the-Job Training	Transportation	
<b>1 PERSONNEL</b>																
(a) Salaries																
(b) FICA & Payroll Taxes																
(c) Fringe Benefits																
(d) Donated Services																
Subtotal																
<b>2 OCCUPANCY</b>																
(a) Rent																
(b) Maintenance																
(c) Utilities																
(d) Moving Expenses																
Subtotal																
<b>3 INSURANCES, PERMITS, LICENSES and TAXES</b>																
(a) Bonding Insurance																
(b) Occupancy Insurance																
(c) Health Insurance																
(d) Auto & Bus. Insurance																
(e) Building Permits																
(f) Health Permits																
(g) To Levy Sales Tax Permits																
(h) Vehicle Permits & Licenses																
(i) Commercial Business Licenses																
(j) Authorization for child care arrangements																
(k) Personal Property Tax																
(l) Income Tax																
(m) Franchise Tax																
(n) Other																
Subtotal																

**SUMMARY STATEMENT OF TOTAL EXPENDITURES BY FUNCTIONAL CATEGORY**

Line Item Expense	Supporting Services Indirect Costs										Program Services Direct Costs					Supporting Service Exogenous Costs
	X	C	D	E	1a	1b	1	2	3	4	5	6	7	8	9	
	Total	Management	Program Plan and Research	Fund Raising	Total Management	General Admin.	Administration	Occupancy	Supervision and Educ.	Special Education	Food Service	Health Service	Intake, Eval. and Referral	Staff Development On-the-job Training	Transportation	
<b>4 COMMUNICATIONS</b>																
(a) Telephone & Telegraph																
(b) Mailing & Shipping																
(i) Fund Raising																
(ii) Other																
Subtotal																
<b>5 CONFERENCES, CONVENTIONS, MEETINGS, &amp; SPECIAL EVENTS</b>																
(a) Fund Raising																
(b) Educational																
(c) General																
(d) Parent Council																
(e) Advisory Council																
(f) Special Events																
(g) Other																
Subtotal																
<b>6 SUPPLIES, RENTALS &amp; DEPRECIATION</b>																
(a) Office Supplies																
(i) Gen. Off. Materials																
(ii) Materials & Books for Program Planning & Research																
(iii) Rental Equip. & Util.																
(iv) Donated Goods																

SUMMARY STATEMENT OF TOTAL EXPENDITURES BY FUNCTIONAL CATEGORY

Line Item Expense	Supporting Services Indirect Costs					Program Services Direct Costs					Supporting Services Exogenous Costs				
	X	Q	D	E	1a	1b	1	2	3	4		5	6	7	8
	Material	Property and Liability	Property and Liability	Property and Liability	Total Management	General Authority	Administration	Occupancy	Supervision and Educ.	Special Education	Food Service	Health Service	Intake, Eval. and Referral	Staff Development	Transportation
6 (b) Educ. Supplies															
(i) Educ. Materials															
(ii) Rental Educ. Equip.															
(iii) Donated Goods															
(c) Special Educ. Supplies															
(i) Spec. Educ. Materials															
(ii) Rental Spec. Equip.															
(iii) Donated Goods															
(d) Food Supplies															
(i) Food															
(ii) Rental Kitchen Equip. Goods															
(iii) Donated Goods															
(e) Health Supplies															
(i) Health Supplies															
(ii) Rental Health Equip.															
(iii) Donated Goods															
(f) Housekeeping Supplies															
(i) Housekeeping Supplies															
(ii) Donated Goods															
DEPRECIATION ON:															
(g) Off. Equip & Furn.															
(h) Educ. Equip.															
(i) Special Educ. Equip.															
(j) Kitchen Equip.															
(k) Health Equip.															
(l) Auto, Buses & Trucks															
(m) Auto Supplies & Maintenance															
Subtotal															

SUMMARY STATEMENT OF TOTAL EXPENDITURES BY FUNCTIONAL CATEGORY

Line Item Expense	Supporting Services Indirect Costs										Supporting Service Expenditure Costs				
	X	C	D	E	1a	1b	1	2	3	4		5	6	7	8
	Total	Management	Program Plan and Research	Fund Raising	Total Management	General Admin.	Administration	Occupancy	Supervision and Educ.	Special Education	Food Service	Health Service	Intake, Eval. and Referral	Staff Development On-the-Job Training	
<b>7 PRINTING &amp; ADVERTISING</b>															
(a) Printing															
(i) Advertising															
(ii) Fund Raising															
(iii) Other															
(b) Advertising															
Subtotal															
<b>8 SPECIAL FEES &amp; SERVICES</b>															
(a) Speech Therapy															
(b) Physical Therapy															
(c) Occupational Therapy															
(d) Medical/Dental Fees															
(e) Music Lessons															
(f) Dancing Lessons															
(g) Legal, Accounting, Architect & Investment															
(h) Public Relations															
(i) Program Planning															
(j) Field trips & Special Educational Experiences															
(k) Memberships															
(l) Center															
(ii) Individual															
(i) Subscriptions & Reference Materials															
(m) Special Assist. to Indiv. Other than Owners & Staff															
(n) Security Guard Service															
(o) Other															
Subtotal															





SUMMARY STATEMENT OF TOTAL EXPENDITURES BY FUNCTIONAL CATEGORY

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Line Item Expense	Supporting Services Indirect Costs						Program Services Direct Costs					Supporting Service Exogenous Costs				
	X	C	D	E	1a	1b	1	2	3	4	5		6	7	8	9
		Management	Program Plan and Research	Fund Raising	Total Management	General Admin.	Administration	Occupancy	Supervision and Educ.	Special Education	Food Service	Health Service	Intake, Eval. and Referral	Staff Development On-the-Job Training	Transportation	
<b>9 OTHER EXPENSES</b>																
(a) Uncollectible Accounts																
(b) Dividends																
(c) Net Changes in Working Capital from Operations																
Subtotal																
<b>10 TOTAL EXPENSES</b>																
Percent Functional Category is of Total Expense	100%															
<b>11 TOTAL INCOME</b>																
<b>12 NET INCOME</b>																



## Instructions for Form D

### SUMMARY STATEMENT OF TOTAL EXPENDITURES BY FUNCTIONAL CATEGORY

**Line 1 Personnel.**—Personnel costs include salaries, payroll taxes, and fringe benefits to staff, the cost of donated service except professional donated services, which should be reported on Line 8 of this form.

- (a) **Salaries:** total wages earned prior to payroll deductions for taxes, insurance, etc. by regular employees and temporary employees other than consultants and others engaged on an individual contract basis. Regular employees shall include part-time as well as full-time employees. (See definitions for full-time and part-time.) Enter in Column X total salaries taken from Form 9, “Total Employee Compensation Worksheet.”
- (b) **F.I.C.A. and other payroll taxes paid by the employers:** the employer’s share of payments made toward the Federal Insurance Contributions Act and all other payroll taxes payable by employers under federal, state or local laws. Also include Workmen’s Compensation Insurance. If this is not paid on an annual basis then the cost should be amortized over the life of the policy. Enter total FICA and other payroll taxes taken from Form 9, “Total Employee Compensation Worksheet” in Column X.
- (c) **Fringe benefits:** all payments other than wages and reimbursement for business expense made for the benefit of employees. Such benefits include (i) disability, life and hospital insurance; (ii) vacation, sick pay, holidays, and military leave, if not already included in total salaries on Line 1-(a). (iii) deferred compensation such as pensions and annuities; (iv) severance pay; (v) training and educational expenses, including stipends; and (vi) incentive compensation, such as cost reductions and special awards.

Enter total fringe benefits taken from Form 9, “Total Employee Compensation Worksheet” in Column X.

At this point, the total of salaries, FICA and other payroll taxes and fringe benefits should be distributed to the appropriate columns using the distribution computed on the Allocation of Worktime and Personnel Expense.

