Strengthening Business Practices

for Family Child Care

Participant Manual

Acknowledgments

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- Connecticut
- Indiana
- Montana
- Ohio
- Pennsylvania
- Utah

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June 2021

Strengthening Business Practices
for Family Child Care

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Budgets, Planning, Projections

Session I: Budgets, Planning, Projections

Strengthening Business Practices for Family Child Care

Notes:

Objectives

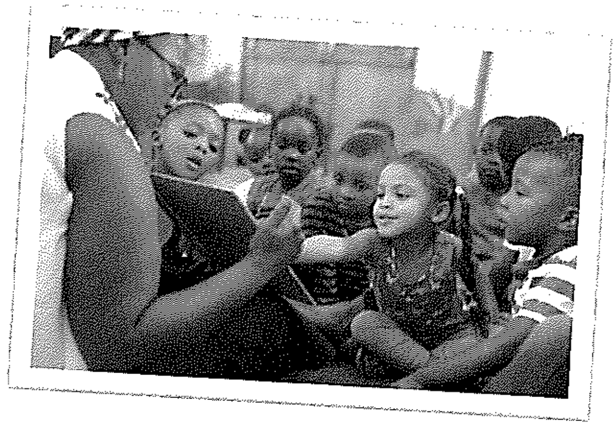
- Learn a process for building a budget and how to use it for decision making throughout the year.
- Understand how to project business costs, generate additional income, and plan strategically for future goals.

Strengthening Business Practices for Family Child Care

Notes:

It's about the Children

Working with children is your passion. Running a business may not be your passion. But consider this ...



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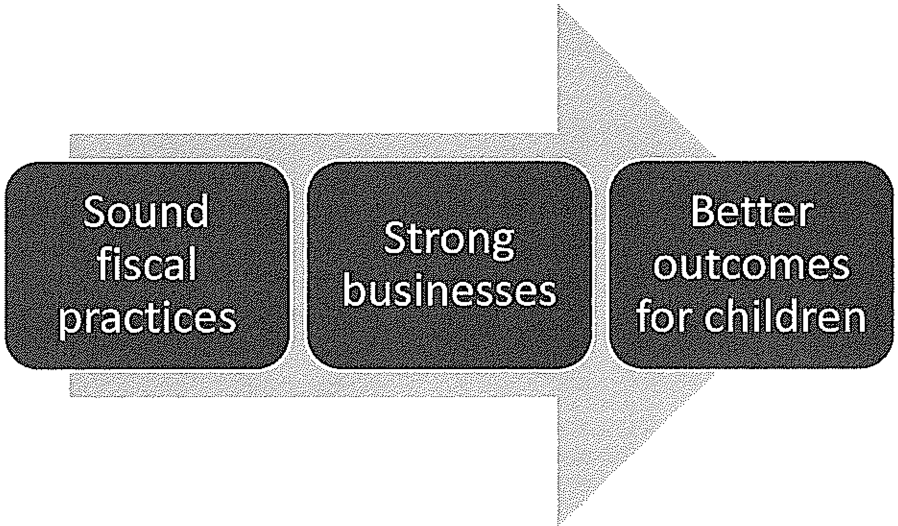

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Notes:

