

# BUILDING A BUSINESS

## Track money with cash-flow budget

Operating a child care facility successfully requires a realistic operating budget. In its most basic form, a budget is a plan that estimates how much money you will have coming in (income) and how much you will spend (expenses). Because it's a plan—not set in stone—it can and should change as conditions change.

The person responsible for the budget is the owner or manager. In a family day home, that's the operator. In a center or school, it would be the director, the finance committee, or the board of directors. Some centers hire a bookkeeper or accounting firm to handle money.

Experts recommend using a budget that shows cash flow. This shows the actual cash you expect to have coming in and going out in each of 12 months. Analyzing cash flow allows you to answer a key question: Will each month's income cover each month's expenses?

## Draft a budget

You can set up a cash flow budget on your computer using programs like Microsoft Excel or Quicken. Investigate other software options by talking to your accountant, bookkeeper, professional association, or a child care administrator in your community.

You can also draft a cash flow statement manually by using a bookkeeping pad or a sheet of paper on which you have drawn columns, one for each month.

To understand the cash flow concept, study the sample on this page.

Note that cell C3 records your "Beginning balance." In this cell you write the amount you have in your business account at the beginning of your budget year. Line 34, "Balance and carryover," reflects the end-of-month balance that becomes the beginning balance the following month.

## Typical income sources

Your main source of income will be parent fees. Estimate this amount by multiplying the number of children in care by the monthly or weekly fees you charge for each child. Some children's care may be subsidized by community or government grants. Remember that you probably will not have full enrollment every month. Some experts recommend that you assume 85 percent enrollment every month. This allows for lost fees when parents move to a different part of town or lose their eligibility for subsidized care.

Another source of income is food costs reimbursed by the U.S. Department of Agriculture. One simple way to estimate this amount is to use the standardized food rates approved by the Internal Revenue Service: breakfast 98 cents, lunch or dinner \$1.80, and snack, 53 cents. Multiply these amounts by the number of meals and snacks you serve (based on children in care) during each month. If you think you spend more than these IRS rates on food, estimate an amount based on receipts for food purchases.

Many child care facilities find it necessary to raise money. At various times during the year, they hold bake sales, carnivals, and spaghetti dinners. Some ask local organizations and businesses for donations, and others apply for grants from foundations. List the proceeds from these activities in the months you expect to receive them.

## Typical expenses

Your expenses will fall into four categories: personnel,

budget prototype.xls																
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	
1	2003-04 cash flow															
2			Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	
3	Beginning balance	\$ 12,266	\$ 12,890	\$ 9,716	\$ 10,399	\$ 10,483	\$ 10,437	\$ 10,107	\$ 8,827	\$ 7,766	\$ 8,418	\$ 8,502	\$ 8,422	\$ 8,422	\$ 11,514	
4	Income															
5	Tuition	\$ 9,025	\$ 9,025	\$ 10,125	\$ 10,125	\$ 10,125	\$ 9,025	\$ 9,125	\$ 9,125	\$ 7,750	\$ 6,750	\$ 9,100	\$ 10,125			
6	Subsidy	\$ 781	\$ 781	\$ 781	\$ 781	\$ 781	\$ 781	\$ 781	\$ 781	\$ 1,020	\$ 1,020	\$ 906	\$ 906			
7	Fundraising	\$ 1,890	\$ 68	\$ -	\$ -	\$ 799	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,100		
8	Donations	\$ 20	\$ -	\$ 150	\$ -	\$ 25	\$ 60	\$ -	\$ -	\$ -	\$ 200	\$ -	\$ -			
9	USDA	\$ 1,854	\$ 1,854	\$ 1,607	\$ 1,667	\$ 1,667	\$ 1,667	\$ 1,667	\$ 1,667	\$ 840	\$ 840	\$ 1,020	\$ 1,673			
10	Total income	\$ 25,936	\$ 24,818	\$ 22,279	\$ 22,972	\$ 23,081	\$ 22,759	\$ 21,679	\$ 20,199	\$ 17,376	\$ 17,228	\$ 19,528	\$ 24,280			
11	Expenses															
12	Personnel															
13	Salary	\$ 6,280	\$ 6,280	\$ 5,599	\$ 5,599	\$ 5,599	\$ 5,599	\$ 5,599	\$ 5,599	\$ 4,300	\$ 4,300	\$ 5,599	\$ 6,280			
14	Benefits	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,250	\$ 2,250	\$ 2,250	\$ 2,250	\$ 2,250	\$ 1,850	\$ 1,850	\$ 2,000	\$ 2,250			
15		\$ 8,280	\$ 8,280	\$ 7,599	\$ 7,849	\$ 7,849	\$ 7,849	\$ 7,849	\$ 7,849	\$ 6,150	\$ 6,150	\$ 7,599	\$ 8,530			
16	Space															
17	Rent	\$ 650	\$ 650	\$ 650	\$ 650	\$ 650	\$ 650	\$ 650	\$ 650	\$ 650	\$ 650	\$ 650	\$ 750			
18	Repairs	\$ 33	\$ -	\$ 205	\$ 190	\$ 26	\$ 75	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
19	Utilities	\$ 237	\$ 223	\$ 202	\$ 229	\$ 217	\$ 225	\$ 238	\$ 238	\$ 280	\$ 273	\$ 269	\$ 295			
20	Insurance	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 110	\$ 180			
21		\$ 1,030	\$ 983	\$ 1,168	\$ 1,179	\$ 1,003	\$ 1,060	\$ 998	\$ 998	\$ 1,040	\$ 1,033	\$ 1,029	\$ 1,195			
22	Equipment															
23	Classroom	\$ 530	\$ 62	\$ 260	\$ 581	\$ 340	\$ 297	\$ 630	\$ 630	\$ 75	\$ 108	\$ 550	\$ 550			
24	Playground	\$ 403	\$ 700	\$ 700	\$ 700	\$ 700	\$ 700	\$ 700	\$ 700	\$ 75	\$ 50	\$ 200	\$ 75			
25	Repair	\$ 57	\$ -	\$ 95	\$ 42	\$ 109	\$ 809	\$ 109	\$ 109	\$ -	\$ 88	\$ 220	\$ 38			
26		\$ 990	\$ 762	\$ 1,055	\$ 1,323	\$ 1,149	\$ 1,808	\$ 1,439	\$ 1,439	\$ 150	\$ 226	\$ 970	\$ 681			
27	Other															
28	Fees	\$ -	\$ 209	\$ -	\$ -	\$ -	\$ -	\$ 628	\$ -	\$ -	\$ -	\$ -	\$ -			
29	Dues	\$ 88	\$ -	\$ -	\$ -	\$ 140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
30	Taxes	\$ 67	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57	\$ 57			
31	Loan	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401	\$ 401			
32	Food	\$ 1,960	\$ 1,960	\$ 1,540	\$ 1,680	\$ 1,720	\$ 1,880	\$ 1,681	\$ 1,690	\$ 970	\$ 880	\$ 1,050	\$ 1,693			
33	Training	\$ 250	\$ 2,250	\$ 40	\$ -	\$ 225	\$ -	\$ -	\$ -	\$ -	\$ 190	\$ -	\$ -	\$ 230		
34		\$ 2,746	\$ 4,877	\$ 2,047	\$ 2,138	\$ 2,643	\$ 2,138	\$ 2,767	\$ 2,148	\$ 1,618	\$ 1,318	\$ 1,508	\$ 2,381			
35	Total expenses	\$ 13,045	\$ 14,902	\$ 11,879	\$ 12,489	\$ 12,644	\$ 12,653	\$ 13,053	\$ 12,434	\$ 8,948	\$ 8,727	\$ 11,106	\$ 12,767			
36	Balance and carryover	\$ 12,890	\$ 9,716	\$ 10,399	\$ 10,483	\$ 10,437	\$ 10,107	\$ 8,827	\$ 7,766	\$ 8,418	\$ 8,502	\$ 8,422	\$ 11,514			