- (d) **Donated services:** total imputed costs for donated services taken from Worksheet for Services Donated by Volunteers.

Distribute this cost to the appropriate columns using Column J and Column G or Column I of the Worksheet for Services Donated by Volunteers.

**Line 2 Building Occupancy.**—All costs arising from a day care center’s occupancy and use of owned or leased lands, buildings and offices. Salaries should *not* be included. Housekeeping supplies, which are not a part of a janitorial service contract, should be reported on line 6-f.

- 2 (a) **Rent:** (1) If there is a lease or a leasehold arrangement, rent and/or payments toward amortization of the leasehold arrangement should be entered as “rent” on line 2-a. Where rent which is below the market value is charged, the difference between the market value and the rent paid should be added to the actual rent paid and entered on this line. See Inventory of Donated Goods, Assets, and Services.

- (2) If property is being purchased, mortgage payments are to be divided. The amount paid toward real estate taxes, mortgage interest, mortgage insurance, and a depreciation allowance should be reported as "rent." See previous instructions on determining an appropriate depreciation allowance.
- (3) If property has been donated or has been completely purchased, a depreciation allowance should be reported as rent. See Depreciation Schedule for Fixed Assets.
- (4) If there is a freehold arrangement with a church, a school board, a business corporation or any other landlord, a fair market value of the rent of that property shall be imputed and entered as "rent." See Inventory of Donated Goods, Assets and Services.

Enter total rent expense in Column X and distribute that total to Column 2 and Column 9. (This distribution is only required when rent is paid for a garage or storage of center-owned autos, buses or trucks. In this case, the amount of such rent is entered in Column 9.)

- (b) **Maintenance:** building repairs and the cost of materials for such repairs should be considered maintenance costs. The cost of material and tools for repairs that do not add to the equity value of structures and grounds should also be entered on this line, when repairs are made by employees. Maintenance costs should also include the costs of maintaining fences and parking lots on the property; *contracts* for cleaning and building maintenance including painting, plumbing, building and carpentry; as well as the costs of snow removal; gardening; window-washing; waste and rubbish removal; dry cleaning of draperies, rugs, and furniture; and repair and maintenance of furnace and boilers. The salaries paid to regular and part-time employees, however, should be reported on Line 1. Enter expense in Column X and Column 2.
- (c) **Utilities:** payments for electricity, natural gas, water and other utilities are to be entered on this line. Do not include telephone in this line. Enter expense in Column X and Column 2.
- (d) **Moving expenses:** cost of locating or re-locating the business or parts of it. Enter expense in Column X and Column 2.

**Line 3 Insurances, Permits, Licenses and Taxes:** Includes insurance for personnel – other than fringe benefits reported on Line 1(c), clients, occupancy and auto; all state, city and or county licenses and permits; and income and franchise taxes.

- (a) **Bonding insurance:** payments by the center for insurance to cover staff who handle the center's funds. Enter expense in Column X and in Column C.
- (b) **Occupancy insurance:** all insurances that are associated with buildings occupancy should be entered on this line. These would include fire and wind insurance, burglary insurance, and public liability insurance. Enter expense in Column X and in Column 2.
- (c) **Health insurance:** payments made by the center for health insurance for clientele. Enter expense in Column X and in Column 6.
- (d) **Auto and bus insurance:** payments made by the center for auto and bus insurances. Enter expense in Column X and in Column 9.
- (e) **Building permits:** payments by a day care center for fees for building permits. Enter expense in Column X and in Column 2.

- (f) **Health permits:** payments for city, county and/or state health permits. Enter expense in Column X and in Column 1-b.
- (g) **Permits to levy sales tax:** all payments made by the center for permits to levy sales tax. Enter expense in Column X and in Column 1-b.
- (h) **Vehicle permits and licenses:** payments made by the center for automobile, bus and/or truck permits and licenses. Enter expense in Column X and Column 9.
- (i) **Commercial business license:** payments made by the center for all commercial business licenses. Enter expense in Column X and in Column 1-b.
- (j) **Authorization for child care arrangements:** payment made to city, county or state for authorization for child care arrangements. Enter expense in Column X and in Column 1-b.
- (k) **Personal property taxes:** payments for taxes on furniture, equipment, and properties other than real estate. Where state and local laws levy personal property taxes against some owners and operators of day care centers but not against others, those day care centers that are immune from the tax should impute the dollar value of the immunity and enter it in this line. Enter total expense in Column 6. Personal property taxes on office, educational, special educational, kitchen, and health service equipment should be distributed to Columns C, 3, 4, 5, and 6.
- (l) **Income tax:** includes federal and state tax paid on taxable income received during reporting period. Where income tax payment has not already been made, the estimated income tax should be reported on this line. Enter expense in Column X and in Column 1-b.
- (m) **Franchise tax:** where the state imposes an annual franchise tax, the amount should be reported on this line. Enter expense in Column X and in Column 1-b.

Line 4 **Communications:** Includes telephone, telegraph, mailing and shipping.

- (a) **Telephone and telegraph:** includes telephone bills, cost of telegrams and similar expenses. Enter expense in Column X and in Column C.
- (b) **Mailing and shipping:** includes postage, parcel post, trucking and other delivery expenses.
  - (i) **Fund-raising:** mailing and shipping costs of (1) solicitations by mail, (2) distribution of seals and other enclosures with appeals for funds, (3) distribution of campaign kits of coin containers and other fund raising materials, and similar items. Enter expense in Column X and in Column E.
  - (ii) **Other:** mailing and shipping costs for operations other than fund raising. Enter expense in Column X and in Column C.

Line 5 **Conferences, Conventions, Meetings and Special Events:** Includes expenses of conducting, or of center staff attendance at, meetings related to an agency's activities.

- (a) **Fund Raising:** employee business expenses for travel, lodging and entertainment associated with promotions and fund raising.  
Enter expense in Column X and in Column E.
- (b) **Educational:** the costs of travelling to and from conferences held by organizations such as the Day Care and Child Development Council of America, Child Welfare League of America, National Association of Social Workers, and the Association for the Education

and Advancement of Young Children that are primarily educational in their nature should be reported on this line. Registration fees and costs of meals and lodging should also be reported on this line. Enter expense on Column X and in Column 8.

- (c) **General:** conferences that are attended primarily for their promotional value (as contrasted to staff development and learning value) should be reported here. In the case of conferences that have both learning and advertising value, a fair estimate of relative values should be made and the cost of the conference prorated and charged accordingly to this line and to line 5-b.
- (d) **Parent Councils:** costs associated with advisory meetings. Enter expense in Column X and in Column C.
- (e) **Advisory Councils:** costs associated with advisory meetings. Enter expense in Column X and in Column C.
- (f) **Special Events:** costs of special coffees, buffets, dinners, etc., that are aimed at promoting community parent and public relations. Enter expense in Column X and in Column C.
- (g) **Other:** enter expense in Column X and in appropriate column.

**Line 6 Supplies, Rentals, and Depreciation.**—This line includes cost of all office, educational, classroom, food, health, housekeeping and auto supplies and depreciation on all equipment.

**N.B. Payments for rental of equipment and furniture are here defined as supply costs.**

(a) **Office Supplies:**

- (i) Includes cost of stationery, paper, ink, duplicating materials, pencils, pens, typewriter ribbon, etc. Enter expense in Column X and in Column C.
- (ii) Reports and books that are used primarily for program planning. However, if it proves difficult to identify these costs and these costs are relatively small, it is not necessary to separate costs for special materials used for program planning from other office supplies as these items will be added together in the subtotal for Management costs on Form C. If cost is identified, enter expense in Column X and in Column D.
- (iii) Rental payments for office equipment and furniture. Enter expense in Column X and in Column C.
- (iv) Imputed cost of any donated goods. See Inventory of Donated Goods, Assets and Services. Enter expense in Column X and in Column C.

