HONEST BUCK ADVISORY

A SPECIALTY CPA'S PLAYBOOK

How to Run a Profitable Childcare Center

The four forces, five levers, 90-day plan, and printable scorecard we use with our advisory clients.

HONEST BUCK ACCOUNTING

A CPA firm working exclusively with childcare since 2013

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WELCOME

A Note from Rachelle

Dear fellow childcare professional,

Most of what has been written about running a profitable childcare center comes from one of two places: operators who built something that worked for them, or marketers who want you to click something. Both have their place. Neither has sat with hundreds of childcare P&Ls across dozens of states, watched the same patterns repeat, and tried to figure out what the math actually says. That is what we do at Honest Buck. We have worked exclusively with childcare centers since 2013, and the framework in these pages is the real thing — built from the books of centers that are thriving and centers that were struggling until we found where the money was going. I wrote this guide because that framework should not be locked inside CPA-client relationships. Every childcare owner who is trying to build something real deserves access to it.

This guide is for you if you run a licensed childcare center and you feel like the business works harder than the financials show. You fill classrooms. You pay teachers. You show up before anyone else and leave after everyone else. But the bank account does not quite reflect that effort, and you are not sure why. These pages will show you the five levers that drive profitability in a childcare center, the structural reasons most owners miss them, and the specific framework we use to move the numbers. You do not need to be a financial expert to use it. You need a willingness to look at honest numbers.

Read through from the front — the early sections will build the context that makes the lever chapters land. But if you want to jump to the chapter that feels most urgent for your center, each lever stands on its own. Try the worked examples with your actual numbers as you go. At the back, you will find a scorecard built to be printed and filled in monthly. If the material raises questions about your specific situation, reach out. We are easy to find, and the first conversation is always free.

— Rachelle Calina, CPA

Founder, Honest Buck Accounting

READ THIS FIRST

How to Use This Guide

The chapters that follow are structured deliberately. Part 1 lays the foundation — why childcare does not behave like other small businesses, and what realistic profitability actually looks like. Part 2 covers five specific levers, each with its own chapter. Part 3 gives you a 90-day plan and some honest guidance on when to go it alone versus when to bring in help.

Read it in order the first time, if you can. The foundation matters more than it might seem. Owners who jump straight to the lever chapters sometimes find themselves confused about the "why" behind the framework. Part 1 is short and the context it builds makes the math in Part 2 click faster.

That said, each lever chapter in Part 2 stands alone if you already know which problem is most urgent for your center. If you are fairly certain your issue is part-time pricing or labor cost structure, go there directly. The chapter will give you what you need.

The worked examples are not ornamental. Each one uses a specific fictional center with real-looking numbers drawn from actual childcare market data. Work through each example with your own numbers alongside it. The act of substituting your revenue, your staff count, and your tuition rates forces a kind of clarity that reading alone does not produce. A back-of-envelope calculation done while reading is worth more than a carefully planned analysis you never actually run.

At the end of Part 3, there is a scorecard with all five key performance indicators (KPIs — the specific financial metrics that tell you whether the levers are working). Print it. Fill it in at the end of each month. The scorecard is designed to be used, not filed. Color-coding it green, yellow, and red is not a gimmick — it makes patterns visible in a way that rows of numbers do not.

PART 1

The Honest Truth About Childcare Profitability

If you have ever looked at advice from a general small business coach, a generic financial planner, or a business book not written specifically for childcare, you have probably noticed that the advice does not quite fit. The frameworks feel close but not quite right. The benchmarks seem too generous or too strict. The strategies seem designed for a different kind of business.

They are. Childcare is structurally different from every other small business category in ways that matter enormously for how you manage the finances. Most of the operators, coaches, and advisors who write about small business profitability understand how restaurants work, how retail works, how consulting firms work. They do not understand what happens when state licensing dictates your headcount, when the market sets a ceiling on your prices, when your two most important products have completely different economics, and when every expansion decision takes twelve months to execute.

Applying generic small business advice to a childcare center does not just fail — it can actively make things worse. An owner who follows Profit First the way it is written for service businesses will run out of cash within sixty days. An owner who tries to "scale revenue" by adding part-time enrollments the way a retail store adds SKUs will watch their profitability shrink while their headcount climbs. An owner who benchmarks against 20% net margins will spend a career feeling like a failure at something the industry itself cannot produce.

Part 1 sets the foundation that makes Part 2 make sense. It covers why childcare behaves differently, what realistic financial performance actually looks like in this industry, and the four structural forces that explain the economics. None of it is discouraging once you understand it. Once you know the rules of the game, you can actually play it.

Why Childcare Doesn't Behave Like Other Businesses

The easiest way to understand childcare's economics is to compare it to the businesses that give us most of our intuitions about running a profitable operation.

In software, the marginal cost of serving one more customer approaches zero. Once the product is built, adding a new user costs almost nothing. Margins can reach 70 or 80 percent as the business scales because the cost base stays fixed while revenue grows. In retail, you buy inventory and sell it at a markup. The relationship between cost and revenue is direct and visible. In a consulting firm, you hire a skilled professional and bill their time at a multiple of what you pay them — every hire is directly

revenue-generating, and you can adjust headcount in weeks as demand shifts.

None of those dynamics apply to childcare. Serving one more child in your infant room requires hiring another teacher, because the state says so. Inventory is not an object you buy and sell — it is a slot in a licensed, regulated, physically constrained classroom. Demand does not automatically translate to revenue because you cannot simply add more slots when the waitlist grows; adding capacity requires zoning, licensing, build-out, and a regulatory cycle that typically runs six to eighteen months. The result is a business that looks like a service firm from the outside but operates under constraints that have more in common with a hospital or a utility than with a consulting practice.

Four structural forces create this reality, and they work together. Ignore any one of them and your financial model will mislead you.

The workforce constraint. In most businesses, labor is a variable cost that scales with demand. You can hire more servers when the restaurant is full and schedule fewer when it is quiet. In childcare, staffing is dictated by state licensing — you cannot run a toddler room with fewer teachers just because enrollment is light this week. Labor does not flex downward.

The price ceiling. In most businesses, if your costs rise, you raise your prices. Families who need childcare are not in a position to simply pay more when it becomes necessary. Childcare tuition already consumes a significant fraction of most families' take-home pay, and there is a real ceiling above which families leave rather than pay. That ceiling exists well below the price point that would make the math comfortable.

The capacity constraint. In retail or services, you can grow revenue by expanding capacity quickly — open a new location, add a product line, extend your hours. In childcare, every capacity decision is slow and expensive. Adding a classroom takes months and significant capital before a single tuition dollar flows from it. Closing a classroom means losing families and breaking the trust of employees who depend on those hours.

The regulatory complexity. No two states operate the same childcare licensing system, and within states there are multiple overlapping program types — CCDF subsidy, state PreK, Head Start, CACFP — each with its own accounting rules, reimbursement timelines, and reporting requirements. There is no generic playbook. What works in Washington state may be completely wrong in New Mexico.

These four forces do not prevent profitability. But they do explain why generic small business advice so reliably misses the mark for childcare owners — and why any framework for childcare profitability has to be built specifically for these constraints, not borrowed from an industry without them.

What Realistic Margins Actually Look Like

<1%	6-10%	12-15%
average net margin in the industry	well above industry average	exceptional performance

Before any framework, an honest baseline.

The Bipartisan Policy Center and the Common Sense Institute have both studied childcare center economics in detail, and they report the same number: the average childcare center in the United States operates at a net margin of less than 1 percent. HINGE Advisors' 2024 industry survey found total expense loads running 87 to 97 percent of revenue across childcare centers nationwide, leaving 3 to 13 percent before owner compensation or profit distributions. These are not pessimistic projections. They are what most centers actually produce.

Three callout numbers that matter for how you set your own targets:

- Less than 1% — industry average net margin across all licensed childcare centers
- 6 to 10% — what well-above-average centers consistently achieve
- 12 to 15% — exceptional, usually found in centers with strong private-pay mix, excellent slot utilization, and years of systematic financial management

That context matters because it changes what "profitable childcare center" means in practice. The benchmark is not the 20 percent margin of a software company or the 15 percent margin of a well-run professional services firm. A childcare center hitting 6 to 10 percent net margin consistently is performing significantly above industry average. Hitting 12 to 15 percent is genuinely exceptional.

The path to childcare profitability is not about chasing 25 percent margins. That path does not exist in this industry given the structural constraints. The real path is about building 6 to 10 percent margins sustainably, year after year, while paying teachers fairly. Centers that try to chase higher margins by cutting labor typically destroy quality, trigger turnover, and undermine the trust that keeps families enrolled. Centers that try to squeeze margins out of over-enrollment or under-staffing run up against licensing. The win is sustainable, honest profitability within the real constraints of the industry.

This also means that the owner who looks at their 4 percent net margin and concludes they are running a failing business may be wrong. They may be running a slightly-below-average business that needs specific, targeted work on two or three of the levers covered in Part 2. The difference between 4 percent and 8 percent, in most centers, is not a complete business overhaul. It is consistent execution on a handful of specific practices that most centers are currently missing.