space, equipment and supplies, and other. Personnel—salaries and benefits—will be the largest expense. According to the National Day Care Study, the average child care center in 1979 spent 69 percent of its yearly budget on salaries, 10 percent on rent or building costs, 16 percent on equipment and supplies, and 5 percent on other costs (Billman, 1993).

In a child care facility, you will figure the salaries of all your employees, such as the director, teachers, aides, a secretary or bookkeeper, cook, and janitor. Next you will figure FICA (Social Security and Medicare tax) at 7.65 percent and perhaps add health insurance and retirement at about 8 percent. Remember to estimate wages you will pay substitutes when your regular staff take sick leave and vacation.

For a family day home, experts recommend setting a salary goal. Let's assume you want to earn \$30,000 a year. This represents roughly 3,000 hours at \$10 an hour. In the row for your salary, write \$2,500 in each month. Multiply that amount by 15.3 to figure FICA. Add amounts for health insurance and a retirement plan.

Space refers to the building where you care for children. In a child care center, this would include rent, electricity, gas, water, telephone, and property insurance. In a family day home, you would pay your home expenses (mortgage or rent, utilities, repairs, insurance) out of your personal account. Keep good records, however, so you can count a portion of these expenses as deductions on your tax return. See "How an in-home child

care business can save taxes," *Texas Child Care*, Fall 2001.

Under Equipment and supplies, you will list such things as food, books and toys, and paper. Find actual cost of equipment and supplies in catalogs and stores. Use actual receipts as much as possible.

The other category includes such expenses as licensing fees, liability insurance, accounting and audit fees, banking and legal fees, annual payment for start-up loan (if applicable), taxes, training, credentialing fees, association dues, journals, and advertising.

### **Using your cash flow statement**

As you estimate your income and expenses for each month, you will note that some expenses, such as licensing fees, occur only once a year. A cash flow statement alerts you to these fees well in advance, so you can plan to spend less on another item the month those fees are due.

A cash flow statement also allows you to plan for unexpected expenses. Assume, for example, that new licensing regulations require resilient surfacing under indoor climbing equipment by a certain date. You can begin now to plan how you will cut expenses or increase income each month so that you will have the needed amount when it's due.

In tight times, avoid the temptation to delay pay raises or cut benefits. A well-paid, well-trained staff will be more likely to stay with you (saving turnover costs) and provide high quality care.

After drafting a 12-month cash flow statement, update it

every month when you pay bills. Continue adding months so that you can always see your cash flow at least 12 months into the future.

Over the long term, this kind of budgeting will help you see trends. Is inflation (the cost of goods and services) rising? Which months are the tightest? When are we mostly like to use substitutes? Are parents falling behind in fees? According to one source, parents who fall behind two or three months are more likely to leave your facility without notice than pay up what they owe.

Ideally, a cash flow statement helps you make important financial decisions. You'll see when it may be time to raise fees or look for additional income. You'll also know whether your spending matches your priorities in quality care and education.

### **References**

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