(b) **Educational Supplies**—subtotal of i, ii, and iii. Enter in Column X and in Column 3.

- (i) **Educational supplies and materials:** Expenses for items used by or on behalf of the students (clients) such as pens, pencils, crayons, paints, art paper, scissors, paste, games, toys, puzzles, books, Montessori materials, Peabody Kits, etc. Be sure to differentiate between educational supplies and materials and office supplies.
- (ii) Rental payments for educational and classroom equipment and furniture.
- (iii) Imputed cost of any donated goods. See Inventory of Donated Goods, Assets and Services.

- (c) **Special Educational Supplies**—subtotal of i, ii, and iii. Enter in Column X and in Column 4.
  - (i) **Educational supplies and materials:** The costs of educational supplies and materials used exclusively for the “Special Education” function.
  - (ii) Rental payments for special education equipment.
  - (iii) Imputed cost of any donated goods. See Inventory of Donated Goods, Assets and Services.
- (d) **Food Supplies**—subtotal of i, ii, and iii. Enter in Columns X and 5.
  - (i) **Food:** Cost of food supplies or the cost of contracting for food services.
  - (ii) Rental payments for kitchen equipment.
  - (iii) Imputed cost of any donated goods. See Inventory of Donated Goods, Assets and Services.
- (e) **Health Supplies**—subtotal of i, ii, and iii. Enter in Column X and in Column 6.
  - (i) Bandages, antiseptics, aspirin, first-aid kits, etc.
  - (ii) Rental payments for health equipment.
  - (iii) Imputed cost of any donated goods. See Inventory of Donated Goods, Assets and Services.
- (f) **Housekeeping Supplies**—subtotal of i and ii. This amount should be distributed to Occupancy and Food Service using Columns 2 and 5. If it proves difficult to identify these separate costs, enter total in Column 2 and Column X.
  - (i) **Housekeeping supplies:** Shall include janitorial supplies such as soap, linen, disinfectants, paper toweling, toilet paper, laundry and linen service, electric light bulbs, shovels, rakes, lawn mowers and snow blowers, hammers and related tools for making repairs, and also  
  
Includes laundry, towels, other linens, soap, and other clean-up supplies (other than those which are acquired through contract and have been reported on Line 3-c). Include also paper cups, plates, straws, etc., used for food services.
  - (ii) Imputed cost of any donated goods. See Inventory of Donated Goods, Assets and Services.
- (g) **Depreciation on office equipment and furniture** (see depreciation schedule for fixed assets (Exhibits V and VI). Enter in Column X and in Column C.
- (h) **Depreciation on educational and classroom equipment and furniture** (see depreciation schedule for fixed assets, Exhibits V and VI). Enter in Columns X and 3.
- (i) **Depreciation on special educational equipment** (see depreciation schedule for fixed assets, Exhibits V and VI). Enter in Columns X and 4.
- (j) **Depreciation on kitchen equipment** (see depreciation schedule for fixed assets, Exhibits V and VI). Enter in Columns X and 5.
- (k) **Depreciation on health equipment** (see depreciation schedule for fixed assets, Exhibits V and VI). Enter in Columns X and 6.

- (l) **Depreciation on autos, buses and trucks** (see depreciation schedule for fixed assets, Exhibits V and VI). Enter in Columns X and 9.
- (m) **Auto supplies and maintenance:** the cost of operating a motor vehicle, including cost of gas, oil and repairs and maintenance of automobiles and buses owned by the center. Enter in Columns X and 9.

**Line 7 Printing and Advertising:** The cost of printing business forms, reports, films and materials used in advertising, fund-raising and promotions as well as payments made for advertising.

- (a) **Printing**
  - (i) **Advertising:** cost of dealer cards, window displays, pamphlets and brochures used for advertising or promotion. Enter total in Columns X and C.
  - (ii) **Fund Raising:** printing cost of all materials used in fund-raising. Enter in Columns X and E.
  - (iii) **Other:** printing cost of materials other than those used in advertising and fund-raising. Enter in Columns X and C.
- (b) **Advertising:** Costs of payments to (i) magazines, newspapers, tradespapers, (ii) radio and television, (iii) outdoor advertising—such as billboards. A fair market value should be imputed for all donated advertising and included on this line. (See Inventory of Donated Goods, Assets and Services.) Enter in Columns X and C.

**Line 8 Special Services and Professional Fees.—All fees and expenses for professional practitioners and consultants who are not employees of the day care center and who are employed as independent contractors for specified services on a retainer fee or individual contract basis; membership fees, subscriptions and reference materials, special assistance to individuals other than staff and owners and the costs of all other special services.**

- (a) **Speech therapy:** fees for specialists in speech correction and therapy who are not staff members and/or donated services from Worksheet for Services Donated—Professionals, Form 3 and Exhibit III. Enter in Columns X and 4.
- (b) **Physical therapy:** fees for physical therapists who are not a staff member and/or donated services from Form 3, Worksheet for Services Donated—Professionals. Enter in Columns X and 4.
- (c) **Occupational therapy:** fees for occupational therapists who are not staff members and/or donated services from Form 3, Worksheet for Services Donated—Professionals, page 44. Enter in Columns X and 4.
- (d) **Medical and Dental fees:** payments made to physicians, nurses and dentists, hospitals, clinics and other providers of health services. Services that are donated should be reported as expenses—see Form 3, Worksheet for Services Donated—Professionals. Enter in Columns X and 6.
- (e) **Music lessons:** the fees and expenses for special instructors who are not staff members and/or donated services—see Form 3, Worksheets for Services Donated—Professionals. Enter in Columns X and 4.

- (f) **Dancing lessons:** the fees and expenses for special instructors who are ~~not staff members~~ and/or donated services—see Form 3, Worksheets for Services Donated—~~Professionals~~. Enter in Columns X and 4.
- (g) **Legal, investment, accounting and architect:** all fees and expenses for ~~professional consultation~~ and work done by persons who are paid on a retainer fee or ~~individual~~ contract bases. The cost of any donated services should be included—see Form 3, ~~Worksheet~~ for Services Donated — Professionals. Enter in Columns X and C.
- (h) **Public Relations:** fees and expenses for professional consultation. The ~~cost~~ of any donated services should be included—see Form 3, ~~Worksheet~~ for Services—Professionals. Enter in Columns X and C.
- (i) **Program Planning and Research:** all fees and expenses for professional ~~consultation~~ and services in the field of program planning and research and/or donated services from Form 3 Worksheet for Services Donated—Professionals. Enter total in Columns X and D.
- (j) **Field Trips and Special Educational Experiences:** includes (i) entrance ~~fees~~ and admission costs to zoos, museums, historical landmarks and the like; and (ii) the cost of special transport arrangements, such as transportation for special trips. Whether or not a center has its own transportation service, the cost reported on this line should be the cost of contracting for transportation. Where a center has its own transportation service, the total cost of transportation as defined in Line 8-a above, should be reduced by the amount reported for contract services on this line. If any of these services are donated, the imputed cost as shown on the Worksheet of Donated Services, Form 4, should be reported. Enter expense in Columns X and 4.
- (k) **Memberships:** payments for memberships to professional organizations that are related to the delivery of day care services should be entered on this line. Relevant memberships might include fees paid to the Child Welfare League of America, National Association of Social Workers, American Montessori Society, Association for the Education and Advancement of Young Children, Day Care Child Development Council of America, local confederations of public and private social service agencies and the like.
- (i) **Center:** fees paid by the center for membership in national ~~and/or~~ local organizations and councils. Enter total in Columns X and C.
- (ii) **Individual:** fees paid by the center for employees for membership in national and/or local organizations. Enter total in Columns X and 8.
- (l) **Subscriptions and Reference Materials:** the cost of reference works and subscriptions to magazines and professional journals purchased for and used by staff members. Enter expense in Columns X and 8.
- (m) **Special Assistance to Individuals Other Than Owners and Staff:** these costs would include donations to door-to-door solicitors and any financial aid to clients. Enter expense in Columns X and C.
- (n) **Security Guard Services:** the cost of contracting for security guard service if such work is not carried out by employees of the center in which case this cost would already be reported on Line 2 of this form. Enter expense in Column X and 2.
- (o) **Other:** enter in Column X and appropriate functional category column.