Introduction

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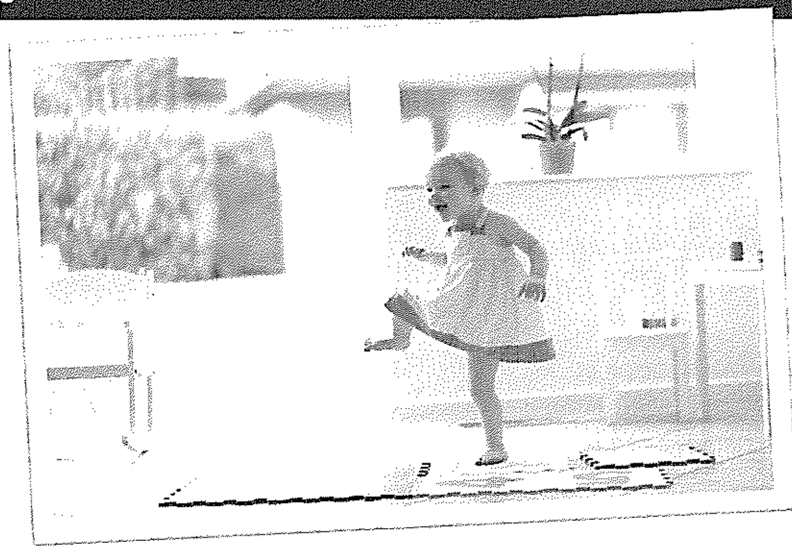
Notes:

Warm-Up



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Notes:

"A goal without a plan is just a wish."

—Antoine de Saint-Exupery

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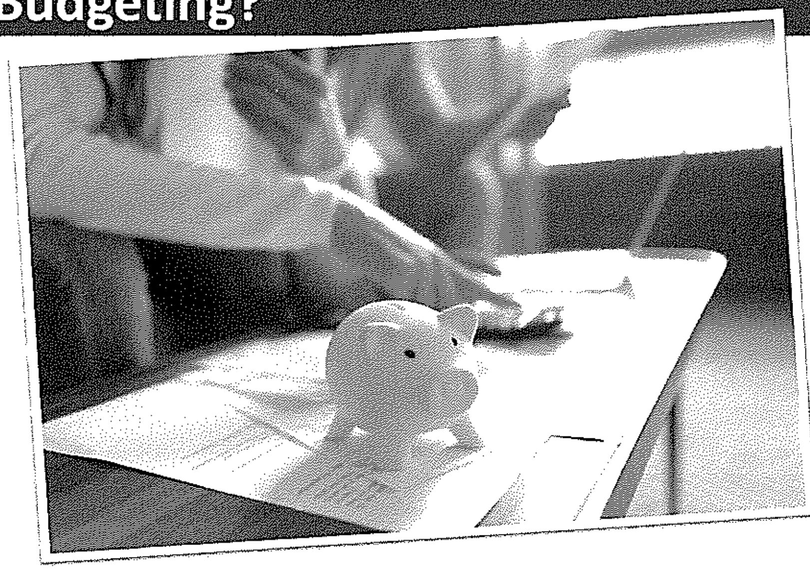
Notes:

What Is Budgeting?



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Notes:

Glossary of Fiscal Terms

Accounts payable: Money the program owes to vendors/suppliers in return for goods and services that have been delivered.

Accounts receivable: Money owed to the program after services have been provided.

Accounts receivable aging report: A report that organizes the program's accounts receivable by the amount of time a payment is overdue.

Assets: Everything with an economic value that the program owns.

Bad debt: Money owed to the program that the program has been unable to collect. Revenue is considered bad debt after all attempts are made to collect this money. Revenue considered bad debt is written off by the program as an expense.

Balance sheet: A sheet that shows a summary of a program's financial status at a given point in time. It includes assets (what the program owns), liabilities (what the program owes), and equity in the business.

Budget-to-actual: Comparison of what was budgeted to what was actually earned and spent during a period of time.

Cash flow statement: A financial statement that shows the amount of cash entering and leaving the business.

Equity/net worth: The economic value of a company after taking into account all liabilities. Assets minus liabilities equals equity/net worth.

Expenses: Money spent or costs incurred to run the program and earn revenue.

Fiscal year: A 12-month period of time used for tax and accounting purposes and preparing financial statements. The fiscal year can coincide with the calendar year. However, it can also be different, depending on business needs.

Fixed expenses: Operating costs that tend to remain consistent from period to period. Examples include salaries, rent/mortgage, and insurance.

Forecasting: The process of using historical financial information to predict future business trends. Owners can use it to estimate future budgets and make financial decisions during the year.

