youngstar
Wisconsin's Child Care Quality Rating and Improvement System

# Sample Annual Budget Justification

1. **FTE Attendance** – The attendance increased by 8 FTE from year 1 to year 2. Then the attendance decreased by 1.8 FTE from year 2 to year 3. We do not know of any significant changes that would cause our attendance to change this year so we will project attendance to be 64.0.

2. **Income per FTE** – Each of the last three year's we have increased our rates by 5%. However, when we review the previous year's Income per FTE we notice something very interesting. The Income per FTE did not increase by 5% each year. As a matter of fact it decreased by 9.5% from year 1 to year 2 while our FTE Attendance increased by 8. The cause is attributed to the fact that we added more preschool age children to the attendance in comparison to the number of infants and toddlers. Since the preschool age children's rates are lower, the Income per FTE decreased. Then the rates increased by 7.7% from year 2 to year 3 and the attendance decreased by about 2. Part of the increase can be attributed to the rate increase but the other is attributed to the fact that the higher paying children increased as a percent of the total attendance. We will again increase fees by 5% and do not plan to increase the number of children so we will project that the Income per FTE will increase by 5%.

3. **Total Income** – We will calculate the Total Income by multiplying the FTE Attendance times the Income per FTE (# 1 x # 2).

4. **Food Program Income** – Our agency participates in the USDA Child and Adult Care Food Program. Each month we are reimbursed part of our Food Costs based on the number of meals we serve and the reimbursement rate based on the Income of the families enrolled in the program. The calculation of Income per FTE includes the amount of Income we receive from the Food Program. In the previous years we have received about 2.2% of our income from the Food Program. The easiest way to budget the Food Program Income is to multiply the Total Income by 2.2% (# 3 x 2.2%).

5. **Tuition** – Our Total Income comes from the Food Program Income and Tuition. Since we have calculated the Food Program Income the remaining income will come from Tuition. We calculate the Tuition by subtracting the Food Program Income from the Total Income (# 3 - #4).

6. **Variable Expense Percent** – The Variable Expense Percent is calculated by dividing the Variable Expense Amount by the Total Income. It is more important to budget the Variable Expense Percent rather than the Variable Expense Amount. This is because Variable Expenses will change as Attendance changes. Since the Variable Expense Percent is actually a comparison of Variable Expenses to Total Income, an increase in Total Income without increasing the Variable Expense Amount will cause the Variable Expense Percent to decrease. In our budget we increased Total Income by 5%, therefore if we do not increase the Variable Expense Amount then the Variable Expense Percent will decrease. In other words, if the Income increases and the Variable Expense stays the same, we will spend a lower percent of our Total Income on that Variable Expense. However in this budget, we may want to change the Variable Expenses. If we increase our Variable Expenses by the same percent as the increase in the Total Income, the Variable Expense Percent will remain the same.

   A. <u>Direct Salaries</u> – We raised our salaries by 5% each of the last three years just as we increased our rates. However, you will notice that the Percent of Income that we had for Direct Salaries decreased from Year 1 to Year 2. The biggest reason was that we had a smaller percent of our attendance that was Infants and Toddlers. Therefore we didn't need as many staff for the number of children. From Year 2 to Year 3 the percent of income that we spent on Direct Salaries increased. This may have been caused by the increase in the number infants and toddlers as a percent of total attendance. Since we are not projecting any change in the number of children attending this year we will budget the same Variable Expense Percent as year 3.

B. <u>Payroll Taxes</u> – Payroll Taxes are calculated by multiplying the Direct Salaries by the tax rate. Since the tax rates won't be changing, the Payroll Taxes will change when the Direct Salaries change. The Direct Salary Percent will be the same as year 3 so therefore the Payroll Taxes will be the same as year 3.

C. <u>Fringe Benefits</u> – The largest portion of the Fringe Benefits Expense is group health insurance. The Fringe Benefit Percent has remained the same at 2.1% for the last two years. This next year we anticipate a 12% increase in insurance premiums. This increase is higher than the increase in Total Income by 7%. Therefore we will increase the Fringe Benefit percent by 7%. To calculate the increase we multiplied the year 3 percentage times the increase (2.1% x 7%).

D. <u>Training Costs</u> – Training Costs Percent has remained the same for the past two years. We do not anticipate any changes. Our budget is the same percent as year 3. This will allow us to increase the amount of training costs by 5% while spending the same percent of income on Training Costs.

E. <u>Employment Expenses</u> – Employment Expenses are expenses that we incur when we hire a new employee such as ads in the paper, background verifications, etc. The Percent of Income that we have spent on Employment Expenses has remained at 0.1%. We have a great staff and don't anticipate any changes. We will budget the same percent as the last three years.