Line 9 **Other Expenses:** Includes uncollectible accounts, dividends and net changes in working capital from operations.

- (a) **Uncollectible accounts:** bad debts arising from uncollectible customers' accounts and other claims and related costs including collection fees should be entered here. Losses due to investments should also be entered on this line, as should the costs of preparing unsuccessful bids, applications or proposals for potential government and non-government contracts, projects or applications for financial assistance other than professional and contract services, and costs incurred for interest on borrowed capital for temporary use of endowments (however represented) for the purchase of equipment other than that associated with building occupancy or with transportation. Enter in Columns X and 1-b.
- (b) **Dividends:** sums of money paid to shareholders of a corporation out of earnings during reporting period. Enter in Columns X and 1-b.
- (c) **Net changes in working capital derived from operations:** that portion of net income which is reinvested into the business to assure its continued operation. This amount can not be greater than 10 percent of the total depreciation allowance claimed. (See Chapter 1, Functional Reporting System, for further explanation.) Enter expense in Columns X and 1-b.

Line 10 **Total Expenditures for Year:** Total expenditures include gross cash outlays, expenses incurred during the year but not paid for during the year, and the dollar value imputed to donated goods and services used in the operation of the day care center. *It excludes payment of accounts payable from previous year.* Total all columns.

## FINAL STEPS IN COMPLETING FORM D

Step 1.

Cross-total Columns C, D, and E by line item and enter in Column 1-a.

Step 2.

Cross-total Columns 1-a and 1-b by line item and enter in Column 1.

Step 3.

**Prorate Occupancy Costs** – Determine the percentage of the total man-hours of work attributed to each Functional Category, except transportation from Form X, “Allocation of Work-Time to Functional Categories.” Then prorate the total Occupancy costs reported in the subtotal in Step 2 to each of the other functional categories, excluding transportation.

Step 4.

**Subtotal the Columns Where Operating Costs are Attributed to the Functions Performed, omitting Occupancy and Transportation**

Step 5.

**Prorate Administrative Costs** – The costs of the six program service functions just subtotaled are to be added together. Then the percentage of this total contributed by each program service function must be computed. Total Administration costs are to be prorated according to the percentage of composite cost each program service function contributes to the total cost of program service prior to adding Administration costs.

Step 6.

**Total the Six Program Service Functions**

Step 7.

**Compute the Percentage Each Service Contributes to the Total Expenses for Program Services**

Step 8.

**Enter the Total Income Derived for Program Service and the Total Income Derived for Transportation Service**

Step 9

**Subtract the Total Income from the Total Operating Expenses to Determine the Net Income of the Child Care Center.**

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## 5

# CALCULATING THE UNITS OF SERVICE PROVIDED

Calculating the cost per unit of service assumes that a common unit of service exists and can be arrived at accurately without undue difficulty.

The unit of measure must specify a time period during which service is provided. Hence, the cost per year, per month, per week, per day, or per hour must be computed. Because day care centers vary widely in the number of months and hours that they provide service, *cost per hour* of day care service was selected as the most appropriate time span for a unit of service.

The unit of measure must also reflect what is being measured. To measure the amount of service provided per square foot of operating space or the amount of service provided per teacher might be feasible. It was decided, however, that the most relevant measure of day care service is service to children. Hence, this manual is designed to measure *cost per hour per child* of day care service. (See Form DD, Chapter 6)

It might well be asked whether a child must be in attendance to receive day care service. To this question there is no clear and conclusive answer. A certain amount of learning is obviously conveyed to a youngster by his peers upon returning to the day care center after having been absent. Furthermore, inquiries, record keeping, and a variety of other services continue in a youngster's absence. On the other hand, there is a distinct difference in the level of service provided to youngsters in attendance as contrasted to those who are not in attendance for one reason or another. Furthermore, it is a common practice for proprietary day care centers to enroll beyond their licensed capacity in anticipation that a certain number of youngsters will be absent each day of operation. Consequently, cost calculations based on enrollment run the risk of unduly rewarding centers that over-enroll.

The problem of determining the number of children being served is usually solved by the use of one of three common measures of service: licensed capacity, enrollment, and average attendance. Each measure of service has limitations. Licensed capacity is distorting because a center may not enroll to licensed capacity or may enroll more than licensed

capacity. Likewise, enrollment has limitations as it represents only the number of children *pledged* to receive full service and not necessarily the number of children receiving full service (i.e., while some services continue whether or not students attend, others do not). The third common measure is average attendance. By and large, the average attendance is less than the enrollment, and many day care managers argue that they must carry overhead and personnel costs whether or not enrolled children are in attendance. Average attendance also reflects a seasonal variation that average enrollment does not reflect to the same degree. Furthermore, average attendance figures are not readily available. In most cases, they have to be computed specially.

Consequently, average daily enrollment is used as the measure of child care service. See Form E.

METHOD OF CALCULATING THE NUMBER  
OF CHILD-HOURS OF SERVICE

Month	A Number of Children Enrolled	B Number of Hours Per Day Enrolled	C Number of Days Enrolled	X Number of Child-Hours of Service (AxBxC = X)
January		2 3 4 5 6 7 8 9 10		
February		2 3 4 5 6 7 8 9 10		
March		2 3 4 5 6 7 8 9 10		
April		2 3 4 5 6 7 8 9 10		
May		2 3 4 5 6 7 8 9 10		
June		2 3 4 5 6 7 8 9 10		

FORM E  
(cont'd.)

Month	A Number of Children Enrolled	B Number of Hours Per Day Enrolled	C Number of Days Enrolled	X Number of Child-Hours of Service (AxBxC = X)
July		2 3 4 5 6 7 8 9 10		
August		2 3 4 5 6 7 8 9 10		
September		2 3 4 5 6 7 8 9 10		
October		2 3 4 5 6 7 8 9 10		
November		2 3 4 5 6 7 8 9 10		
December		2 3 4 5 6 7 8 9 10		

## 6

# COST ANALYSIS

The fiscal information reported in the previous four chapters furnishes the raw material from which management decisions can be made. By themselves these data prove nothing, but when appropriately categorized and compared, they become core ingredients for basic management decisions.

The purpose of cost analysis is to provide management tools for (a) exercising organizational control, (b) pricing goods and services, and (c) determining sound investment patterns.

Two distinctly different kinds of comparisons are needed to achieve these purposes: comparisons between different functions within the same child care center or agency, and comparisons between the operating costs of different child care centers or agencies. Comparisons between the operating costs of different child care centers or agencies depend upon an appropriate classification system to assure the validity of comparisons. Four types of cost comparisons between different child care centers are recommended:

1. Comparisons of the operational differences in cost and program between two or more child care centers
2. Comparisons of the operational differences in cost and program between two or more groups of classes of child care centers
3. Comparisons of how widely individual centers in any class vary
4. Establishment of norms and determination of the deviation of individual child care centers and groups of child care centers from these norms.

The distribution of the percentages of total income derived from (1) fees, (2) interest, (3) memberships, (4) gifts/contributions, (5) rentals/leases, (6) sale of property, and (7) special events is seen as an indication of the strength and stability of the day care center's income pattern.

The distribution of the percentages of total expenditures spent on (1) personnel,

(2) building occupancy, (3) licenses, (4) communications, (5) advertising/fund-raising/community relations, (6) supplies, (7) special services, and (8) other expenses is an indication of the operating integrity of the day care center.