Full-time equivalent (FTE): The total hours of both full-time and part-time enrolled children compared against total full-time capacity. FTE is different than the number of children. For example, a program may have 50 children enrolled but an FTE of only 40 when the hours of part-time enrolled children are considered.

Income statement: Also referred to as a profit and loss statement. This report lists revenue, expenses, and net incomes for a given period of time.

Internal controls: Processes that help reduce risk and provide reasonable assurance about the integrity of financial information, the effectiveness of operations, and compliance with laws.

Liabilities: Debts that the program is responsible to pay.

Line items: An amount that it shown as a separate line on a budget or financial report. Examples include tuition, payroll, and occupancy.

Net income: Also called the bottom line. Found on the income statement. It is revenue minus expenses.

Revenue: Revenue is the total amount of money collected for services or goods sold before any expenses are subtracted.

Separation of duties: Having more than one person complete a task. This is considered an internal control to help reduce risk.

Variable expenses: Program expenses that can increase or decrease; they typically are not expected to remain the same from month to month. Examples include heating and cooling costs and office supplies.

Annual Budget

Annual Budget	
Budget Period: to	
REVENUE	
Tuition	
Child Care Subsidies	
Child and Adult Care Food Program	
Registration and Holding Fees	
Early Drop-Off/Late Pick-Up Fees	
Other Income	
TOTAL REVENUE	$ 0.00
EXPENSE	
Employee Payroll and Taxes	
Mortgage Interest/Real Estate Taxes	
Rent*	
Utilities	
Repairs and Maintenance	
Telephone	
Insurance	
Office/Cleaning Supplies	
Food for Program Use	
Educational Supplies	
Medical Supplies	
Advertising	
Postage	
Travel	
Professional Development Classes/Conferences/Seminars	
Professional Membership Dues/Subscriptions	
License Fees	

Annual Budget	
Accountant/Legal/Professional Fees	
Bank Service Fees	
Taxes (Other Than Income Tax)	
Depreciation	
Other	
TOTAL EXPENSE	$ 0.00
INCOME BEFORE TAX	$ 0.00
Income tax expense	
NET INCOME	$ 0.00

Print Reset

The National Center on Early Childhood Quality Assurance (ECQA Center) supports state and community leaders and their partners in the planning and implementation of rigorous approaches to quality in all early care and education settings for children from birth through age 12. The ECQA Center is funded by the U.S. Department of Health and Human Services, Administration for Children and Families.

National Center on
Early Childhood Quality Assurance
9300 Lee Highway
Fairfax, VA 22031

Phone: 877-296-2250
Email: QualityAssuranceCenter@ecetta.info

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ADMINISTRATION FOR CHILDREN & FAMILIES

Why Should Budgeting Matter to You?

- Helps you better understand the financial health of your program
- Is important to make informed decisions
- Helps you manage spending so that you can plan for program improvements
- Supports planning for your own salary, benefit, and retirement needs

Strengthening Business Practices for Family Child Care

Notes:

Building a Budget: Process and Considerations

1. Pull financial reports for the past few years, if possible. If you do not have access to these reports, have a trusted financial person total all the revenue and expenses for at least the last fiscal year.
2. Compare the line items of similar financial reports (for example, 2 years of income statements). Take notice of any significant changes from year-to-year in the same line items. Ask yourself the following questions:
    a. Has the tuition you have collected been consistent from year-to-year? If not, why not?
    b. Have your expenses remained consistent from year-to-year? Have there been significant changes? If so, why?
    c. Have you been able to pay yourself a salary each year? Pay for health care insurance? Contribute to your retirement savings?
    d. Over time, has your program made money? Lost money? Broken even?
3. Identify any changes to the operations of your current program that you expect will impact the budget for the upcoming fiscal year. Ask yourself the following questions:
    a. Are there any children who will not be returning in the upcoming fiscal year? Do you already have children to fill open spaces? Will there be any time when those spaces will be unfilled and you will not collect tuition?
    b. Will the number of children you serve who receive subsidies change in the coming year?
    c. Do you receive any income other than tuition (for example, grants, donations, contributions of materials)?If so, can you rely on receiving this income again in the coming year?
    d. What is the financial impact that these changes will have on your program?
    e. Do you need to take action because of these changes?
4. Build a budget (including revenue and expenses) based on the operations of your current program. Include any of the changes that you expect in the upcoming fiscal year. Do not include new goals or initiatives in this budget yet.
    a. Calculate the budget amount for each income and expense line item based on the following:
        i. What you learned from reviewing the historical information.
        ii. What you know will change in the coming year.
5. Review the bottom line of the current program budget. Does it balance? Do you need to go back and make changes in order to balance the current program budget?
    a. Do not create a budget that you do not have a history of achieving. For example, do not budget for 90 percent full-time enrollment when historically you have never achieved more than 80 percent.
6. Identify any new goals or initiatives that you have for the upcoming fiscal year. What are the financial resources that these new goals will either generate (revenue) or require (expense) in order to implement?Write them down for each goal or initiative so that you can consider each one individually. Ask yourself the following questions:
    a. Do you want to work toward increasing your level on your state's quality rating and improvement system?
    b. Do you need to purchase new equipment or materials for the program?
    c. Do you want to participate in more professional development opportunities?
    d. Do you need to make improvements to your home for your program?
    e. Is there additional revenue associated with any of these goals or initiatives?
    f. What are the costs associated with each of the goals or initiatives?

7. Once you have balanced the bottom line of your current program budget, look at each of your new goals or initiatives. Are there any that you can afford to implement? If so, build them into the budget.
8. Review the bottom line of the budget after any new goals or initiatives have been added. If the budget does not balance, determine why. If the budget shows a loss, think about ways you can fund it. If needed, revise budget expectations (revenue and expenses). Remember to be realistic. Do not overestimate revenue or underestimate expenses just to balance the budget on paper.

The Budget Process

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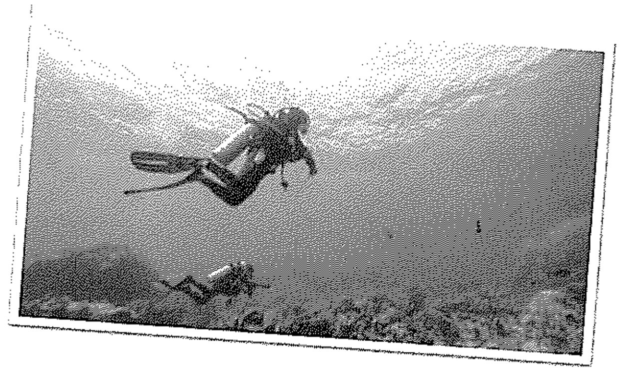
Notes:

Deep Dive: Projecting Revenue

- Enrollment
- Tuition discounts
- Subsidy
- Food program
- Changes in the child care environment



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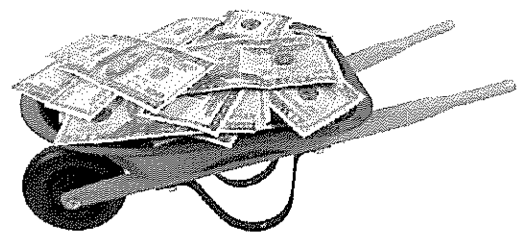
Notes:

Sources of Income

- Tuition and fees from parents
- Subsidy
- Child and Adult Care Food Program
- Donations (financial and in-kind)
- Head Start and Early Head Start Family Child Care Option
- Early Head Start–Child Care Partnerships
- Others