The five levers in Part 2 are those practices. Each one is measurable, improvable, and within a center owner's direct control — even inside the four structural forces that cannot be changed.

PART 1

The Four Structural Forces

Four forces shape what's possible in this industry. Generic small-business advice runs into them and breaks. Understanding each one is the foundation for everything that follows.

Force 1: Labor Cost Is Non-Discretionary

State licensing doesn't just regulate what happens inside your classrooms — it regulates how many people must be in them at all times. The NAEYC's recommended staff-to-child ratios, adopted by most state licensing bodies, require 1 teacher per 4 infants, 1 per 6 toddlers, and 1 per 10 preschoolers. These are not targets you can miss on a slow Tuesday when cash is tight. They are legal minimums. Falling below them puts your license at risk.

The math compounds quickly. A 1:4 infant ratio means each teacher's wages get spread across only 4 tuition-paying families. A preschool teacher's wages spread across 10. That single difference — the ratio — is the primary reason infant rooms are almost always loss-making and preschool rooms carry the center's profitability.

At base wages, before any burden costs, labor typically consumes 56 to 68 percent of a childcare center's revenue. Once you add the full burden — payroll taxes, workers' compensation premiums, benefits, and paid time off accruals — fully loaded labor cost rises to 73 to 74 percent at most centers. The burden multiplier typically runs 1.25 to 1.30 on top of gross wages. There is essentially no version of a profitable childcare center that achieves it by cutting labor below ratio. The levers that work operate on revenue and efficiency, not on reducing the headcount the state requires.

Force 2: Tuition Has a Market Ceiling

Families pay childcare tuition out of after-tax income. Childcare costs are, by most surveys, consistently in the top three household expenses for families with young children. The families who need your infant room the most are also the families who are financially most stretched, because they are simultaneously paying off student loans, building an emergency fund, and trying to make a mortgage work on two incomes.

The Center for American Progress has modeled the economics of infant care specifically, and the finding is blunt: the true cost of delivering infant care runs 49 percent higher than the true cost of preschool care. That gap exists because of staffing ratios, supply requirements, square footage per child, and the intensity of direct care for the youngest children. The market premium families will actually tolerate paying for infant care over preschool care, however, runs only 25 to 30 percent.

That means the gap between what infant care costs to deliver and what families will pay for it cannot be closed through pricing. Centers that try to price infant tuition at its true cost find themselves losing families to competitors who are willing to absorb the loss. Centers that price infant care below cost — which is nearly every center — cross-subsidize the infant room from preschool revenue. This is not a management failure. It is the structural reality of the market. The question is not whether to cross-subsidize, but how much, and whether the long-term value of those infant families justifies it. (The answer, as the Lever 1 chapter shows, is almost always yes.)

Force 3: Capital and Capacity Are Slow to Change

When a restaurant gets too busy, it adds tables. When a retailer's product sells out, it orders more inventory. When a consulting firm wins a new client, it hires a new consultant. These adjustments happen in days or weeks.

Childcare capacity does not work that way. The square footage you have is the square footage stamped on your license. Adding a classroom means zoning approvals, licensing inspections, build-out costs, a waitlist of families large enough to fill the room on day one, and a regulatory cycle that typically runs six to eighteen months from decision to first enrollment. Closing a classroom means laying off teachers who have built relationships with your families, breaking trust with families you have to turn away, and shrinking the waitlist funnel that feeds future enrollment. These are not easily reversible decisions.

The result is that childcare owners face a kind of strategic lock-in that owners in most other industries do not. A capacity decision made in the wrong direction — too much too soon, or contraction at the wrong moment — can take years to recover from. This is why the 90-day plan in Part 3 does not begin with capacity changes. It begins with squeezing the full value out of the capacity you already have.

Force 4: Regulatory and Subsidy Complexity

One common mistake new advisors make when they first work with childcare is assuming that compliance means following one set of rules. It does not. Childcare sits at the intersection of multiple overlapping regulatory systems — state licensing, federal subsidy programs, state PreK contracts, Head Start and Early Head Start performance standards, CACFP food program requirements, and in some markets, city-level PreK program rules on top of those.

Each program has its own eligibility rules, its own accounting requirements, its own reimbursement timing, and its own documentation standards. The Child Care and Development Fund (CCDF) — the federal block grant that funds state childcare subsidies — flows through 50 different state systems, each designed differently. New Mexico's ECECD program ties subsidy reimbursement rates to quality star ratings. DC's OSSE program ties subsidy participation to Living Wage compliance and has a separate Pay Equity Fund with its own certification requirements. South Carolina's First Steps 4K program operates under contract

structures that require audited financial statements. Pennsylvania's Child Care Works program ties authorization amounts to verified parental work hours. There is no single playbook.

The CACFP food program adds another layer. Centers that participate in CACFP receive per-meal reimbursements that can represent meaningful revenue — but those reimbursements require separate meal count documentation, attendance records, menu compliance, and often a separate audit. A center that participates in CACFP but tracks meals carelessly may be collecting 60 to 70 cents on the dollar of what it has earned.

The practical implication: your financial system needs to handle these programs separately, not merge them into a single revenue line. The variance between what you think you are earning from subsidies and what you are actually collecting is one of the most reliable sources of hidden revenue leakage in the centers we work with.

PART 2

The Five Levers

The four forces in Part 1 are fixed. You cannot change state licensing ratios, convince the market to pay more than families can afford, build a new classroom in a weekend, or simplify the CCDF into a single reimbursement rate. Those constraints are part of operating in this industry.

Within those constraints, however, there are five specific levers that consistently separate childcare centers running 6 to 10 percent net margins from centers running at break-even or below. We have seen these levers apply across single-location centers and multi-location operators, across private-pay programs and subsidy-heavy ones, across centers in Pennsylvania, New Mexico, South Carolina, and DC. The details vary. The levers do not.

Here they are, in order of the impact we consistently see when centers work on them:

Lever 1: Classroom-Level Economics. Your center is not one business. It is a portfolio of mini-businesses. Knowing which classrooms make money and which lose money changes every decision you make.

Lever 2: Slot-Day Utilization and Part-Time Pricing. The unit of revenue in childcare is not a child — it is a slot-day. Centers that price and manage part-time enrollment correctly earn significantly more from the same physical capacity.

Lever 3: Revenue Reconciliation. The gap between the revenue you calculate from enrollment and the revenue that actually deposits into your bank account is almost always larger than owners expect. Closing it is typically the highest-return work a center can do.

Lever 4: Labor Cost Structure. Labor is non-discretionary, but your ratio to revenue is not fixed. Managing it proactively — before wage pressure arrives — is the difference between absorbing increases strategically and reacting to them in crisis mode.

Lever 5: Cash Flow Systems and KPI Discipline. The system that ties everything together. Monthly KPIs that surface problems before they become crises. A bank account structure that eliminates tax surprises. The measurement layer that makes everything else visible.

Each lever gets its own chapter, with a scene from real life, an explanation of why the problem stays hidden, the specific framework, a worked example with real numbers, and an action step you can take this month. Start at the beginning or jump to what hurts most. Both paths get you somewhere useful.

PART 2

Lever 1: Classroom-Level Economics

The Scene: Sunday Night, QuickBooks Open

It is Sunday evening, sometime around nine. The family is asleep, the house is quiet, and you are at the kitchen table with your laptop open to QuickBooks. The month just ended. You pull the P&L.

Revenue looks about right — enrollment was solid, most families paid on time, and you finally filled that infant slot that sat open for six weeks. But the number at the bottom of the page is tight. Tighter than it should be for a center running 92 percent of capacity with no major unexpected costs. You look at the expense lines, looking for the problem. Payroll looks the same as last month. Rent has not changed. Supplies were actually a little under budget because you bought diapers in bulk in September.

So why is the margin 3.2 percent when it was 6.1 percent in June?

You click around. You look at cash flow. You check whether any subsidy payments were delayed. Everything looks normal, and nothing tells you what you want to know — which part of the business is causing this.

You close the laptop. You will look at it again Monday morning when your mind is sharper.

Monday morning, it will look exactly the same. And Tuesday. And for the next six months, every time you look at the QuickBooks P&L, you will see the center as a single number. Some months it looks fine. Some months it looks tight. You will never know which classroom is doing which job, because your accounting system is not built to show you.

This is the first thing that has to change.

Why most centers miss this

Why Standard Accounting Hides the Answer

QuickBooks, when set up the way most bookkeepers set it up for a childcare center, shows you one income statement for the entire operation. Revenue in, expenses out, net profit at the bottom. That structure is fine for filing taxes. It tells you almost nothing about which classrooms are working.

The problem is structural. A childcare center is not one business. It is a portfolio of mini-businesses, each with its own revenue, its own direct labor costs, its own occupancy footprint, and its own profitability profile. The infant room is a fundamentally different economic unit than the preschool rooms, which are different again from a school-age program. When you roll all of those into a single P&L, the strong rooms hide the weak rooms and you lose the signal entirely.

Most generalist accountants set up childcare P&Ls the same way they set up a restaurant or a hair salon — as a single entity with one revenue line and departmentalized expenses. That structure works for the IRS. It does not work for a center owner trying to make strategic decisions about which rooms to grow, which to price more aggressively, and which to rethink.

The owners who do understand which classrooms are profitable usually arrived at that knowledge through a crisis — an audit, a lender's request for room-by-room data, or a financial review that forced the issue. The framework should not require a crisis to implement. It should be part of how you look at the business every month.

The framework

The Classroom-Level P&L: How to Build One

A classroom-level P&L allocates revenue and costs to each room, giving you a contribution margin per classroom — the amount that room contributes to covering overhead and generating profit after its own direct costs.

Building this does not require a new accounting system or a specialized bookkeeper. Most centers can produce a reasonable first-pass version using their childcare management software for revenue, their payroll register for labor, their lease for occupancy, and their general ledger for overhead. The first version will have imperfect allocations. That is fine. Even an imperfect classroom P&L is orders of magnitude more informative than a single-entity income statement.

The structure has five line items per classroom:

Direct Revenue. The tuition collected from children enrolled in that room in the month, net of any documented discounts. Include subsidy reimbursements attributed to children in that room. Do not include registration fees or ancillary revenue — those belong at the center level.

Direct Labor. The fully loaded wages of teachers assigned primarily to that room. Fully loaded means gross wages multiplied by your burden factor — typically 1.25 to 1.30 to account for payroll taxes, workers' compensation, and benefit accruals. If a teacher splits time between rooms, allocate proportionally by scheduled hours. Include floater coverage allocated proportionally to the rooms the floater serves.

Direct Supplies. Materials and consumables that belong to that specific classroom — diapers and formula support for infant rooms, curriculum materials, classroom-specific art supplies, food costs for programs not covered by CACFP. Do not include center-wide supplies here; those go into overhead.

Allocated Occupancy. Your total annual occupancy cost (rent or mortgage, utilities, cleaning, property insurance) divided proportionally by the square footage each room occupies. A room that takes up 20 percent of your total square footage gets allocated 20 percent of total occupancy cost.

Allocated Overhead. The remaining center-wide costs — administrative staff, director salary, liability insurance, marketing, software, licensing fees — allocated proportionally by each room's share of total center revenue. A room generating 30 percent of center revenue absorbs 30 percent of overhead.

Contribution Margin. Direct Revenue minus all four cost lines. This is the number that tells you how much each room contributes to the overall center after covering its own costs.

A positive contribution margin means the room is earning more than it directly costs to run and is helping cover center-wide overhead. A negative contribution margin means the room is drawing on the positive margins of other rooms to survive. Neither number is automatically a crisis — the infant room's negative contribution, as Lever 1's worked example shows, can be fully justified by lifetime value economics. But knowing which rooms are positive contributors and which are negative is the baseline information for every meaningful strategic decision a center owner makes.

The first time most owners build this, the infant room contribution is negative. Preschool rooms show strong positive contribution. The school-age program, if there is one, sometimes shows the worst numbers of all — because school-age children generate afternoon-only revenue while occupying a full-size classroom and requiring full staff coverage. That picture is the information you have been missing.

Worked example

Worked Example: Acorn Learning Center, Pennsylvania

Acorn Learning Center is a 75-child licensed center in suburban Philadelphia with four classrooms: one infant room (8 children, 1:4 ratio), one toddler room (12 children, 1:6 ratio), and two preschool rooms (18 children each, 1:10 ratio). Total licensed capacity is 56 children; Acorn is currently running at 91 percent FTE utilization. Annual revenue is $876,000.

Here is the classroom-level P&L for the most recent fiscal year:

Infant Room (8 children)

Line Item	Amount
Direct Revenue	$119,040
Direct Labor (2 FT teachers + 0.25 FTE floater, fully loaded at 1.28x)	$87,640
Direct Supplies (diapers, formula support, infant curriculum)	$19,200
Allocated Occupancy (320 sq ft of 3,800 total sq ft)	$8,970
Allocated Overhead (13.6% of center revenue)	$17,230
Contribution Margin	**–$14,000**

Toddler Room (12 children)

Line Item	Amount
Direct Revenue	$157,680
Direct Labor (2 FT teachers, fully loaded)	$83,310
Direct Supplies	$8,640
Allocated Occupancy (380 sq ft)	$10,650
Allocated Overhead (18% of center revenue)	$22,650
Contribution Margin	**$32,430**

Preschool Room A (18 children)

Line Item	Amount
Direct Revenue	$270,540
Direct Labor (2 FT teachers, fully loaded)	$83,310
Direct Supplies	$5,400
Allocated Occupancy (480 sq ft)	$13,460
Allocated Overhead (30.9% of center revenue)	$39,150
Contribution Margin	**$129,220**

Preschool Room B (17 children, one vacancy)

Line Item	Amount
Direct Revenue	$255,150
Direct Labor (2 FT teachers, fully loaded)	$83,310
Direct Supplies	$5,100
Allocated Occupancy (480 sq ft)	$13,460
Allocated Overhead (29.1% of center revenue)	$36,870
Contribution Margin	**$116,410**

Center-Level Summary

Room	Contribution Margin
Infant	−$14,000
Toddler	+$32,430
Preschool A	+$129,220
Preschool B	+$116,410
Total	**+$264,060**

After allocating the remaining center-level costs (director compensation, admin, professional fees), Acorn's net profit runs approximately $67,000, or 7.6 percent of revenue — a solid outcome.

The infant room runs a $14,000 annual loss. For most owners, that number feels like a problem to solve. But here is the reframe that changes everything.

A family who enrolls a child at twelve weeks and stays through age five generates approximately $67,500 in lifetime tuition at Acorn's rates. A family who arrives at age three stays twenty-four months on average and generates about $24,900. The infant-entry family is worth $42,600 more in lifetime tuition. One additional infant-entry family who stays through preschool more than covers the entire infant room's annual loss. Two of them make the infant room, in lifetime-value terms, the highest-return room in the building.

The infant room is not a profit center. It is Acorn's most important customer acquisition channel, and the $14,000 annual "loss" is the most efficient customer acquisition spend in the business. The question is not how to make the infant room break even. The question is how many of those infant families are converting to the toddler room — and what happens to them if they do not.

THIS MONTH'S ACTION

Pull last quarter's revenue by classroom — most childcare management software can give you tuition by classroom if it is set up with rooms. Pull your teacher roster and their primary room assignments. Run the rough math: direct revenue minus direct labor minus a proportional occupancy allocation. You do not need perfect numbers on the first pass. Even a back-of-envelope version of this exercise will reveal which rooms are funding the business and which are drawing from it. That information changes how you think about pricing, about vacancy management, about waitlist strategy, and about which rooms to fill first when two families call on the same day. The picture does not require an accountant to produce. It requires the willingness to look. If what you find is uncomfortable, that is normal. Most centers find the infant room loss surprising the first time they see it, and most find at least one other room performing differently than expected. Knowledge of the problem is the first step toward doing something about it.

PART 2

Lever 2: Slot-Day Utilization & Part-Time Pricing

The Scene: Full Classrooms, Stagnant Revenue

You had a strong enrollment push in January. You ran a referral promotion in February. By March, your headcount numbers are the best they have looked in two years. The lobby feels busy. Three classrooms are at or near capacity according to your enrollment sheet.

Then the monthly revenue hits the bank, and it is almost the same as it was last April, when you were 15 children lighter.

You call your bookkeeper. She says the numbers look right to her. You pull the enrollment report again and count. Forty-one children. Last April there were 37. You are collecting roughly the same amount from four more families. Something is wrong.

You try a different angle. You look at operating costs — payroll has not changed, supply costs are in line, nothing obvious stands out. You consider whether a family is paying late, but the billing software shows everyone current. The mystery sits there, unresolved, while you move on to the dozen other things that need your attention this week.

Except nothing is wrong with the books. The books are accurate. The problem is that you are measuring enrollment when you should be measuring something else.

Those four additional children are all part-timers. Three attend Monday, Wednesday, and Friday. One attends Tuesday and Thursday. Together they occupy slots that your full-time families filled last spring. At pure pro-rata pricing — which is how most centers price part-time — they generate about 60 cents for every dollar a full-time family generates from the same slot.

You feel full. You are not. Headcount and revenue have diverged, and headcount is lying.

This scenario plays out in centers every month. It is not an unusual problem, and it is not a sign of poor management. It is the predictable consequence of managing enrollment by a metric — headcount — that does not map to how childcare revenue is actually generated.

Why most centers miss this

Why Owners Think in Headcount When Revenue Lives in Slot-Days

Counting children is natural. It is how enrollment has always been measured. State licensing counts children. Insurance policies count children. Health department inspections count children. Every system a center interacts with measures headcount. It makes sense that owners think the same way.

But children are not the unit of revenue in childcare. The unit of revenue is a slot-day — one child occupying one seat for one day. A full-time child generates five slot-days per week. A three-day part-timer generates three. A two-day part-timer generates two. The teacher who manages those children shows up for all five days regardless.

This mismatch — children as the intuitive unit, slot-days as the financial unit — is one of the most reliable sources of financial confusion we see in centers. An owner who manages by headcount can grow enrollment significantly while revenue stays flat or declines. The lobby looks full, the schedules look full, the waitlist numbers look healthy. The bank account tells a different story.

Slot-day utilization is the metric that surfaces the truth. It measures the percentage of available slot-days in each classroom that were actually filled in a given period. A ten-child preschool room operating five days a week has 50 slot-days available per week. Fill it with ten full-timers and you sell all 50. Fill it with fourteen three-day part-timers and you sell 42 — 16 percent fewer slot-days despite 40 percent more children on the roster. That gap is worth approximately $600 to $900 per month per classroom at most tuition rates — quietly, invisibly, every month.

The framework

The Slot-Day Framework: Math, Pricing, and the Right Approach

Calculating Slot-Day Utilization

For each classroom, the calculation runs as follows:

Available slot-days = licensed capacity × operating days per week × weeks in period

For a ten-child room operating five days per week over a twelve-week quarter: 10 × 5 × 12 = 600 slot-days available.

Count the slot-days actually sold — each child for each day they attend. Part-time children count only for their scheduled days. Divide sold by available. That is your slot-day utilization rate. Target is 90 percent or above.

Part-Time Pricing: Three Scenarios

The central pricing question for part-time enrollment is the per-day premium — how much more per day

does a part-time family pay compared to the full-time daily equivalent?

Tom Copeland, the most widely cited expert on childcare business economics, recommends a 50 percent per-day premium. His reasoning is straightforward: part-time families consume administrative time, make staffing harder to plan, and leave the center unable to sell the days they do not occupy to a complementary family. The premium compensates for those real costs.

The pure pro-rata approach — charging a three-day part-timer exactly three-fifths of the full-time monthly rate — builds in zero premium. It treats a slot-day as equally valuable whether it is sold as part of a full-time or part-time enrollment. The data does not support this treatment.

Here is the math for a ten-child preschool room with full-time tuition of $1,250 per month:

Full-time daily equivalent: $1,250 ÷ 21.7 average working days = $57.60 per day

Three-day part-timer at pure pro-rata: 3 × $57.60 × 4.33 weeks = $748 per month

Three-day part-timer at Copeland 50% premium: 3 × $86.40 × 4.33 = $1,124 per month

Three-day part-timer at practical 75-80% of full-time monthly: $938 to $1,000 per month

The pure pro-rata math means that filling a slot with two three-day part-timers generates $1,496 from a space that would have generated $1,250 from one full-timer — a 20 percent apparent improvement that vanishes quickly once you factor in administrative burden, scheduling fragmentation, and the risk of empty days when schedules do not complement each other.

The practical middle ground most centers can implement without significant family pushback is pricing three-day part-time at 75 to 80 percent of full-time monthly tuition. At $1,250 full-time, that puts the three-day rate at $938 to $1,000 per month. This builds in a real per-day premium without the pricing leap that Copeland's 50 percent requires in more price-sensitive markets.

For two-day part-timers, the practical middle ground is 55 to 60 percent of full-time monthly tuition. For variable schedules — families who change their days week to week — a 10 to 15 percent surcharge above the standard part-time rate is both reasonable and enforceable.

Worked example

Worked Example: Sunshine Preschool Room

Sunshine Academy has a ten-child preschool room. Full-time monthly tuition is $1,250. Two teachers staff the room full-time at a fully loaded cost of $7,820 per month combined.

Scenario 1: 10 Full-Time Families

Metric	Value
Monthly Revenue	$12,500
Monthly Labor	$7,820
Labor as % of Room Revenue	62.6%
Slot-Day Utilization	100%
Administrative Relationships	10 families

Scenario 2: 14 Part-Timers at Pure Pro-Rata (3-day = $750/month)

Metric	Value
Monthly Revenue	$10,500
Monthly Labor	$7,820
Labor as % of Room Revenue	74.5%
Slot-Day Utilization	84%
Administrative Relationships	14 families

The room looks fuller. Four more children are in the system. But the labor ratio has jumped from 62.6 to 74.5 percent — into the danger zone — while revenue actually fell by $2,000 per month.

Scenario 3: 14 Part-Timers at Copeland 50% Premium (3-day = $1,125/month)

Metric	Value
Monthly Revenue	$15,750
Monthly Labor	$7,820
Labor as % of Room Revenue	49.6%
Slot-Day Utilization	84%
Administrative Relationships	14 families

This is the ceiling scenario. It generates more revenue than full-time enrollment from fewer slot-days, and the labor ratio looks excellent. In practice, the $375 premium above full-time tuition will lose some families in price-sensitive markets.

Scenario 4: 14 Part-Timers at the 75-80% Practical Middle Ground (3-day = $969/month)

Metric	Value
Monthly Revenue	$13,566
Monthly Labor	$7,820
Labor as % of Room Revenue	57.6%
Slot-Day Utilization	84%
Administrative Relationships	14 families

The practical middle ground generates $1,066 more per month than pure pro-rata, brings the labor ratio back to a healthy level, and does not require a pricing conversation that most families will reject. The staffing implication to watch: on high-attendance days (Tuesday through Thursday), all fourteen part-timers may overlap, briefly pushing the room toward ratio issues. Build in a documented policy for which days each family's schedule covers, and confirm with teachers that the peak-day headcount never exceeds ratio.

The recommendation for most markets: price three-day part-time at 75 to 80 percent of full-time monthly tuition, cap part-time enrollment at 30 percent of room slots, and implement a right-of-first-refusal policy stating that part-time families will be the first call when a full-time slot opens — and will have 30 days to decide whether to convert before the slot transitions.

THIS MONTH'S ACTION

Pull your current enrollment and identify every part-time family. For each part-time family, calculate what they are paying per scheduled day. This calculation takes about twenty minutes in a spreadsheet once you have the enrollment data in front of you. Divide their monthly tuition by their scheduled days per month. Compare that number to your full-time daily rate (monthly tuition ÷ 21.7 days). If part-time families are paying at or below the full-time per-day rate, you are getting no premium for the operational complexity they add to your schedule. Calculate what each room's revenue would look like at the 75-80 percent pricing approach. That gap — the difference between current revenue and repriced revenue — is money you can recover at the next enrollment renewal cycle without adding a single child. Do not implement new pricing mid-contract. Do propose it for new enrollments effective immediately, and build it into the renewal agreements for existing families at their next annual renewal.

PART 2

Lever 3: Revenue Reconciliation

The Scene: The $30,000 Monthly Gap

One of the centers we work with thought they were collecting $187,000 per month. Their enrollment report said so — 74 children across four classrooms at published rates, net of the sibling discounts they formally offered. The math checked out every time the owner ran it. He had been using that number to make staffing decisions, to plan a lease renewal conversation, and to estimate when the center could afford a second location.

When we sat down with three months of bank statements and ran the reconciliation, the actual monthly deposits averaged $157,000. Not $187,000. The difference was $30,000 per month. Three hundred sixty thousand dollars per year. A full-time teacher's salary for every month of the year, twice over.

This was not theft. Nobody was writing themselves checks. The gap had five separate causes, each one individually small enough to explain away, combined into a number large enough to nearly sink the business. An employee had been giving courtesy discounts to families she knew personally — $20 or $30 here and there, never tracked. A tuition rate increase implemented in September had been applied to new families but not to seventeen legacy families whose contracts had auto-renewed at the old rate. Three subsidy families' authorizations had lapsed and not been renewed, meaning the center was providing care without payment. Late fees were being waived as a matter of informal policy. CACFP reimbursements had been under-claimed because meal count logs were incomplete.

Each explanation sounds reasonable. The aggregate is $360,000 a year in revenue the center earned but did not collect.

Why most centers miss this

Why the Proxy Lies

Childcare owners calculate expected revenue by multiplying enrollment by tuition rates, subtracting documented discounts, and adding anticipated subsidy payments. This is a reasonable proxy. It is almost always wrong.

The proxy does not fail dramatically or all at once. It fails in increments. A new employee waives a fee and does not log it. A subsidy authorization expires and nobody catches the renewal deadline. A rate increase gets announced but the billing system update gets pushed to next month and then forgotten for six months. Each of these is a small miss. None of them trigger an alarm. Together, compounded over a full year, they

produce the kind of gap that makes an owner question their own accounting.

The proxy fails because it captures policy, not reality. Policy says everyone pays the current rate. Reality includes families on grandfathered rates from 2021. Policy says discounts are only the formal sibling discount. Reality includes informal front-desk adjustments nobody logged. Policy says subsidies pay on schedule. Reality includes authorization lapses, documentation gaps, and timing delays.

Most owners trust the proxy because it is consistent — the same calculation method runs every month and produces numbers that feel coherent. That consistency creates false confidence. A steady 12 percent gap between expected and actual revenue looks like a reliable number because it does not move around. The stability is not a sign that the number is right. It is a sign that the gap has structural causes nobody has fixed.

The gap between calculated revenue and collected revenue is called the revenue reconciliation variance. Below 3 percent is clean. Between 3 and 5 percent is manageable. Above 5 percent represents meaningful revenue the center has earned but not collected — and in an industry running 1 to 10 percent net margins, a 7 or 8 percent reconciliation variance erases profitability entirely.

The framework

The Eight Leakage Points and How to Close Them

Through reconciliation work across dozens of centers, the same causes appear in almost every audit. Here are the eight most common, in order of frequency:

1. Front-Desk Discounts. Staff members who have discretion to waive fees or offer informal adjustments. The fix: all discounts require written approval and must be entered into the billing system before taking effect.

2. Sibling Discount Errors. Sibling discount policies applied inconsistently, or applied when siblings age out but not removed when one child leaves. Audit the sibling discount line in your billing software quarterly.

3. Subsidy Authorization Lapses. Subsidy authorizations expire and must be renewed by the family. When a renewal does not happen, the center often continues providing care while the subsidy stops paying. Build a 30-day advance notification into your subsidy tracking.

4. Tuition Rate Increases Not Applied. Annual tuition increases announced to new families but not implemented in the billing system for auto-renewing legacy families. Run a rate audit after every annual increase to confirm all active families are on current rates.

5. CACFP Reimbursement Gaps. Meal counts submitted inaccurately or below the number of eligible meals served. CACFP reimbursements can represent $30,000 to $80,000 in annual revenue for a center of meaningful size. Track meal counts daily and reconcile monthly.

6. Late and Registration Fees Not Collected. Fee policies that exist on paper but are waived informally. Enforce the policy in the billing system, not in conversation. Once a fee is waived in the system, it is gone.

7. Deposit Refund Errors. Enrollment deposits refunded to families who disenrolled after the non-refundable window. Audit all refunds quarterly against the contract terms.

8. Drop-In and Extended Day Not Billed. Extended care and drop-in fees that staff approve verbally but that do not get entered into the billing system before the month closes.

The Monthly Reconciliation Procedure

At the end of each month, run this calculation:

(Total enrolled children × their individual monthly tuition, net of documented discounts) + (subsidy authorizations × reimbursement rate) + (expected late fees and ancillary charges)

= Theoretical monthly revenue

Then: pull actual bank deposits for the month, excluding transfers, loans, and owner contributions.

Calculate: (Theoretical − Actual) ÷ Theoretical = Reconciliation Variance %

Below 3 percent is clean. Above 3 percent requires a line-by-line investigation to identify which of the eight causes is driving the gap. Document the findings and track the variance month-over-month. A variance that is improving month over month is a system working. A variance that is stable above 5 percent is a structural problem.

Worked example

Worked Example: Month-End Reconciliation at Cedar Oak Academy

Cedar Oak Academy is a sixty-child center in South Carolina. Monthly theoretical revenue is calculated as follows:

Revenue Component	Expected
44 private-pay families at avg $1,312/month	$57,728
Less: 6 sibling discounts at $131/month	−$786
16 CCDF subsidy children at avg $886/month (SC rates)	$14,176
CACFP reimbursements (estimated monthly)	$1,840
Late fees (average monthly collection)	$410
Theoretical Monthly Revenue	$73,368

Actual bank deposits for the month: $69,168

Variance: $4,200, or 5.7% of theoretical revenue. That is a red flag.

The owner investigates the five likely causes:

Finding 1 — Subsidy authorization lag: Two subsidy families' authorizations had not been renewed for September. The system continued billing them as active at the subsidy rate. Actual payment received: $0 for those two families. Impact: −$1,772.

Finding 2 — Rate increase not applied: Annual tuition increase went live September 1. Eight legacy families whose contracts had auto-renewed in June were still on June rates, averaging $43/month below current rates. Impact: −$344.

Finding 3 — CACFP under-claim: Meal logs for the last two weeks of August were incomplete. Reimbursement filed was $1,210 instead of the estimated $1,840. Impact: −$630.

Finding 4 — Late fees waived: The billing software showed five late fees assessed and five waived in the same month at the director's discretion. Impact: −$225 (fees fully waived rather than partially collected).

Finding 5 — Extended day not billed: Two children used the extended care program in September and their charges were not entered into the billing system before the end-of-month close. Impact: −$420 (approximate, based on program rates).

Total identified variance: $3,391 of the $4,200 gap explained. The remaining $809 is under investigation — likely a combination of small timing differences and one subsidy family's partial payment.

Action items from this reconciliation: reactivate both subsidy authorizations immediately and follow up with the families; update the eight legacy families to current rates effective October 1 with written notice; implement a daily CACFP meal count check; amend the director's discretion policy to require manager approval for fee waivers; and add an extended care billing cutoff reminder to the last-day-of-month checklist.

THIS MONTH'S ACTION

Pull the last three months of bank statements and the corresponding monthly enrollment reports. Run the reconciliation calculation for each month: theoretical revenue versus actual deposits. Calculate the variance percentage. Write the three monthly variance percentages down — you are looking for both the size of the gap and whether it is consistent or variable month to month. If the variance is consistently above 3 percent, you have a structural leakage problem worth investigating. Even a quick pass through the eight leakage categories — looking for the obvious items like rate mismatches and subsidy lapses — will almost always identify the largest contributors within an hour or two. The first reconciliation is the hardest because the data is not organized for this purpose. The second is faster. By month three, most centers can complete a basic reconciliation in thirty minutes. The time investment is tiny relative to what even a 2-percentage-point improvement in the variance means in recovered annual revenue.

PART 2

Lever 4: Labor Cost Structure

The Scene: The Number That Will Not Stop Climbing

A center director in Philadelphia opens an email from her lead teacher in the infant room. The email is professional and measured. The teacher thanks the director for her support and explains that she has been offered a position at a center two miles away paying $16.50 per hour — three dollars above her current rate. She is giving two weeks' notice unless something changes.

The director looks at her staff roster. She has fourteen hourly employees. She does not know how many of them are having similar conversations right now. She does know that the center is currently paying an average of $13.70 per hour, and that she has heard from at least two other teachers in the last month about offers from competitors.

Then she looks at the Pennsylvania House bill moving through Harrisburg that would bring the minimum wage to $15 in Philadelphia starting in January. She had been hoping it would stall. It did not.

Across town, a different owner opened his QuickBooks that same morning and found his labor cost ratio for the third quarter: 71.4 percent of revenue. He knows the benchmark is 65 percent. He does not know how he got here or how to get back.

These two stories — the talent pressure and the ratio creep — are the same story. Childcare wages rose 26 percent nationally between 2020 and 2024 according to Bureau of Labor Statistics data, and they are not done rising. Whether the pressure comes from a state mandate, a Pay Equity program, or the family two miles away that is hiring away your teachers, the question is the same: how do you manage the largest, least-discretionary cost in your business before it manages you?

Why most centers miss this

Why Labor Cost Catches Owners Off Guard

Most owners think about labor cost as a fixed number — the total monthly payroll. They check it against last month and against budget, and if it looks roughly the same, they move on. That framing misses the problem.

Labor cost is not a dollar figure. It is a ratio. The labor cost ratio — fully loaded wages divided by total revenue — is what tells you whether the business is sustainable. And that ratio can creep upward through two completely separate mechanisms: wages rising, or revenue falling.

A center that raises wages by 4 percent while holding revenue flat sees its labor ratio rise. A center that holds wages flat while enrollment slips in the summer sees its labor ratio rise. A center that adds a part-time floater to cover a compliance gap sees its labor ratio rise. Each of these movements is small and easy to explain away. Compounded over twelve to eighteen months, they can push a center from the healthy zone below 65 percent into the danger zone above 73 percent without a single dramatic event to explain what happened.

The ratio also compounds with every pricing and staffing decision made without running the full math. A center that accepts six new part-time families at pure pro-rata pricing, adds a floater teacher to cover the new enrollment, and holds tuition flat for legacy families has made three decisions that each push the labor ratio upward — none of them obviously wrong in isolation.

Running the labor cost ratio monthly is not optional for a childcare center. It is the single most important financial indicator of whether the operation can survive the next wage move.

The framework

The Framework: Benchmarks, Modeling, and Levers

Labor Cost Ratio Benchmarks

Ratio	Status	What It Means
Below 65%	Healthy	Operating margin available; room to invest in growth or absorb mild pressure
65–70%	Stressed but viable	Small wage increases require offsetting revenue improvements
70–75%	Warning	Cash flow problems likely within 90 days
75%+	Critical	Structurally insolvent without intervention

To calculate your loaded labor ratio: total monthly payroll (gross wages × 1.25 to 1.30 burden factor) ÷ total monthly revenue.

Most centers we audit on first pass run between 68 and 72 percent — in the stressed-to-warning range. That is workable in the short term but leaves almost no margin for the wage pressure currently building in most state markets. The math of absorbing a meaningful wage increase from a 70 percent starting point is genuinely hard. From 64 percent, there is room to work with.

Modeling a Wage Increase

Step 1: Calculate the annual dollar cost. Take the hourly increase × total annual hours for affected employees × burden multiplier.

Example: $2/hour raise × 27,040 annual hours × 1.30 burden = $70,304 per year

Step 2: Calculate the required tuition increase to fully offset. Divide the annual cost by current annual

revenue.

$70,304 ÷ $1,600,000 = 4.4% tuition increase needed

Step 3: Assess whether the tuition market will bear that increase. Centers priced below local market median have room. Centers at or above median face real elasticity risk.

Step 4: If tuition cannot fully absorb the increase, evaluate the secondary levers:

- Revenue leak recovery: Plugging a 5 percent reconciliation variance on $1.6M revenue recovers $80,000 — more than the wage increase costs.
- Part-time pricing correction: Moving from pure pro-rata to the 75-80 percent pricing approach often generates 3 to 5 percent additional revenue.
- Phased tuition increase: Two 2.5 percent increases over 18 months are often more tolerable to families than one 5 percent increase.
- Staffing structure review: Mixed-age groupings where licensing permits, or consolidating floating coverage, can reduce total hours without violating ratios.
- State recruitment grants: Pennsylvania, New Mexico, and other states have operated childcare staff retention grant programs. Applications are tedious; the math almost always justifies the effort.

< 65%	Healthy. Operating margin available; room to invest in growth.
65-70%	Workable but tight. Little buffer for wage pressure.
70-75%	Warning zone. One cost shock can flip the business to loss.
> 75%	Critical. Structural intervention required.

Worked example

Worked Example: Greenleaf Childcare, Pennsylvania

Greenleaf Childcare operates in southeastern Pennsylvania with 15 hourly staff — 12 full-time teachers and 3 part-time floaters. Current average wage is $14.20 per hour. Total annual hourly labor hours: 28,340. Current annual revenue: $1.63M. Current fully loaded labor ratio: 66.2 percent.

In October, the director learns that a state wage bill is advancing that would bring the Philadelphia minimum to $15 in January, with broader statewide movement toward $14 by 2027. Her current staff average of $14.20 is close to the floor — a minimum wage move would push the whole scale upward.

She models a $2.00 per hour raise for all hourly staff, effective January 1.

Step 1: The Cost

$2.00 × 28,340 hours × 1.28 burden factor = $72,550 per year

$72,550 ÷ $1,630,000 current revenue = 4.45% of revenue

Step 2: The Tuition Impact

To absorb the full increase through tuition alone: a 4.45 percent across-the-board increase. Greenleaf's current infant tuition is $1,432/month, toddler $1,218/month, preschool $1,076/month. A 4.45 percent increase would bring those to $1,496, $1,272, and $1,124 respectively.

The director surveys comparable centers in a five-mile radius. Greenleaf is currently priced at roughly the local median. A full 4.45 percent increase would push them 3 to 4 percent above median. In a market with several strong competitors, this carries real risk of losing price-sensitive preschool families.

Step 3: The Phased Approach

The director decides to phase the recovery over 18 months: a 2.5 percent increase in January (absorbing roughly half the cost) and another 2.5 percent in July of the following year. That keeps Greenleaf within 1 to 2 percent of local median pricing at each step.

Step 4: Supplementary Levers

Simultaneously, she runs a revenue reconciliation. Her September reconciliation shows a 4.8 percent variance — $6,533 per month, or $78,396 annualized. She identifies the primary causes: three subsidy families with stale authorizations, and part-time pricing that has not been updated in two years. Correcting the subsidy authorizations and repricing part-time families at renewal generates approximately $41,000 in additional annual revenue — covering more than half the wage increase cost without any tuition change.

She also applies for the Pennsylvania Child Care Staff Recruitment and Retention Program, which provides $450 per qualifying employee per year. With fifteen qualifying staff, that is $6,750 in grant funding — small but real.

Net Result

After the phased tuition increases, the revenue leak recovery, and the grant application: Greenleaf absorbs the $2.00 raise with a labor ratio that moves from 66.2 to approximately 67.8 percent — stressed but within the viable zone, improving toward 65 percent as the second tuition increase takes effect in July.

The center that waited until January to model this situation would have faced a binary choice: implement a 4.5 percent increase all at once and risk losing families, or absorb the cost and watch the labor ratio climb toward 70. Greenleaf had 90 days of runway. That was enough to make it strategic.

THIS MONTH'S ACTION

Pull your last three months of payroll records. Calculate your fully loaded labor ratio for each month: (total gross payroll × 1.27 burden factor) ÷ total revenue. Track the trend. Then model the wage increase you expect to face in the next 12 to 18 months — whether from state mandate, market pressure, or both. Run the dollar cost calculation using the formula above. Calculate what percentage of revenue that represents. Compare it to your current tuition increase pattern. If the answer suggests a gap between the wage pressure coming at you and the tuition increases you have historically been able to implement, that gap needs a plan. Building the plan now, while you have runway, gives you options. Waiting until the mandate arrives gives you a crisis.

PART 2

Lever 5: Cash Flow Systems & KPIs

The Scene: April and the Tax Bill

The owner of Maple Hill Academy had a genuinely solid year. Enrollment ran above 90 percent for nine of twelve months. She finally fixed the part-time pricing issue and recovered about $28,000 in annual revenue from the reconciliation work. Labor ratio stayed at 64 percent. Net profit for the year, before owner distributions, was $94,000 — a 6.8 percent margin, the best she had run in four years.

On April 11, her accountant called. Federal and state combined tax liability: $41,200.

She had $18,300 in her operating account.

The year had felt profitable because the operating account always seemed to have enough in it. There was no single month of panic, no obvious red flag, no moment where the business felt like it was in trouble. The problem was that some of the money sitting in the account throughout the year was not hers — it belonged to the IRS, accumulating quietly while she made staffing decisions and equipment purchases against a balance that looked adequate.

There was no crisis of spending, no unexplained expense, no mystery. She had simply run all her revenue through one bank account, paid all her expenses from the same account, and assumed that whatever was left at year-end was hers. Some of it was. But 44 percent of it belonged to the IRS and the state, and she had not set it aside as it accumulated.

This is the most predictable financial surprise in small business, and it happens to profitable childcare centers regularly. The solution is not to earn less money. The solution is to build a system that captures the IRS's portion before the operating account ever sees it — so that April does not require a loan, a late payment, or a month of personal financial panic.

Why most centers miss this

Why the Popular Cash Flow Framework Does Not Work Here

Most childcare owners who have read about small business financial systems have encountered Profit First — Mike Michalowicz's framework of multiple bank accounts, fixed percentages, and the discipline of spending only what the operating account contains. The logic is appealing: pay yourself first, force the business to run lean, eliminate tax surprises.

The problem is structural. Profit First works because it exploits Parkinson's Law — the principle that spending expands to fill whatever resources are available. If you only have $X in the operating account, you

will figure out how to operate on $X. This works in most service businesses because spending is largely discretionary: you can cut a vendor, defer a hire, trim a marketing line.

In childcare, the largest operating expense — staff wages — is legally non-discretionary. State licensing dictates how many teachers must be in each classroom at all times. You cannot run your toddler room with one teacher instead of two because the operating account is running low this week. You would lose your license. Parkinson's Law cannot apply to a cost regulated by the state.

The practical result: owners who try the standard Profit First approach in childcare hit a wall within 60 to 90 days. The operating account they are supposed to live within does not cover payroll, let alone rent and everything else. They raid the profit account, abandon the system, and conclude that they are simply too small or too undisciplined to run a financial system. They are not. The system was wrong for their industry.

The fix is not to abandon the underlying discipline of Profit First. The fix is to adapt it to the reality that 87 to 97 percent of childcare revenue has to flow through operating expenses before anything is left.

The framework

The 3-Account System and the Five KPIs

The 3-Account Cash Flow System

The childcare-adapted version of the cash flow system uses three accounts instead of five, and it recalibrates the percentages for the actual margin structure of a licensed center.

Account 1: General Operating. All revenue deposits here. All operating expenses — including payroll — come out of here. This is the working account where the business runs. Unlike standard Profit First, payroll is not split into a separate account, because enforcing a payroll spending limit is not operationally possible in a licensed childcare center.

Account 2: Tax Savings. A separate savings account, ideally at a different bank to add friction against casual transfers. Fund it with 3 to 5 percent of gross monthly revenue, transferred on the first business day of each month. For a center with a 6 to 8 percent net margin, this slightly overfunds tax in most years — creating a cushion for higher-margin months and eliminating any risk of underpayment. The different-bank placement matters: when the account is out of view and requires a separate login to access, the temptation to dip into it during a tight payroll week drops significantly. Pay quarterly estimated taxes directly from this account on April 15, June 15, September 15, and January 15.

Account 3: Profit. A second savings account, same bank as tax savings, funded with 2 to 3 percent of gross monthly revenue. Distributed to the owner quarterly — the end of March, June, September, and December. Not reinvested. Not held for a rainy day. Taken as the return on ownership that it is. The behavioral purpose of the quarterly distribution is real: it makes profit tangible. Owners who leave profit sitting in the operating account almost always spend it on something operational. Owners who take the quarterly distribution start making different decisions about what the business owes them.

The system's value is not the dollar amounts in the savings accounts on any given day. The value is the monthly conversation it forces with the numbers, and the certainty that the IRS bill in April will not be larger than the tax account.

The Five Monthly KPIs

Each KPI is a diagnostic tool, not a judgment. A number in the red zone is a signal of where to look next.

KPI	Formula	Target	What It Tells You
FTE-to-Capacity Ratio	(Sum of all children's FTE values) ÷ Licensed capacity	90%+	Whether you are generating full revenue from your licensed seats
Slot-Day Utilization	Slot-days sold ÷ Total available slot-days	80%+	Whether part-time scheduling is leaving revenue gaps
Infant-to-Toddler Conversion Rate	Children who aged out of infant room 60 days after aging-out date ÷ Total infant graduates	80%+	Whether your highest-value customer relationships are being retained
Labor Cost Ratio	(Gross payroll × 1.25-1.30 burden factor) ÷ Total revenue	Below 65%	Whether your cost structure can absorb the next wage move
Revenue Reconciliation Variance	(Theoretical revenue − Actual deposits) ÷ Theoretical revenue	Below 3%	Whether the revenue you calculate matches the revenue you collect

Run these five numbers at the close of each month. Track them in a simple spreadsheet with color coding: green for at or above benchmark, yellow for warning zone, red for critical. Share the dashboard with your director team, not the full P&L. Visibility creates accountability at every level.

A common objection at this point: "We don't have time to pull all this data every month." The first pass through unfamiliar data takes two to three hours. By month three, once the data sources are known and the spreadsheet is set up, the monthly update takes thirty minutes. The time invested in those thirty minutes is returned many times over in decisions made correctly rather than by gut feel.

Worked example

Worked Example: Setting Up the System at Birchwood Learning Center

Birchwood Learning Center in New Mexico generates $1,437,000 in annual revenue — $119,750 per month average. The center serves a mix of private-pay and CCDF subsidy families, participating in New Mexico's ECECD-enhanced reimbursement program at the 3-star quality level. The owner has been running all revenue and expenses through one checking account at a local credit union.

Step 1: Open the New Accounts

She opens two savings accounts at an online bank (separate from her operating credit union, for friction). Account names: "Birchwood Tax Reserve" and "Birchwood Profit."

Step 2: Set the Transfer Amounts

Tax savings: 4% of gross monthly revenue 4% × $119,750 = $4,790 per month, transferred on the 3rd of each month

Profit: 2.5% of gross monthly revenue 2.5% × $119,750 = $2,994 per month, transferred on the 3rd of each month

Total leaving the operating account monthly: $7,784

Step 3: Annual Projections

After twelve months: Tax Reserve holds $57,480. When her accountant runs the numbers at year-end, her federal and state combined liability is $54,200. The reserve covers it with $3,280 to spare. No April crisis.

Profit account after twelve months: $35,928. Quarterly distributions: approximately $8,982 per quarter, taken in March, June, September, and December. This is real money taken as real owner income — not deferred, not reinvested, not at risk of being spent on an emergency equipment repair.

Step 4: The Monthly KPI Dashboard

At month-end, the owner's director compiles the five KPIs. A recent month's snapshot:

KPI	Result	Benchmark	Status
FTE-to-Capacity	87.4%	90%+	Yellow
Slot-Day Utilization	83.1%	90%+	Yellow
Infant-to-Toddler Conversion	82%	80%+	Green
Labor Cost Ratio (Loaded)	63.8%	Below 65%	Green
Revenue Reconciliation Variance	2.1%	Below 3%	Green

Two yellows, three greens. The FTE and slot-day numbers are soft — a look at the enrollment roster reveals three preschool classrooms with four to five part-time families each at outdated pricing. The owner now has a specific intervention point instead of a vague sense that something could be better.

The dashboard does not replace the monthly financial review. What it does is cut the time required to identify what to work on from a ninety-minute dive into the P&L to a five-minute review of five numbers.

THIS MONTH'S ACTION

If you do not have a separate tax savings account, open one this week. Set up a recurring monthly transfer equal to 4 percent of your average monthly revenue. That transfer on its own eliminates the most predictable financial crisis in small business ownership. Then calculate each of the five KPIs from your most recent full quarter of data. You will need your enrollment software for FTE and slot-day numbers, your last 90 days of payroll records for the labor ratio, your bank statements for the reconciliation variance, and your aging roster data for the conversion rate. The first time through, budget two to three hours. The data may not be organized for these questions yet. After the first pass, the calculation time drops substantially. More importantly, you will have a baseline — five numbers that tell you where the business actually stands, separate from what the bank account feels like on any given day.

PART 3

Putting It All Together

The five levers in Part 2 are not a checklist to complete in a weekend. They are a system of disciplines that compound over time. A center that works on all five simultaneously for ninety days will see more improvement than one that attempts to overhaul everything at once and abandons the effort when it gets complex.

The question now is sequence. Which lever do you work on first? How fast should you try to move? What should you know by the end of the first month, and what does success look like at ninety days?

The 90-day plan that follows is the same sequence we walk through with new advisory clients. The order matters — earlier moves produce data that enables later ones. The timeline is realistic for a working owner with a center to run alongside this project.

The 90-Day Profitability Plan

Days 1–30: Visibility

The goal of the first month is simple: know your numbers. Not projections, not calculations from the enrollment report. Real numbers from the actual business.

Week 1 (Days 1–7): Revenue Reconciliation

Pull the last three months of bank statements and the corresponding enrollment reports. Run the reconciliation calculation for each month. Calculate the variance percentage. Even a rough version of this exercise will tell you whether you have a leak and approximately how large it is. Document the result in a simple spreadsheet.

By end of Week 1: You know your revenue reconciliation variance for the last quarter.

Week 2 (Days 8–14): Classroom P&Ls

Pull last quarter's tuition by classroom from your childcare management software. Pull your teacher roster and primary room assignments. Allocate payroll by room (fully loaded). Do a rough allocation of occupancy by square footage. This does not need to be perfect to be useful. Even an 80-percent-accurate classroom P&L reveals which rooms are contributing and which are drawing from the operation.

By end of Week 2: You have a rough classroom-level P&L for all four levers.

Week 3 (Days 15–21): KPI Baseline

Calculate all five KPIs from the last full quarter of data. Use the formulas from Lever 5. Note where each one lands against the benchmarks. If any calculation requires data you do not have readily organized, note the

gap and plan how to close it.

By end of Week 3: You have a baseline KPI score for the center.

Week 4 (Days 22–30): Labor Cost Projection

Calculate your current loaded labor ratio. Estimate what wage increases you expect over the next 12 to 18 months — check your state's pending legislation, survey what nearby centers are paying, ask your teachers what they are hearing. Model the cost of those increases using the formula from Lever 4.

By end of Week 4: You have a clear picture of the five KPIs, the classroom economics, the revenue gap, and the labor cost trajectory.

What You Should Know by Day 30

Which of the five KPIs is most urgently below benchmark. What your revenue reconciliation variance looks like and what is driving it. Which classroom is your biggest loss contributor and which is your strongest earner. Whether your labor cost trajectory is manageable with current tuition levels or requires planning.

Days 31–60: First-Cycle Fixes

The goal of the second month is to close the most obvious gaps identified in month one. These are typically the highest-return hours of work in the entire plan.

Week 5 (Days 31–37): Plug the Revenue Leaks

Work through the eight leakage categories from Lever 3. Address the largest contributors first: stale subsidy authorizations, rate mismatches for legacy families, and any CACFP reimbursement gaps. Update the billing system to reflect current rates for all active families. Document every discount formally. This work alone often recovers 2 to 5 percent of annual revenue within a single billing cycle.

By end of Week 5: Revenue leakage has begun closing. At least one major cause has been corrected.

Week 6 (Days 38–44): Set Up the 3-Account System

Open the tax savings and profit accounts if they are not already in place. Set up the monthly transfer schedule. Transfer the first installment immediately. Build the transfer reminder into your calendar as a recurring monthly event.

By end of Week 6: The cash flow system is operational. The next estimated tax deadline will not be a surprise.

Week 7 (Days 45–51): Audit Part-Time Pricing

Review every part-time family's current monthly rate. Calculate each family's per-day rate and compare to the full-time daily equivalent. Identify families whose per-day rate is at or below the full-time rate. Draft a communication to notify these families of pricing changes at their next enrollment renewal.

By end of Week 7: You know what part-time repricing would mean in annual revenue, and you have a plan for implementing it.

Week 8 (Days 52–60): Build the Monthly KPI Dashboard

Set up the five-KPI tracking spreadsheet. Populate the first three months of historical data from your Month 1 work. Establish a monthly update cadence — typically the 7th to 10th of the following month, once payroll and deposits are fully processed.

By end of Week 8: The KPI system is running. Month 1 data is the baseline; month 2 data will show the first movement.

What You Should Know by Day 60

Your revenue reconciliation variance for the last month under the new system — it should be moving toward 3 percent. Your baseline KPI scores and month-one movement. The dollar value of the part-time repricing opportunity waiting at renewal. Whether the cash flow accounts are funded and the transfer schedule is set.

Days 61–90: Strategic Moves

The goal of the third month is to move from cleanup to strategy. The visibility work in month one and the system work in month two enable decisions that would have been guesses before.

Week 9 (Days 61–67): Infant-to-Toddler Conversion Review

Pull your infant room roster for the last twelve months. Identify every child who aged out of the infant room and whether they are still enrolled in your toddler room. Calculate your conversion rate. If it is below 80 percent, investigate the causes: Was the toddler room full when they transitioned? Did tuition increase at the transition point? Were there quality signals at the toddler transition that prompted families to shop?

By end of Week 9: You know your conversion rate and its primary causes.

Week 10 (Days 68–74): Wage Modeling for the Next 12-18 Months

Return to the labor cost projection from Week 4. Now model two or three wage scenarios — a conservative increase, a moderate increase, and a scenario involving your state's pending legislation. For each scenario, calculate the required tuition increase and compare to your historical increase pattern and current market positioning. Identify which scenario requires secondary levers (revenue recovery, grants, phased increases) and plan accordingly.

By end of Week 10: You have a wage increase response plan built before you need it.

Week 11 (Days 75–81): Part-Time Enrollment Policy

Implement the right-of-first-refusal policy language in your enrollment agreements. Update your rate card for all new enrollments to reflect the 75 to 80 percent part-time pricing approach. Draft the family communication for existing part-time families at renewal. Set a classroom cap for part-time enrollment at 25 to 30 percent of slots per room.

By end of Week 11: Part-time policy is documented, communicated, and in effect for new enrollments.

Week 12 (Days 82–90): Classroom Strategy Review

Return to the classroom P&Ls from Week 2, updated with month two and three data. Review any rooms that remain below contribution margin benchmark. For structurally unprofitable rooms other than the infant room, consider whether a pricing adjustment, a capacity change, or a program restructuring could improve the contribution. For the infant room, confirm your conversion rate work is in progress and assess whether your infant waitlist represents adequate customer acquisition pipeline.

By end of Week 12: Every classroom has a forward strategy, not just a current P&L.

What You Should Know by Day 90

Your revenue reconciliation variance should be at or below 4 percent, trending toward 3 percent. Your KPI dashboard should have three months of data. Your labor cost model should be ready for the next wage move. Your part-time pricing should be improving at each renewal. Your cash flow system should be fully operational with two months of accumulation in the tax and profit accounts.

The center has moved from reactive financial management to a system with monthly visibility, forward-looking models, and specific metrics that surface problems before they become crises.

PART 3

When to Get Outside Help

Not every center needs a specialized CPA. Some do. The honest answer depends on where your center is, what resources you have, and what the math looks like.

Path 1: Implement on Your Own

This path makes sense if you have a financial background or a strong operations director who can own the analysis work, if your center's finances are relatively clean (reconciliation variance already below 5 percent, labor ratio already below 68 percent), and if the improvements you are chasing involve execution more than diagnosis. The frameworks in this guide, applied consistently over ninety days, will move your numbers without outside help. Many childcare owners have done exactly that.

The limitation of the DIY path is time and objectivity. Building classroom P&Ls and running KPI calculations takes hours that a working center director often does not have. And owners examining their own numbers sometimes rationalize away findings that an outside set of eyes would flag immediately.

Path 2: Start with the Scorecard

Download the free 5 KPIs Scorecard at honestbuck.com and track your numbers monthly for ninety days. After three months of data, you will know with clarity which lever is most urgent and whether the problem is within your ability to solve or whether it requires specialized analysis.

This path is right for most centers that are not in immediate crisis. Three months of scorecard data creates the context for any follow-up conversation — whether with us, another advisor, or your own team. It is also free.

Path 3: Engage a Specialized CPA

The criteria for bringing in advisory support are specific, not vague. Consider it when:

You need classroom-level P&Ls but cannot build them from your current accounting setup. Most general bookkeepers are not set up to allocate costs by classroom. Reclassifying a year of transactions into a classroom P&L structure requires someone who knows both childcare accounting and cost allocation methodology.

You are modeling a wage increase or capacity decision and want a second set of eyes before committing. The math in Lever 4's worked examples is straightforward. What it does not capture is the interaction between the wage model, the revenue reconciliation, the part-time pricing, and your specific market. Modeling all four simultaneously before a major decision is where advisory expertise earns its cost.

You are seeing financial surprises that should not be surprises. A tax bill larger than expected, cash flow that does not track with enrollment, revenue that does not match your calculations — these are diagnostic

signals that the system has a problem that ad hoc analysis is not going to find.

You receive state subsidy funding in multiple programs with separate accounting requirements. CCDF, state PreK, Head Start, and CACFP each require specialized knowledge to reconcile correctly. If you are running two or more of these simultaneously and are not confident the accounting is clean, the risk of under-claiming or mis-reporting is real.

A specialized CPA relationship for childcare advisory work typically involves monthly KPI review, quarterly P&L analysis, an annual wage and pricing model, and proactive tax planning. It is not a replacement for a bookkeeper or a generalist tax preparer. It is the strategic layer on top of those relationships.

About Honest Buck Accounting

Honest Buck Accounting was founded by Rachelle Calina, CPA, and has worked exclusively with childcare centers since 2013. Every client we serve is a childcare business. Every framework we use was developed from childcare-specific data. The advisors on our team understand ratio requirements, subsidy reconciliation, CACFP accounting, state PreK contract structures, and the classroom-level economics that drive real profitability in this industry.

We provide tax preparation, advisory services, financial audits, and bookkeeping — all exclusively for childcare centers. Our CPAs are licensed in Arkansas, Washington, Oregon, and Florida, with mobility across all 50 states. We work with single-location centers and multi-location operators, private-pay programs and subsidy-heavy ones, centers preparing for audits and centers building the financial foundation to pursue PreK contracts.

If you want to talk through what you found in these pages, reach out. The first conversation is straightforward and free.

Honest Buck Accounting Web: honestbuck.com Email: onboarding@honestbuck.com Phone: 844-435-2828

PART 4

The 5 KPIs Scorecard

The following page is designed to be printed and posted somewhere you will see it monthly — a desk, a bulletin board, the inside of the office door. Fill in each KPI at the close of every month. Color the cell green if you hit the benchmark, yellow if you are in the warning zone, red if you are in the critical zone.

One page of honest numbers, updated monthly, will tell you more about where your center is headed than any amount of enrollment reports or bank account checking. Track it for three months and patterns will emerge. Track it for twelve months and you will have the most honest picture of your business's financial trajectory that most owners ever see.

The full two-page scorecard with formulas, benchmarks, and a 12-month tracking template is available as a free download at honestbuck.com/5-childcare-kpis-scorecard.

How to Run a Profitable Childcare Center *Published by Honest Buck Accounting* *honestbuck.com | onboarding@honestbuck.com | 844-435-2828* *CPAs licensed in AR, WA, OR, FL with mobility across all 50 states*

The next two pages are the scorecard itself. Print them, fill in your numbers monthly, and color-code each cell green, yellow, or red based on the benchmarks.

THE 5 CHILDCARE KPIs

Track these monthly. Color-code each cell green, yellow, or red.

1 FTE-to-Capacity Ratio

Full-time-equivalent enrollment ÷ licensed capacity

≥ 90%	80-89%	< 80%

2 Slot-Day Utilization

Slot-days sold ÷ slot-days available

≥ 90%	80-89%	< 80%

3 Infant-to-Toddler Conversion

Infants who roll up to your toddler room ÷ total infant graduates

≥ 80%	65-79%	< 65%

4 Labor Cost Ratio (loaded)

Fully-loaded labor (wages + taxes + benefits) ÷ total revenue

< 65%	65-72%	> 72%

5 Revenue Reconciliation Variance

(Expected revenue − actual deposits) ÷ expected revenue

< 3%	3-5%	> 5%

MONTHLY KPI SCORECARD

Track each KPI month-over-month. Color the cell green, yellow, or red.

MONTH	FTE-Cap	Slot-Day	Infant→Tod	Labor %	Recon Var
JAN					
FEB					
MAR					
APR					
MAY					
JUN					
JUL					
AUG					
SEP					
OCT					
NOV					
DEC					

HONEST BUCK ADVISORY

WHEN YOU'RE READY

Schedule a consultation to see if we're the right fit for your center.

We work with childcare center owners across the United States on tax, advisory, audit, and bookkeeping. No contracts, no minimums. Just a conversation to see if there's a fit.

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