Other useful indices for internal comparisons include:

1. The ratio of capital investment to annual operating expenses
2. The ratio of personnel costs to total operating costs
3. The percentage of total operating costs spent on each functional category of the center's operations
4. The ratio of management costs to program operating costs
5. The ratio of "fund-raising costs" to "funds-raised" and "funds-raised" to "operating expenses"
6. The ratio of the value of the capital assets accumulated during the year to total income
7. The total cost per child per hour of the day care service

All of these indicators should permit the informed financiers, promoters, and operators of day care centers to assess at a glance the operating condition of the center being evaluated.

With some precautions, the same indices used for internal cost analysis can be applied to comparisons between day care centers and even between other child care centers.

Measures of variance, such as the range, the average deviation, the standard deviation, and the quartile deviation, can be used to describe types and degrees of difference.<sup>15</sup> When two or more groups of centers are compared, comparisons of central tendencies are being made. If the variance within the groups being compared is greater than the variance between the groups being compared, the comparison will be of dubious value.

Finally, norms, or the typical behavior expected from a group of interactors large enough to reduce the prospects of new cases significantly affecting the arithmetic mean,<sup>16</sup> are an important source of comparison. When combined with a control on size so that cost curves can be calculated and used to estimate optimum sizes for efficient operations, norms can be of invaluable assistance to the owners, financiers, promoters, and managers of day care centers. Because of the differences in location, size, length of operation, clientele/special services, level of capitalization, ownership-auspices and program, one set of norms or central tendencies is not adequate to describe all day care centers. Hence, the establishment of appropriate sets of norms for the operating costs of day care centers is a major undertaking.

<sup>15</sup>The range shows the extremes of variation in the group; the average deviation and the more frequently used standard deviation (both of which assume an interval scale) are measures of the average distance of individual cases from the group mean; and quartile deviation shows the points within which the central half of the cases fall.

<sup>16</sup>The sum of individual scores divided by the number of individual cases.



## WHY CLASSIFICATION IS A PREREQUISITE TO MAKING COMPARISONS

Cost analysis implies making comparisons, and comparisons require a clear understanding of what is being compared. A useful way of clarifying the basis for comparisons is to classify the items being compared. Classification is the grouping together of items with similar attributes. It is a useful prerequisite to making comparisons because it requires accurate definitions, identification of functional relationships, and role differentiation. Classification provides a clear way to differentiate observations while taking even subtle differences into account.

### Principles of Classification

Classification requires mutually exclusive categories (categories that do not overlap); classification must be exhaustive (a class for every observation that has been made); and it should be based on a single principle (a single purpose or objective).

If classes are not mutually exclusive, some classifiers will put observations in one category, while others will put them in a different category. If classes are not exhaustive, classifiers will be forced to fit observations in classes that are *not* appropriate or to omit some observations entirely. Without a single principle, classifiers will follow different principles. Accurate comparisons also require a recognition of the time boundaries associated with the items being compared and an identification of the place of their existence or occurrence.

Failure to comply with these principles results in inconsistent, inaccurate, and inappropriate comparisons, as illustrated by the following examples:

**Example 1. Shifting Definitions**—"Head Start" programs are licensed as day care centers in some states, but are not considered day care centers according to the licensing laws of other states. Thus, a comparison of the number of day care centers in Illinois and Indiana requires that day care be defined in the same way by both states.

**Example 2. Overlapping Categories**—A comparison of the percentage of all the children in day care programs who receive speech therapy with the percentage of all the children in day care centers who receive dance instruction might be distorted by the fact that some children will receive both speech therapy and dance instruction.

**Example 3. Shifting Composition of Groups**—If the average age of the children attending a day care center at the beginning of the year is 4 years of age, and the average age of the children attending that same center 11 months later is 3½ years of age, the explanation is not that the children in that day care center are growing younger but that the group of youngsters at the second point in time is different from the group in the first.

Failure to identify variations in the size of objects or geographic areas for which comparisons are being made may be a source of inaccurate comparisons.

**Example 4. Unequal Catchment Areas**—An attempt to compare the number of children attending day care centers in Rhode Island with those attending day care centers in New York State is inappropriate as New York State encompasses 49,576 square miles, while Rhode Island encompasses 1,214 square miles.

#### **Classifying Your Day Care Center**

The classification system reflected in Forms 11 and F focuses on probable sources of cost variation.

While a quick glance at a random sample of day care centers is likely to indicate a broad range of operating costs, a closer examination of the components of operating costs at these centers will reveal that there are only two major “cost centers” in day care center operations: (1) personnel costs, and (2) occupancy costs.

Because day care is a labor-intensive industry, it can be anticipated that as a rule of thumb, from 65 to 80 percent of all operating costs will be personnel costs, and from 10 to 15 percent of all operating costs will be occupancy costs.<sup>17</sup> Thus, these two items of cost typically account for from 75 to 95 percent of the operating costs of any day care center. Cost variation in these two items of cost, therefore, can be expected to introduce most of the variance in operating costs between day care centers of the same size.

Differences in staff-child ratios and locational influences on prices would appear to be the most significant influence on the cost centers suggested above, although differences in levels of staff training-experience, which are reflected in salaries, may also be an important source of influence on variations in personnel costs.

Our research indicates that ownership-auspices, clientele, and program associate statistically with variations in staff-child ratios and levels of staff training and experience,<sup>18</sup> while geographic region and degree of urbanization appear to associate with price variations.

Size of operation and length of operation are introduced as controls on comparisons.

Given the anticipated cost structure of day care centers, it is not likely that either “initial capitalization” or “net changes in inventory” will have any appreciable influence on the variance in the cost of operating day care centers—since equipment and supplies appear to represent only a small percentage of the cost input in day care center operations.<sup>19</sup> However, “initial capitalization” and “net changes in inventory” could be significant considerations when analyzing the costs of other forms of child care on a cross-sectional basis.<sup>20</sup>

<sup>17</sup>This observation is supported by the Abt studies, the State of Illinois and the State of Michigan studies. See Abt Associates, Inc., *A Study of Day Care 1970-71* (OEO contract No. B005213; Cambridge, Massachusetts, 1971); Illinois Department of Children and Family Services, *Operating Costs of Voluntary Day Care Centers, 1969*; and Michigan Department of Social Services, *A Study of the Costs of Eight Day Care Centers*.

<sup>18</sup>Ownership-auspices, clientele, and program associate statistically with source of income.

<sup>19</sup>Variations in cost structures produced by computer simulation support this observation. See Donald G. Ogilvie, *Potential Cost and Economic Benefits of Industrial Day Care* (Washington, D.C.: Inner City Fund, May, 1971).

<sup>20</sup>The failure to control on “net changes in inventory” when determining the operating costs of children’s institutions, for example, could introduce significant distortions.

## LEVEL OF CAPITAL INVESTMENT AT THE BEGINNING OF THE REPORTING YEAR

The level of capital investment in a day care center appears to affect a center's operating costs. For example, if a day care center is highly capitalized at the beginning of a reporting year, it can be assumed that it will not spend as much money on interest, equipment, and related costs as it might otherwise. Furthermore, all other things being equal, a highly capitalized center may well spend less money on labor than would a center with a lower level of capitalization. Without a meaningful measure of the level at which a day care center is capitalized at the beginning of reporting year, there is no way to ascertain how variations in capital investment affect operating costs. Hence, the level of capitalization at the beginning of the reporting period should be taken into account when determining the costs of operating a day care center. The problem, however, is a difficult one to resolve.

Should business assets at the beginning of the reporting year be considered in the context of debts and other liabilities? Should assets be evaluated in terms of actual capital investment, fair market value, or replacement value? How should such intangible assets as location, experience of management and staff, and goodwill be given a dollar value? Obviously these problems do not have ready solutions.

Typically, fair market value is used as a means of assessing the value of property and equipment. Ascertaining fair market value, however, is a time-consuming and costly task. Indeed, the task of determining the level of capital investment of a day care center at the beginning of a reporting period in this manner might well become as expensive and time-consuming as determining the operating costs of the same day care center.

Ascertaining initial cash value minus depreciation is also a difficult, time-consuming, and costly undertaking. Moreover, it courts serious risks of distortion. For example, a 20-year-old building may be entirely depreciated, but it still has value; or a piece of property may have been purchased at a given price, and for one reason or another is worth more than was paid for it. In short, cash value minus depreciation has all of the problems of the fair market value method of determining the value of capital investments, plus some difficulties of its own.

The solution to this dilemma must be as simple, straightforward, and inexpensive as possible, while at the same time yielding a meaningful measure of capitalization at the beginning of a reporting year. It need not incorporate a measure of indebtedness, since we are not interested in indebtedness outside the context of current operating costs.

After due consideration of the advantages and disadvantages of several alternative methods of determining the level of capitalization at the beginning of the reporting year (including those described above), it was decided that an accurate estimate

of the day care center—thought of as a business—will suffice. A guideline to making a reasonable estimate of initial capitalization is presented in Exhibit VII.

An accurate estimate of the value of a day care center should include, but not necessarily be limited to, the following considerations:

1. **Tangible Assets**

(a) grounds, (b) buildings, (c) furniture, (d) fixtures, (e) equipment (office, classroom playground, cleaning and maintenance), (f) motor vehicles, (g) bank accounts, and (h) stocks and bonds

2. **Intangible Assets**

(a) leaseholds, (b) franchises, (c) patents, (d) copyrights, (e) trademarks, (f) management and staff skill and acumen, (g) business locations, (h) goodwill, and (i) the cost of organizing the business

It is recommended that a fair market value rather than a replacement value or a cost-minus-depreciation value be used in calculating the estimated dollar value of all capital assets, whether tangible or intangible. The value of tangible assets is relatively easy to assess. In each case there is a material object that can be sold. An estimate of the value of this object, if it were to be sold on the open market, is the value of that asset.

The value of intangible assets is not as easily determined. Some intangible assets are fixed and are subject to amortization. Often the useful life of these assets is fixed by law. As such, they cease to have value after a given expiration date. Leaseholds, franchises, and copyrights are good examples of intangible assets affected in this way. The maximum future life of such assets should not be overlooked in establishing their value. (See Chapter 3 for suggestions on how to handle this problem.)

Some intangible assets are not normally subject to amortization because—all other things equal—they are assumed to have an unlimited useful life. Goodwill, trademarks, trade names, location of business establishment, business organization costs and management, and staff skills and acumen are examples of this kind of intangible asset. The value of these assets is more capricious than that of other assets. There can be no doubt that each of the items identified above is of tangible value to the owners and operators of day care centers. Centers that have created goodwill as a result of years of hard work, successful practice, and fair business dealing usually experience little difficulty in finding parents and other sponsors who are willing to pay for the services being offered. Such goodwill is typically translated into business value through its solitary effect on enrollments, reduction of losses from labor turnover, tuition rates, advertising, and the ability to acquire capital. However, the dollar value of these intangible assets—considered in connection with the sale of a business, for example—is by the very nature of the commodity an arbitrary amount dependent in large part on the judgment of the purchaser and the seller.

For the purpose of this manual, consider location of business, trade names,

EXHIBIT VII

CAPITAL INVESTMENT WORKSHEET

Asset	SOURCE		
	Balance at January 1	Market Value	Fair Market Value
General Bank Account	\$		
Special Bank Account	\$		
Saving Bank Account	\$		
Other (Petty Cash, etc.)	\$		
Account Receivable	\$		
Notes Receivable	\$		
Interest Receivable	\$		
Inventory	\$		
Prepaid Expense	\$		
Short Term Investments:			
Securities		\$	
Other		\$	
Long Term Investments:			
Stocks		\$	
Bonds		\$	
Other		\$	
Land—Parking Lot, etc.			\$
Buildings			\$
Equipment:			
Office			\$
Classroom			\$
Playground			\$
Kitchen			\$
Cleaning			\$
Maintenance			\$
Motor Vehicles:			
Buses			\$
Automobiles			\$
Trucks			\$
Furniture			\$
Fixtures			\$
Lease-hold			\$
Lease-hold Improvement:			
Franchises			\$
Patents			\$
Copyrights			\$
Organizational Costs			\$
Goodwill			\$
TOTAL	\$	\$	\$

Total Capital Investment \$ \_\_\_\_\_

trademarks, management and staff skills and business acumen to be a part of "goodwill."<sup>21</sup> The value of business organization and trademarks should be computed separately.

#### **Methods of Computing Goodwill**

- Method 1. The average annual earnings for the past five years multiplied by two
- Method 2. The average annual earnings for the past five years less a fair return on the average investment (8 percent) multiplied by three years
- Method 3. The average annual earnings for the past five years less 8 percent on average investment times the average annual earnings as a percent of the total average investment

#### **Computing the Cost of Organizing the Business**

The amount of money paid for incorporation and related costs, including attorney's fees, and management costs prior to beginning operation and initial advertising costs up to 5 percent of the value of the center's tangible assets at the time when the center began operation should be considered in computing the cost of organizing the business.

### **NET CHANGE IN SUPPLIES INVENTORY**

Shown in Exhibit VIII is a guideline for making reasonable estimates of the net changes in supplies on hand at the end of the reporting year as contrasted to the beginning of the reporting year.

Inventory should include all office, educational, special educational, food, health and housekeeping supplies. The two bases most widely used for determining the value of inventory are: (a) cost; and (b) cost or market, whichever is lower.

Cost is the actual purchase price, and market is the current replacement cost. Cost is probably the easier method to use as it only requires the use of the invoices related to the supplies. Inventory should be taken at the beginning and at the end of the reporting period by taking a physical count of all supplies. Each group of supplies should then be valued using either of the methods shown above. It is important that the same method be used consistently throughout.

The percent of increase or decrease in inventory should then be computed. If the percent of change is less than 10 percent or greater than 25 percent, the variance should be taken into consideration when reporting supplies expense. A variance of between

<sup>21</sup>Present earnings may yield an incorrect estimate of the current value of the human organization and customer goodwill represented by a business organization. These issues, however, are beyond the scope of this manual. For an interesting account of these problems, see Rensis Likert, *The Human Organization* (New York: McGraw-Hill Book Co., 1967) pp. 146-155.

10 percent and 25 percent may also merit consideration depending on the base being used. If this is not done, the result could be an under-reporting or over-reporting of expenses, as shown in the following example.

**EXAMPLE:**

	<u>Relatively Static</u>	<u>Under- Reported</u>	<u>Over- Reported</u>
Beginning Inventory	\$ 1200	\$ 1200	\$ 1200
Supplies Bought	<u>3000</u>	<u>- 0 -</u>	<u>5000</u>
	4200	1200	6200
Ending Inventory	1500	240	2400
Cost of Supplies Used	2700	960	3800
Change in Inventory	25%	80%	100%
	increase	decrease	increase

**The Dollar Cost Relationship  
Between Different Functions**

This kind of analysis permits child care center financiers, promoters, and operators to assess at a glance the sources of income (see Form AA) and expenditures (see Forms BB and CC). It also makes it possible to determine whether a variation in the cost related to the functioning of one characteristic of a day care center's operation is associated with or paralleled by cost variations in one or more other characteristics.

Making group comparisons on the basis of a limited number of cases in any of the groups being compared is dangerous. A principal danger is that the addition of even one new case that varies widely from the sample in hand will introduce significant fluctuations<sup>22</sup> in the percentages being used for comparison.

<sup>22</sup>For a handy guide to the percentage differences needed to indicate significant differences for any given sample population see A. N. Oppenheim, *Questionnaire Design and Attitude Measurement* (New York: Basic Books, 1966), or Joseph Zubin, "Nomograph for Determining the Significance of the Differences between the Frequency of Events in Two Contrasted Series or Groups," *Journal of the American Statistical Association*, Vol. 34, pp. 539-44.

NET CHANGES IN SUPPLIES INVENTORY WORKSHEET

	Beginning of Reporting Period	End of Reporting Period	Percent of Change in Inventory			
			Increase		Decrease	
			Amount	%	Amount	%
Office Supplies	\$	\$			\$	
Educational Supplies						
Special Educational Supplies						
Food Supplies						
Health Supplies						
Housekeeping Supplies						
TOTAL	\$	\$	\$		\$	



## COMPUTING THE RATIO OF COST TO CAPITAL VALUE

To compute the ratio of the cost per child per year of day care to the capital value of the day care center at the beginning of the year, the following formula may be used.

$$\frac{A \times 2000^*}{B} = C$$

A = Cost per-child per-hour (See Form 20 line A).

B = Capital value of the day care center at the beginning of the reporting period (See Form 15).

C = Ratio of the cost per-child per-year of day care service to the capital value of the day care center at the beginning of the reporting period.

**EXAMPLE:** If a day care center's cost per-child per-hour is \$15 and the capital value of the day care center at the beginning of the reporting period was \$10,000, then the ratio of the cost per-child per-year to the capital value of the day care center at the beginning of the reporting period is 3:1.

$$\frac{A \times 2000}{B} = C$$

$$\frac{15 \times 2000}{10,000} = \frac{3}{1}$$

\* Estimate of average number of hours of day care service provided in a year. To be used in all cases for comparative purposes regardless of the actual number of hours of service provided.

**BASIC FACTS FOR CLASSIFYING YOUR DAY CARE CENTER**

**I. Location**

1. In what region of the country is your day care center located?

- A. Region 1 (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont)
- B. Region 2 (Delaware, New Jersey, New York, Pennsylvania)
- C. Region 3 (Kentucky, Maryland, North Carolina, Virginia, West Virginia, Puerto Rico, Virgin Islands, District of Columbia)
- D. Region 4 (Alabama, Florida, Georgia, Mississippi, South Carolina, Tennessee)
- E. Region 5 (Illinois, Indiana, Michigan, Ohio, Wisconsin)
- F. Region 6 (Iowa, Kansas, Missouri, Minnesota, Nebraska, North Dakota, South Dakota)
- G. Region 7 (Arkansas, Louisiana, New Mexico, Oklahoma, Texas)
- H. Region 8 (Colorado, Idaho, Montana, Utah, Wyoming)
- I. Region 9 (Alaska, Arizona, California, Nevada, Hawaii, Oregon, Washington, Guam, American Samoa)

2. Circle the description that appropriately describes your day care center's location.

- A. City more than 500,000 people
- B. City of 50,000 - 500,000
- C. City or town, other than a suburb, with a population of 2,000 - 50,000
- D. Suburb of a large city (large city defined as city having population of 50,000 or more)
- E. Rural area

**II. Size of Center**

1. Licensed Capacity: (Circle appropriate category.)

- A. 0-29 children
- B. 30-59 children
- C. 60-89 children
- D. 90+ children

2. Average Daily Enrollment: (Circle appropriate category.)

- A. 0-29 children
- B. 30-59 children
- C. 60-89 children
- D. 90+ children

III. Length of Operation

1. How long has center been in operation?

- A. 2 years or less
- B. 3-4 years
- C. 5-6 years
- D. 7-8 years
- E. 9-10 years
- F. More than 10 years

2. How many weeks was your day care center open during the reporting year?

- A. Less than 13 weeks
- B. 13-20 weeks
- C. 21-28 weeks
- D. 29-36 weeks
- E. 37-44 weeks
- F. 45-48 weeks
- G. 49-52 weeks

3. How many days per week is your day care center open?

- A. More than 5 days
- B. 5 days
- C. Less than 5 days (Specify how many days \_\_\_\_\_)
- D. Varies by week (Specify) \_\_\_\_\_

4. How many hours during the normal daily operation of your day care center are children served?

- A. Full-day (6 hours or more)
- B. Morning only
- C. Afternoon only
- D. Two half-day programs: One in the morning and one in the afternoon
- E. Less than 6 hours covering a portion of the morning and a portion of the afternoon
- F. Night-time hours
- G. Some days "full-day," other days "part-day"
- H. Full-day plus night
- I. Part-day plus night

IV. Clientele/Special Services

1. What age groups are served at your day care center?

- A. Only infants (under 2½ years of age)
- B. Only preschool (2½ years of age up to 6 years of age)
- C. Only school-age
- D. Infants and preschool

- E. Infants and school-age
  - F. Preschool and school-age
  - G. Infants, preschool and school-age
2. Are the clients served *exclusively* emotionally disturbed children?
- A. Yes
  - B. No
3. Are the clients served *exclusively* physically handicapped or mentally retarded children?
- A. Yes
  - B. No
4. Are the clients served *exclusively* a combination of physically handicapped, emotionally disturbed, and/or mentally retarded children?
- A. Yes
  - B. No
5. In your opinion, are most of the children served at your center "normal"? (i.e., without handicaps, emotional disturbance or retardation)
- A. Yes
  - B. No
6. Indicate if your day care center provides any of the following.  
(Please circle letters in front of all answers that apply to your center.)
- A. Evaluation of family and child to determine appropriate placement, program and/or fee
  - B. Regular casework counselling with parent or parents by a social worker
  - C. Casework services for families by a social worker
  - D. Systematic written evaluations of child's development and educational progress
  - E. Systematic written evaluations of child's social and emotional progress in group
  - F. Psychological testing whenever appropriate for diagnostic and evaluative purposes
  - G. Individual therapy for the child by specially trained personnel
  - H. Psychiatric consultation and evaluation for child and family
  - I. Group parent education
  - J. Group therapy for parents
  - K. Foster family day care for selected children for special reasons
  - L. Medical consultation when necessary during daytime care
  - M. Screening for visual problems
  - N. Screening for hearing problems
  - O. Referral to appropriate supporting services (psychiatric, educational, medical, etc.)
  - P. Systematic follow-up and evaluations of former enrollees
  - Q. Other (Specify) \_\_\_\_\_
  - R. None of the above

7. Indicate the total enrollment for each of the following racial-ethnic groups on October 15 of the reporting year:

- A. Afro-American (Black) \_\_\_\_\_  
 B. Latin American (Mexican, Puerto Rican,  
 Panamanian, etc.) \_\_\_\_\_  
 C. Oriental \_\_\_\_\_

V. Initial Level of Capitalization

1. Enter the capital investment for your day care center at the beginning of the reporting year \$ \_\_\_\_\_ (see Exhibit VII).
2. Enter the net change in the supplies held by your day care center at the end of the reporting year as compared to the beginning of the reporting year \$ \_\_\_\_\_ (see Exhibit IX).

VI. Ownership-Auspices

1. Circle appropriate category. Then, circle appropriate subcategory.

- A. Private (for profit)  
 1. proprietary  
 2. partnership  
 3. corporation
- B. Church-related  
 1. operated directly by a religious denomination and/or order  
 2. operated by a religious denomination or order through a separate corporation
- C. Not-for-profit\*  
 1. university-affiliated  
 2. hospital-affiliated  
 3. public agency  
 4. run by labor union  
 5. other
- D. Cooperative

\* A nonprofit organization is a corporation, foundation, trust, association, or other organization incorporated as a not-for-profit organization and operated primarily for educational, service, charitable, or similar purposes in the public interest, which is not organized primarily for profit and which uses all income exceeding costs to maintain, improve and/or expand its operations. However, for the purposes of this manual, not-for-profit centers which are church-related have been identified separately. Church-related not-for-profit centers are not to be included in the "Not-for-Profit" category.

2. Is your center part of a chain of day care centers?

- A. Yes  
 B. No.

3. Is your day care center supported by a Community Action Program (CAP)?
  - A. No
  - B. Headstart program supported by a CAP agency
  - C. Receives OCD support other than through a CAP agency
  - D. Combination of support from a CAP agency together with support from the Office of Child Development
4. Is your day care center a part of a franchising operation?
  - A. Yes
  - B. No

VII. Program

1. If you were forced to choose, which goal would be the most important at your center? (Circle *only one* response.)
  - A. the development of skills that are useful and practical in the work world
  - B. experiences and social interaction that is important to overall personality and character development
2. How are activities most likely to be initiated at your day care center? (Circle *only one* response.)
  - A. complete freedom of group or individual to initiate activity without any adult supervision
  - B. suggestion of teacher or adult leader
  - C. result of group discussion and decision encouraged and assisted by the teacher
3. Does your center follow the method developed by Maria Montessori?
  - A. Yes
  - B. No
4. Are youngsters most likely to work in groups of more than three or as individuals?
  - A. Groups of 4 or more
  - B. As individuals or groups of 3 or less
5. During most of the activity day, are there set routines or tasks that children may choose among at random?
  - A. Yes
  - B. No
6. If your response to question 5 was "yes," then do these set tasks comprise 25 percent or more of the day's work schedule?
  - A. Yes
  - B. No

SELF-CLASSIFICATION

See Instructions Below

1. Region: \_\_\_\_\_
2. Average Daily Enrollment: \_\_\_\_\_
3. Operating Schedule
  - A. Number of weeks of operation During the Reporting Year \_\_\_\_\_
  - B. Average number of operating days per week of operation During the Reporting Year \_\_\_\_\_
  - C. Average number of hours per operating day during the portion of the reporting year when in operation \_\_\_\_\_
4. Basic Ownership-Auspices Arrangement: \_\_\_\_\_
5. Program
  - A. Success Orientation: \_\_\_\_\_
  - B. Type of Supervision: \_\_\_\_\_
  - C. Regulation of Tasks for motor skill and cognitive development: \_\_\_\_\_

INSTRUCTIONS FOR SELF-CLASSIFICATION, FORM F

1. Region: Enter the answer to question I, Form 11.
2. Average Daily Enrollment: Enter the answer to question II-2, Form 11.
3. Operating Schedule
  - A. Number of weeks of operation during the reporting year: Enter *either* the answer to question III-2, Form 11 the exact number of weeks of operation.
  - B. Average number of operating days per week of operation during the reporting year: Enter the answer to question III-3, Form 11.
  - C. Average number of hours per operating day during the portion of the reporting year when in operation: Enter the answer to question III-4, Form 11.
4. Basic Ownership-Auspices Arrangement: Enter the category indicated in the answer to question VI-1, Form 11.

5. Program

- A. Success Orientation: Enter "Skill Oriented" if one or more of these conditions exists/if you have answered A to Question VII-1, Form 11; answered A to Question VII-3, Form 11; answered A to Question IV-3, Form 11.

Enter "Interpersonal-Relationship Oriented" if none of the three conditions just described exists.

- B. Type of Supervision: Enter "Individualized Learning" if you answered A to Question IV-2, Form 11; or B to Question IV-5, Form 11; and you also answered G to Question IV-6, Form 11.

Enter "Nondirected Learning" if the center does not qualify for a designation of "Individualized Learning" and one or more of these conditions exists/answer A to Question VII-2, Form 11; answer A to Question VII-3, Form 11; answer B to Question VII-4, Form 11.

Enter "Directed Learning" if none of the above conditions exist.

- C. Regulation of Tasks for Motor Skill and Cognitive Development: Enter "Fixed Tasks" if either of the following two conditions exists/if you answered A to Question VII-3, Form 11; or your answered A to Question VII-5, Form 11; and answered A to Question VII-6, Form 11.

Enter "Flexible Tasks" if neither of the above conditions applies.



**SUMMARY OF TOTAL INCOME FOR REPORTING PERIOD BY SOURCES OF INCOME**

	<u>Amount</u>	<u>Percent of Total Income</u>
Total Income for Reporting Period (see Form A, Line 1) . . . . .	\$ _____	<u>100</u>

<u>Sources of Income:</u>	<u>Amount</u>	<u>Percent of Total Income</u>
1. Fees and Direct Payments . . . . .	\$ _____	_____
2. Interest on Deposits by Clients . . . . .	_____	_____
3. Memberships . . . . .	_____	_____
4. Gifts and Contributions . . . . .	_____	_____
5. Grants . . . . .	_____	_____
6. Investment Income . . . . .	_____	_____
7. Income from Franchises, Rentals and and Leases, and Royalties . . . . .	_____	_____
8. Sale or Exchange of Property . . . . .	_____	_____
9. Special Events . . . . .	_____	_____

**SUMMARY SHEET OF EXPENDITURES FOR REPORTING PERIOD BY LINE ITEMS OF ENTRY**

	<u>Amount</u>	<u>Percent of Total Income</u>
Total Expenditures for Reporting Period (Form B, Line 1) . . . . .	\$ _____	<u>100</u>

Line-Items of Entry:	<u>Amount</u>	<u>Percent of Total Expenditures</u>
1. Personnel . . . . .	\$ _____	_____
2. Building Occupancy . . . . .	_____	_____
3. Licenses . . . . .	_____	_____
4. Communications . . . . .	_____	_____
5. Advertising/Fund-Raising/ Community Relations . . . . .	_____	_____
6. Supplies, Depreciation of Furniture and Equipment . . . . .	_____	_____
7. Special Services and Professional Fees . . . . .	_____	_____
8. Uncollectible Accounts . . . . .	_____	_____
9. Other Expenses . . . . .	_____	_____

**SUMMARY SHEET OF EXPENDITURES FOR REPORTING PERIOD  
BY FUNCTIONAL CATEGORIES**

	<u>Amount</u>	<u>Percent of Total Expenses</u>
Total Expenditures for Reporting Period (see Form C, Line 10) . . . . .	\$ _____	<u>100</u>

Functional Categories:	<u>Amount</u>	<u>Percent of Total Expenditures</u>
1. Administration . . . . .	\$ _____	_____
2. Occupancy . . . . .	_____	_____
3. Supervision and Education . . . . .	_____	_____
4. Special Education . . . . .	_____	_____
5. Food Service . . . . .	_____	_____
6. Health Service . . . . .	_____	_____
7. Intake, Evaluations, and Referrals . . . . .	_____	_____
8. Staff Development and On-the-Job Training . . . . .	_____	_____
9. Transportation . . . . .	_____	_____

**DAY CARE COSTS PER-CHILD  
PER-HOUR BY FUNCTIONAL CATEGORIES**

- A. Total Cost of Service Per-Child  
Per-Hour \* ..... \$ \_\_\_\_\_
- B. Total Number of Child-Hours of Service  
Provided During Reporting Period  
(see Form E-1 or E-2) ..... \_\_\_\_\_

<u>Functional Units:</u>	<u>"Y" ** Total Cost</u>	<u>"Z" Cost Per-Child-Per-Hour***</u>
1. Administration	\$ _____	_____
2. Occupancy	_____	_____
3. Supervision and Education	_____	_____
4. Special Education	_____	_____
5. Food Service	_____	_____
6. Health Service	_____	_____
7. Intake, Evaluations, and Referrals	_____	_____
8. Staff Development and On-the-Job Training	_____	_____
9. Transportation	_____	_____

\* Computed by dividing the total cost of service by the total number of child-hours of service provided (Line "B")

\*\* See Form 19

\*\*\* "Z" = "Y" ÷ "B"