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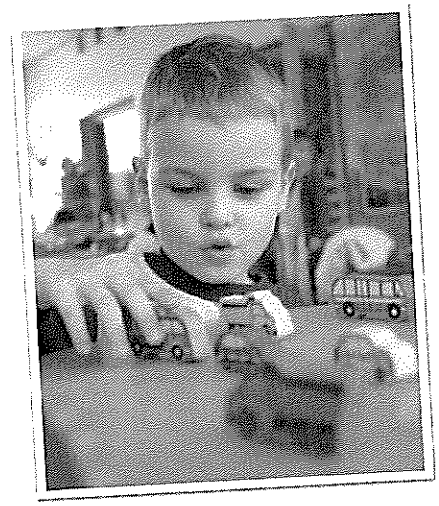
Notes:

Early Head Start–Child Care Partnerships

- Comprehensive services and high-quality early learning environments for low-income working families with infants and toddlers.
- Federal funding is layered with current funding sources to improve services provided to children.
- http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/ehs-ccp



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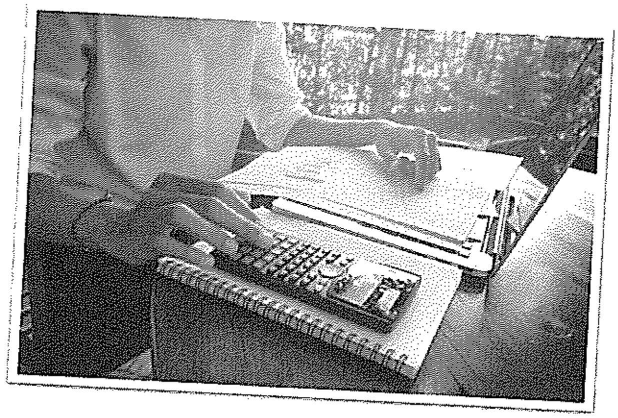
Notes:

Deep Dive: Projecting Costs

- Review spending in past years
- Look at direct and shared expenses
- Review fixed and variable expenses
- Plan for future goals



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Notes:

Deep Dive: Projecting Costs

- Opportunities with shared services
- Provider Cost of Quality Calculator (PCQC) as a tool for planning

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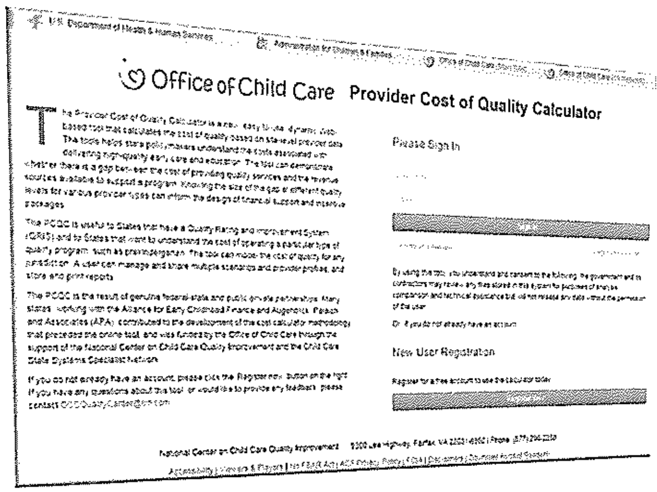
Notes:

Provider Cost of Quality Calculator



www.ecequalitycalculator.com

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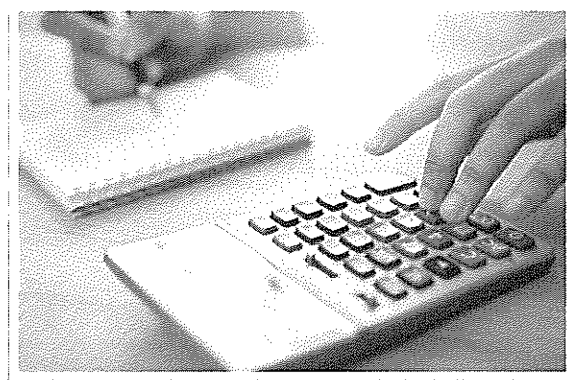
Notes:

Deep Dive: Using Data for Decisionmaking

- Enrollment based on full-time equivalents (FTEs)
- Accounts receivable
- Bad debt
- Turnover of enrolled children



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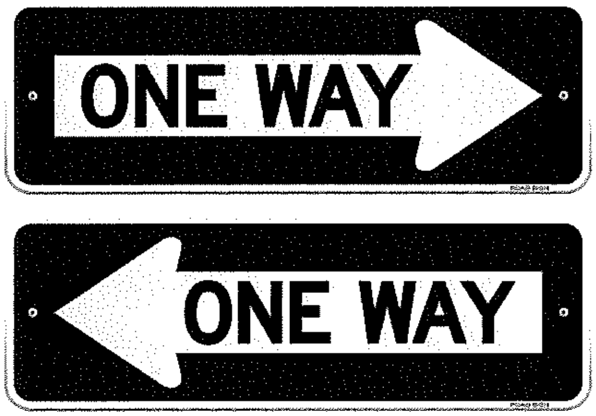
Notes:

Making Adjustments



Even the best laid plans can go awry.

Strengthening Business Practices for Family Child Care

Notes:

Making Adjustments

Revenue

Immediate

- If a child care slot opens up in your program, what is your marketing plan to fill the opening as quickly as possible?
- Is your full-time equivalent (FTE) count low? Is it possible to enroll children for the days when you are not at capacity?

Long Term

- Do current tuition rates and fees cover the cost of care?
- How do your rates compare to other provider rates?
- Are you collecting all of the applicable fees from families? If not, why?

Expense

Immediate

- Are there any discretionary expenses that can be put on hold until the finances improve?
- Are there any expenses that can be eliminated without jeopardizing the program operations?

Long Term

- Be sure that you have compared prices of various vendors and are paying the lowest price for the products and services you need.
- Are there shared services opportunities in your area?

Cash Flow

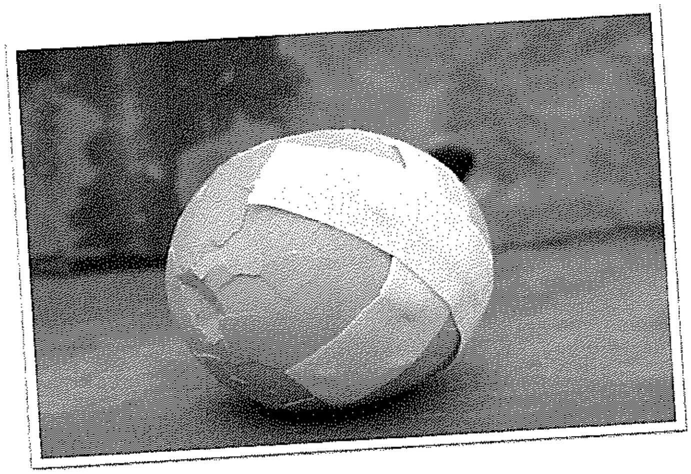
Immediate

- If a family has not paid, can you set up a payment plan with them to pay down the balance?
- Are there other sources of income available? Do you have a line of credit that you can draw from temporarily?

Long Term

- If you do not have a line of credit with a bank, establish one you can use in emergency situations.
- Begin building a savings account to support emergency cash shortfalls and unexpected expenses in the future.

Short-Term and Long-Term Solutions



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Notes:

What Have We Covered?

- ☑ Budget process
- ☑ Revenue projecting
- ☑ Source of income
- ☑ Projecting costs
- ☑ Data to inform planning
- ☑ Budget adjustments

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Notes:

Assessment Checklist

- ☑ Mission/Vision
- ☑ Program Plan
- ☑ Financial Plan (Budget)
- ☐ Record Keeping
- ☐ Marketing