F. <u>Travel Expenses</u> – Travel Expenses Percent has remained the same for the past three years. We will budget the same percent.

G. <u>Program Equipment and Supplies</u> – We have budgeted 3% of our income for Program Equipment and Supplies. In the past three years we have not exceeded that percent. We will budget that same percent this year.

H. <u>Field Trip Expenses</u> – These are the transportation costs and entry fees for field trips. We have budgeted 0.3% each year. We have not exceeded the budget in the last three years. We will budget that same percent this year.

I. <u>Food and Food Related</u> – We have budgeted 10% of our Income for Food and Food Related Expenses in the past. You exceeded it by a small amount in year 2. However, we will budget 10% again this year.

J. <u>Bad Debt and Collections</u> – We have usually kept Bad Debt and Collection Expenses down to about 0.5% which is very good. However, last year it went up to 1.3%. We attribute it to the slow economy. We anticipate that the economy will improve a little this year but won't be as strong as it was in year 1 and year 2. We decide to budget Bad Debt and Collection Expense Percent to be 1.0% this year.

7. **Variable Expense Amounts** – To calculate each of the Variable Expense Amounts we multiplied the Variable Expense Percent budgeted times the Total Income.

8. **Gross Margin Percent** – The Gross Margin Percent is the percent of income that we have left over after we have paid the variable expenses (100% - #8).

9. **Gross Margin Amount** – The Gross Margin Amount is the amount of income that you have left over after you have paid the variable expenses (#3 - #9).

10. **Fixed Expenses** –We will use the 3 year average of the actual Fixed Expenses and any anticipated changes to help us budget Fixed Expenses:

    A. Occupancy Costs – This includes rent or mortgage interest plus building depreciation. The average Occupancy Costs over the last three years is $31,516. We rent the building and there will not be an increase in rent or any anticipated increase so we budgeted $32,000 for Occupancy Costs.

    B. Utilities – The 3 year average is $4,291. Last winter was very cold and our utility costs increased significantly from Year 2 to Year 3. We don't think we will have two winters in a row with such cold weather. Therefore we budgeted $4,400 for Utilities.

    C. Maintenance – The 3 year average is $1,918. We are in need of new carpet in two of the rooms costing about $4,000. We will depreciate that amount over 5 years. This will increase the depreciation by $800. Therefore we budgeted $2,700 for Maintenance.

    D. Cleaning/Janitorial – The 3 year average is $13,002. However, we decided that we needed to increase the amount of cleaning needed. We will continue to pay about the same amount as we had in Year 3. We budgeted $16,500.

    E. Administrative Salaries and Salary Costs - Administrative Salaries decreased from year 1 to year 2 because there was a turnover with the bookkeeper. There was a period of time when the Administrator had to cover those duties. In year 3 another bookkeeper had been hired. We will be raising Administrative Salaries by 5% like we did with the other salaries. Year 3's Administrative Salaries and Salary Costs were about $50,000. We budgeted a 5% increase in the $50,000 for Administrative Salaries and Salary Costs.

    F. Vehicle Costs – We own a van to transport children. The costs we incur are for the depreciation, maintenance, fuel and insurance for the van. The 3 year average is $6,326. We don't anticipate any change in the vehicle costs. We budgeted $6,500 for Vehicle Costs.

    G. Advertising – The biggest portion of Advertising expenses is the Internet. The 3 year average is $3,671. We need to build enrollment. We budgeted a 5% increase to the $3,600 average we have had.

    H. Professional Fees – Our Professional Fees have paid for the accountant to do the year end tax reports and returns. We have averaged about $500 for the past 3 years. We budgeted the same amount.

    I. Office Expenses – This covers office equipment and supplies. We have average about $2,275 in the last three years. We budgeted that amount for Office Expenses.

    J. Telephone Costs – We have averaged about $2,100 in Telephone Costs over the last 3 years. We budgeted that amount for Telephone Costs.

    K. Liability Insurance – Liability Insurance has averaged about $1,650 over the past three years. We anticipate that the insurance premiums will increase by 3%. We budgeted a 3% increase in the $1,650 average.

L. Fees – The 3 year average is about $625.  We budgeted the same amount for Fees.

M. Interest Expense – We have not had any Interest Expenses over the last three years. We do not plan to have any this year.

N. Miscellaneous Expenses – We have averaged about $200 per year for Miscellaneous Expenses.  We did not anticipate a change this year.

O. Income Taxes – We are a non-profit organization and do not pay Income Taxes.