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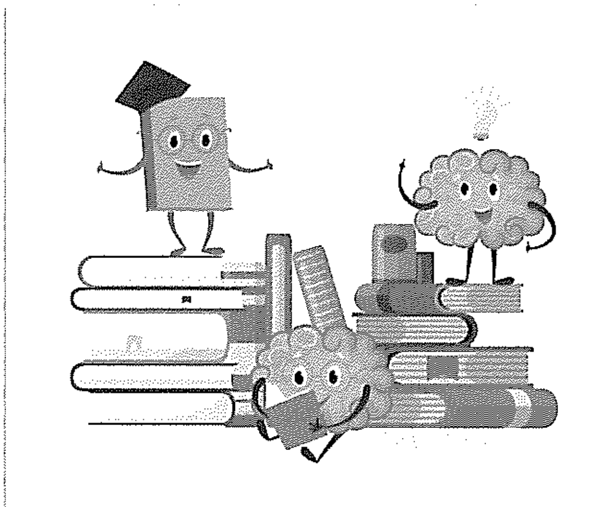
Notes:

Taking the Training Home



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Notes:

Taking the Training Home

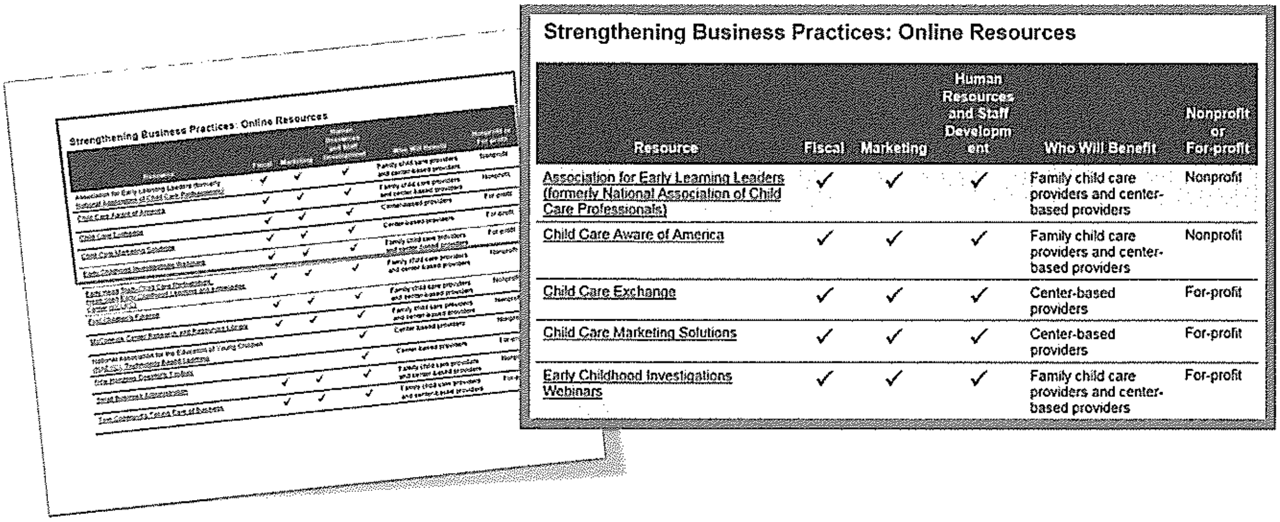
Lis three things that you learned from this training session that you will follow-up on when you get back to your program:

1.

2.

3.

Online Resources



Strengthening Business Practices: Online Resources

Resource	Fiscal	Marketing	Human Resources and Staff Development	Who Will Benefit	Nonprofit or For-profit
Association for Early Learning Leaders (formerly National Association of Child Care Professionals)	✓	✓	✓	Family child care providers and center-based providers	Nonprofit
Child Care Aware of America	✓	✓	✓	Family child care providers and center-based providers	Nonprofit
Child Care Exchange	✓	✓	✓	Center-based providers	For-profit
Child Care Marketing Solutions	✓	✓	✓	Center-based providers	For-profit
Early Childhood Investigations Webinars	✓	✓	✓	Family child care providers and center-based providers	For-profit

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Notes: