Financial Management Toolbox

Essential implements for planning and operating inclusive child development centers

Easter Seals-Child Development Center Network

Developed by the Partners for Quality Inclusive Child Care Project funded and supported by the Child Care Bureau, Administration for Children and Families, Health and Human Services

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Introduction

If you are considering establishing an inclusive Child Development Center (CDC), this Financial Projection Toolbox is for you. Whether this is the first time you have considered a CDC, or you have been running one for the last decade and want to expand to a different site, this toolbox will be useful.

Within the toolbox there will be sections that you want to review, and others that you may want to skip.

You should proceed through the toolbox at your own pace. However, we promise you that if you enter all of the relevant information for your planned center, the toolbox will deliver:

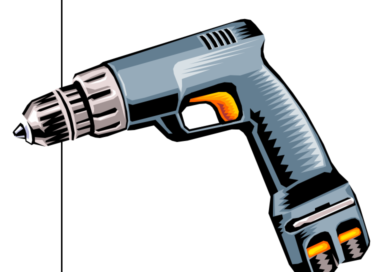
- ✓ A start-up budget
- ✓ An annual operations budget
- ✓ Cash flow projections

Along the way, you will answer questions about your project, which will help you "sell" the concept to your colleagues, your board, your funders and potential loan officers!

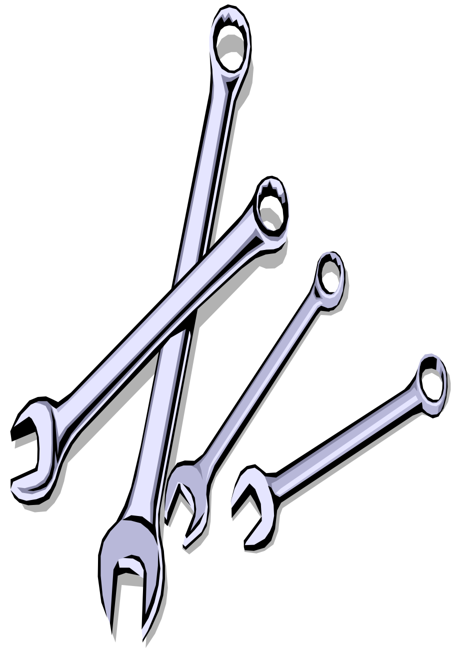
Working through the toolbox is a process, and as you make program decisions, the workbook will translate them into fiscal ones. Your ideal program package may result in sound fiscal projections—or it may not, and you will have to change some of your program assumptions.

Tool Notes

While some people may choose to read through this document and create their own spreadsheets, we encourage people who have an elementary understanding of Excel to download and use the companion Financial Projection Workbook, which will accelerate their progress through the planning and forecasting process. Think of it as a cordless power drill -- after you use it once, you'll rarely reach for your hand drill again.



1. Deciding What Tools to Use



The Financial Projection Toolbox is intended to:

- ✓ Aid in your decisions to move forward with a new or expanded child development facility,
- ✓ Prepare you to present your "business financial plan to funders,"
- ✓ Develop the necessary financial reports to apply for a loan.

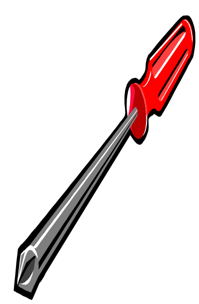
2. Business Development Process

This outline is meant to facilitate the discussion of range of issues surrounding your decision to either move forward with the development or expansion of a child development center, or not. This listing should be used with your local stakeholders and decision-makers to help solidify the reasons you are developing your center.

Asking questions regarding the issues posed and gaining consensus on those answers is critical to promoting the center at all stages of the startup. The following are examples of strategic issues. This list is not exhaustive but suggests areas for self-exploration

See Section 3 #A below

- ✓ Reasons that you are looking to expand or open an inclusive Child Development Center (CDC)
- ✓ How the CDC plan fits into your mission and strategic plan
- ✓ Opportunities and drawbacks presented by the CDC idea
- ✓ Your agency's, or center's, strengths and weaknesses
- ✓ The commitment of your staff and board leadership to this project
- ✓ The overall demographics of the community
- ✓ The specific needs of the families in the community: special needs children, low income families
- ✓ The direction of the demographic configuration
- ✓ General economic and business conditions in



the community

- ✓ Political and funding environment for education and human service organizations
- ✓ Location of other CDCs, special education and early education programs in the general area
- ✓ Any projected changes in the general business, or specific child care conditions in the area
- ✓ Status of your potential competitors in the geographic area
- ✓ The potential organizational partners that you might work with on this project
- ✓ Your particular market niche:
  - o Degree of inclusion
  - o On-site auxiliary services for children with disabilities
  - o Wide age range
  - o Small classroom size
  - o High ratio of teaching staff to children, high degree of staff training
  - o Achievement of NAEYC standards
  - o Specific program content (such as Reggio or faith based)
  - o Focus on low-income families
  - o Convenience of location
  - o Greatest number of available hours
  - o Connection to child care home network
  - o Transportation system
  - o Parent involvement
  - o Other

- ✓ The message you are promoting for potential customers, potential staff and the community in general
- ✓ Your method of getting this message out to the public and the professional community
- ✓ The development of a comprehensive financial and programmatic plan that spells out both the overview and the details involved in bringing your project to fruition

Once you have determined your focus using the above list you can begin to research each area that is relevant to your project goals. Such research should include the reading of literature in the field, the analysis of community and child care needs assessments, and the visitation of programs that approximate what you're attempting to do. There is no substitute for talking to the people who have the experience in developing and managing child care programs. Finally, you can work with a community development investment corporation, or other small business support organization, which will help you work on some of the above issues, or use private consultants if you have the funds for this purpose.

See tool #2 -- Financial Projection Workbook (FPW)

3. Financial Projection Workbook

We spend our money on what we consider to be crucial and the budget is the compilation of such determinations. With our mission always in mind, we need to make budget conscious policy determinations. To express it more directly, our policy is enacted when we determine what to spend our money on.

While helpful tips and comments are included throughout the workbook, few of them will tell you how to use Excel. A basic understanding of spreadsheet programs, preferably Excel, is a prerequisite to using the Financial Projection Workbook

The Financial Projection Workbook is a tool that takes your programming decisions and turns them into a plan to execute policy. We have tried to anticipate all the potential categories of revenues and expenses, and some of the variances that occur throughout the field, but we are sure you will have some unique situations that will call for some customizations of the workbook.

For those familiar with how an Excel Workbook functions, if you do not add any rows or columns, the formulas on the final pages will generate your first year budget. Then you can copy the workbook in its entirety to a new file, change your assumptions (e.g. enrollment will probably be higher, meaning more tuition and more teachers) and you can do budgets for the 2nd and 3rd years of the center's operation.

You will only need to have basic skills in Excel to benefit from this workbook, but if you have never used a spreadsheet program nor taken a class, please sign up for a class or tutorial as soon as possible, before you delve into the workbook.

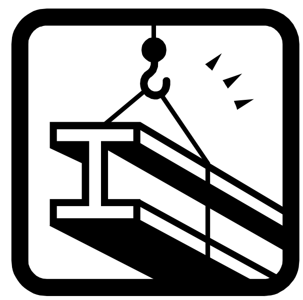
A. Beginning: Facilities Development

In any major project, money is spent to get things going. The Beginning section of the toolbox can serve as a template for plotting this phase of your CDC's development.

The Financial Projection Workbook includes many worksheets that are color-coded by section. The entire Beginnings section is in pink.

One of your biggest start-up expenses is creating appropriate space to house your CDC. If you are building or renovating a space for your center, your expenses may include:

- ✓ Building/land acquisition
- ✓ Environmental studies
- ✓ Construction costs
- ✓ Professional fees (e.g. architects, landscapers)
- ✓ Financing costs
- ✓ Licenses/Permits
- ✓ Contingency Fund
- ✓ Classroom Furniture and Equipment
- ✓ Security Equipment
- ✓ Administrative Furniture and Equipment
- ✓ Playground Equipment and installation



B. Beginning: Start-Up Budget

A start-up budget is a list of all the expected revenues and expenses prior to the official opening date of your center.

There may be start-up costs unique to your situation. We have included in the workbook a number of budget lines marked “other” for expenses such as these.

Revenue could include:

- ✓ Support from your parent organization
- ✓ Contributions from any partnering organization
- ✓ Loans (if you are building, or refitting space)
- ✓ Any start-up grants from “friendly” foundations
- ✓ Gift from a major donor
- ✓ Funds raised via a capital campaign

In addition to the facilities development expenses outlined earlier, other expenses during this time period might include:

- ✓ Legal services

If you completed the Facilities Development

- ✓ Advertising
- ✓ Pre-service training for staff: 2 weeks of salary
- ✓ Early hire of director (optimally 3-6 months)
- ✓ Rental deposit
- ✓ Utility deposit

worksheet in the FPW, those figures will carry over into the Start Up Budget.

C. Beginning: Projected Slot Capacity & Staffing

To help determine the overall operating expense of your Center you need to enter the number of classrooms you have in your space—and for which age group they are to be used. In addition, you must determine what the capacity is in each room for each age group. Capacity can be determined by local regulations, NAEYC standards, organizational capabilities and market factors.

Line items identified as Other in the FPW are the easiest places to account for your situation's unique revenue and expense items.

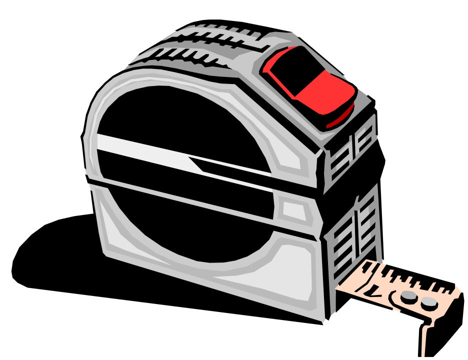
Classroom staffing for a child development center is again based on local standards and other guidelines. These are usually expressed in ratios such as four infants for each staff person (4:1). You should enter the staffing ratios that apply to your local area on the spreadsheet.

Most importantly, you need to estimate the number of FTE's you will need to ensure coverage for each age group. These numbers will be based on such variables as:

- ✓ The number of hours your center is open.
- ✓ Variations in the arrival/departure of the children.
- ✓ Your experience managing the staff.
- ✓ Mix of part-time and full time classroom employees.

Good planning also demands that staff time spent on vacation, personal days, professional development, illness, lunch, breaks, and classroom preparation be taken into account. Based on overall child care history, we suggest adding eight percent of planned FTE to cover this time away from the classroom.

The Projected Slot Capacity and Staff worksheet is a keystone for the subsequent worksheets. Even if you choose to by-pass the first two worksheets in the Beginnings section of the workbook, don't neglect the Projected Slot Capacity and Staff worksheet if you intend to use any of the other tools in the workbook.



D. Slot Income

Slot income is all the income that comes into the center for each child that is enrolled. This includes those paying:

- ✓ Full Fee Enrollment (tuition)
- ✓ Discounted Enrollment

Slot income also includes tuition subsides for low-income families and, depending on local programs, you may also receive tuition subsidies for mandated universal state or local pre-kindergarten programs. These sources of income can include:

- ✓ Low-income vouchers
- ✓ Head start 3-5 year old
- ✓ Early head start
- ✓ Part C
- ✓ Part B
- ✓ 619
- ✓ Early Intervention
- ✓ State/universal pre-K

Initially, slot income is calculated based on your full capacity by age group (see the worksheet in the FPW for a method). When you have finished estimating slot income, you need to determine the percentage of that total income you expect based on how "full" your center will be every day. You need to enter a percentage that will discount the amount of your tuition to make the budget more realistic.

Based on industry-wide averages, your first-year estimate may range from 30% capacity the first month to 75% by year-end, or an average of 55% for a full twelve-month fiscal year. Enrollment over summer months generally drops but picks up again in the fall. By year two, industry-wide averages indicate your center may be at 70% capacity over the course of the full year' by year three, at 80%.

All of the revenue worksheets in the FPW are colored green, regardless if they are direct or indirect revenue.

Calculating slot income is complex and we recommend using the slot capacity worksheet even if you don't intend to use any of the worksheets that follow it.

The slot income worksheet projects that over the course of a year, you will be running the center at 80% of its capacity -- you are encouraged to change this percent to fit your situation.

E. Specialized Services

One of the things that makes a quality inclusive child development center so unique is the ability to offer children with disabilities medical and development rehabilitation therapies. For your center, these can be sources of income through reimbursement for services. In addition, some larger organizations already have such professionals on their staff and their time can be more fully utilized by the children in your center.

Reimbursement sources for specialized services can include:

- ✓ Medicaid
- ✓ Private Insurance
- ✓ Part B
- ✓ Part C

To project this revenue, you first need to estimate the number of children who will need these services, as well as the source of reimbursement. In addition, you need to find the reimbursement rate (expressed as a rate per unit of 15 minutes) for Medicaid, private insurance companies, and so forth. Unfortunately, every reimbursement source has a different local rate -- sorry!

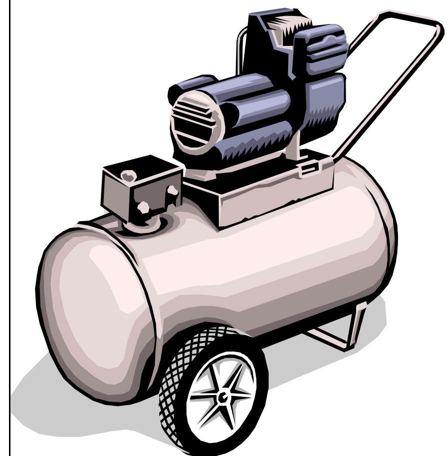
You also have to project the number of units of service per child per week and then per year.

If your children and families receive these services through other agencies, or by another department with a separate program budget, you should include neither their revenue nor their costs in your budget.

F. Other Income

There are several other sources of income that you might be able to access. Fees, for example, may be charged:

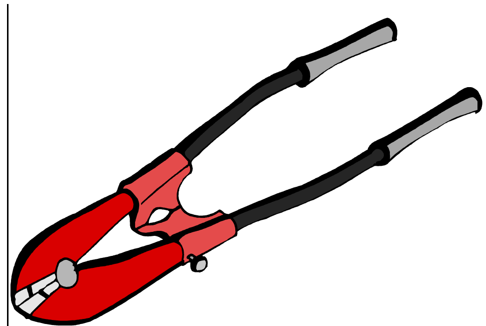
- ✓ *Registration Fee*



The income section of the cash flow worksheet becomes very important in determining your solvency during this period.

This worksheet will create weekly estimates based on information you input, and will then translate them to annual numbers based on a year that may be fewer than 52 weeks -- you decide how many, based on your CDC's calendar.

- ✓ *Enrollment/Re-enrollment Fee*
- ✓ *Transportation Fee*



Other forms of reimbursement may also be available. These programs might be called different things in your area, and we have tried to make the names as descriptive of the programs as possible:

- ✓ *Scholarships Fund Contribution*
- ✓ *Child and Adult Care Food Program (CACFP) USDA*
- ✓ *Homeless/migrant funds*
- ✓ *Child welfare funds*
- ✓ *Project grants*

G. Net Fundraising

Your development director, or non-profit support organization, should assist you in determining a realistic fundraising budget for your center. For some programs, opening a new center is a great opportunity to appeal to new and different funders. You need to project the annual amount you can raise from the major categories of potential fundraising revenues, including:

The FPW will show net fundraising as indirect revenue. Loan officers and other fiscal authorities prefer this method so that a true picture of the CDC's program income and expense can be easily discerned.

- ✓ Individual donors
- ✓ Foundations
- ✓ Corporations
- ✓ United Way
- ✓ Special Events

Later, when you project cash flow, you will have to estimate the arrival time of these funds.

H. Staffing Expense

Earlier you estimated your classroom staffing needs. Now you need to project what kind of positions these are:

All expense worksheets are tan.

- ✓ Teachers (BA's and CDA's)

- ✓ CDA Assistants
- ✓ Floaters (extra coverage personnel)
- ✓ Substitutes
- ✓ Others

In addition, you may need to project non-classroom positions such as:

- ✓ Certified Food Handler
- ✓ Administrative Assistant
- ✓ Custodian
- ✓ Assistant Director
- ✓ Director
- ✓ Medical Rehab Therapists
- ✓ Development Therapist/Specialist
- ✓ Other

Identify each employee as full time (1 FTE) or part time (0.## FTE), and determine a salary rate for each as well. Each employee should appear on a separate line. If you anticipate a need for overtime, enter that FTE in the Overtime FTE column and, if necessary, change the rate of overtime required in your state.

Finally, you need to estimate payroll taxes and benefits. There will be variation in each employee's taxes and benefits, which includes both mandatory and optional expenses. Taxes and coverage required by law include:

- ✓ FICA (Federal Insurance Contribution Act tax)
- ✓ SUI (State Unemployment Insurance)
- ✓ Workers' Compensation

Optional benefits can include:

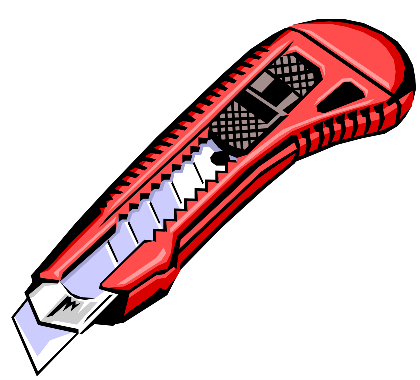
- ✓ Health insurance
- ✓ Dental insurance
- ✓ Disability insurance
- ✓ Life insurance
- ✓ Retirement

To make things easier, we suggest you determine an average benefit cost each year and add this to your expense line. There is wide variation in this number

Be sure that the aggregate full-time-equivalent (FTE) of budgeted classroom staff meets the child/teacher ratio you set forth for your total classroom capacity figures. Included on the worksheet are facilities to help you do this.

Be sure to understand and follow your state's wage and overtime laws.

Insert your center's average benefits percent in a single cell of the worksheet and it will be multiplied by your staff costs to project your full benefits expense



for centers in different regions of the country, so you will need to calculate this percent.

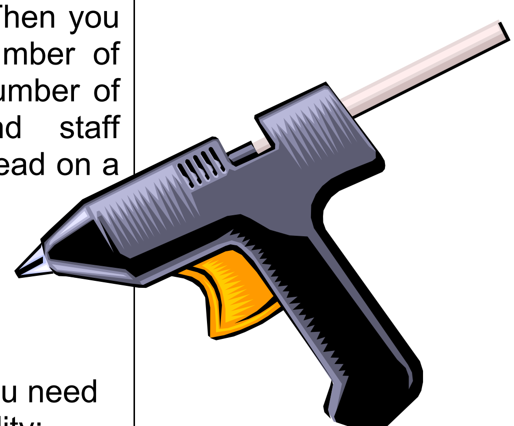
I. Program Expense

There can be a broad range of program costs that vary based on the number of children, classrooms, units of therapy delivered, etc. This spreadsheet gives you a way to project them based on you calculation of the cost of each thing per variable. It also allows you to determine the cost for each age group of children at your center. These categories include:

The Program worksheet in the FPW will automatically multiply your per-child, per-teacher, and per-classroom estimates for each line item by the appropriate sum developed in the Slot Income and Slot Capacity and Staff worksheets.

- ✓ Classroom Supplies
- ✓ Program Activities
- ✓ Teacher Resources
- ✓ Parent Activities
- ✓ Office Supplies
- ✓ Outside Printing, Postage & Mailing
- ✓ Office Equipment Rental/Service
- ✓ Telephone
- ✓ Dues/Subscriptions
- ✓ Mileage & Local Travel
- ✓ Staff Development
- ✓ Marketing/Advertising
- ✓ Staff Recruitment Costs
- ✓ Specialized Services Supplies & Equipment

Many of these costs are best determined by estimating the amount per child per year to be spent. Then you can just multiply that figure by the total number of children to find the full annual amount. A number of these costs, such as local travel and staff development, do not occur "per child" but instead on a per-teacher or per-classroom basis.



J. Facility Expense

This last worksheet is straightforward. First you need to find the one column that describes your facility:

- ✓ Owned and operated new building

- ✓ Shared use building
- ✓ Lease space
- ✓ Managed site

Then, you need to enter the following costs into that column only:

- ✓ Mortgage/Debt Expense
- ✓ Rent
- ✓ Utilities (Excluding Telephone)
- ✓ Repair/Maintenance
- ✓ Liability/Property Insurance
- ✓ Capital Equipment
- ✓ Depreciation

Depreciation is a means of spreading the cost of buildings, equipment, and other durable goods across the useful life of each item. For example, using straight line depreciation a $20,000 van with an estimated useful life of 10 years would be expensed on the Depreciation line of your operating budget at $2,000 a year for each of the 10 years. An accountant's advice would be helpful if you are unfamiliar with how to budget depreciation.

K. Annual Operating Budget

All of the Annual Financial Projections worksheets are in blue

The annual operating budget takes the program decisions you have made in the previous sections and reveals the financial implications of these decisions. In other words, all of your annual revenue will be weighed against all of your annual expenses. If you have been using the Financial Projection Workbook, this will all come together automatically.

On the Annual Operating Budget worksheet we have incorporated a possible administrative allocation as a percent of total expenses. You will identify the percent to be used.

If your CDC is part of a larger organization, it is likely that you will need to account for <u>allocated administrative overhead.</u> This allocation generally pays for salaries for senior management, central accounting and purchasing staff, shared facilities costs, and other activities that benefit more than one program or unit.

The last line, Revenue Over (Under) Expense, will quickly show you if you have enough revenue to cover the expenses of the program you designed.

It is likely that you will need to go back and re-work your assumptions and premises many times before you balance your budget. Throughout the process, focus on your organization's mission as a guide when making difficult decisions.

L. Cash Flow

For each source of revenue, you need to determine when the money will arrive in your bank account. For example, tuition may arrive at the beginning of the month. Therapy reimbursement may take place quarterly, etc.

These determinations can range from known dates (tuition money from a full-tuition paying family), to educated guesses (when a particular major gift will arrive).

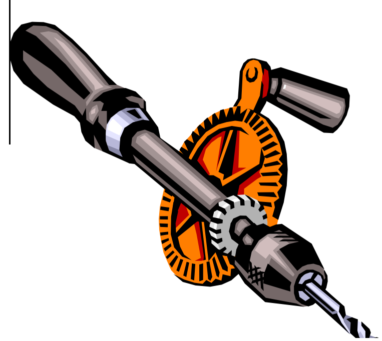
This worksheet is most often overlooked, yet poor cash flow will close down any operation faster than will an unbalanced budget. You can't pay your payroll taxes, your staff, or your vendors when your bank account is empty, and in a short time you'll need to close your doors. Receivables can re-open the doors only when you can translate them into cash.

While our toolbox isn't big enough to list every factor that can influence cash flow, here is a sample list to get you thinking:

The cash flow worksheet in the FPW will require a bit of "hand drilling" on your part to spread your revenue and expenses across 12 months in a way that is meaningful and that reflects your experience and knowledge. But the worksheet will show you the full budgeted amounts to be allocated, and it will tell you what to expect and what adjustments have to be made. Most importantly, though, it will show you where your cash flow deficits will occur so you can work to correct them.

Revenue

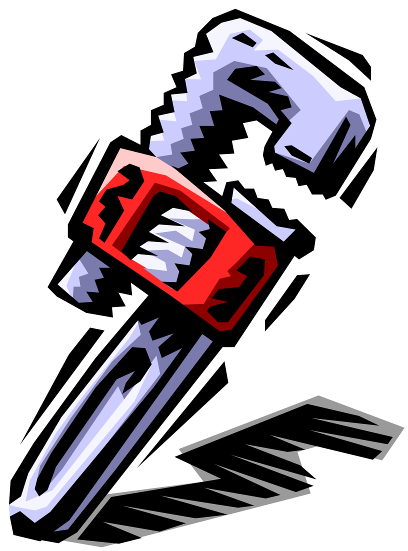
- ✓ Start-up enrollment is lower than later enrollment, slowing tuition income
- ✓ Summer enrollment is diminished
- ✓ How quickly can you bill third-party providers?
- ✓ How long after billing does it take for reimbursements to be paid?
- ✓ When are you holding your fundraising event?



- ✓ When does your United Way check arrive?
- ✓ Do you have revenue sources that require meeting benchmarks before payment is due?

Expense

- ✓ As you build your staff, your salary and fringe will grow with it.
- ✓ Is your insurance paid monthly? Quarterly? Annually?
- ✓ Do you expect to spend frantically the last month of the fiscal year to assure utilization of all contracted funds?
- ✓ What is the timing of large projects that may involve specific expenses?
- ✓ If the winters are cold, your heating bill will increase then.
- ✓ If your summers are hot, your cooling bill will increase then.
- ✓ When do leases or contracts expire? Will your payments increase the next month?



When you find deficits that you won't be able to cover with cash reserves, you can:

- ✓ Change your administrative practices to accelerate billing.
- ✓ Re-schedule optional expenses to months where your cash flow is in the black.
- ✓ Negotiate with the entities that are slow to pay -- perhaps something can be done to get the bills paid sooner.
- ✓ Re-arrange your fundraising calendar to bring cash in the door at a different time.
- ✓ Liquidate investments
- ✓ Apply for a line of credit to cover you during the deficit months.

This brings us to our last tool, below.

4. Loan Proposal Checklist

It is likely that, at some point in your CDC's development, you will seek financing of some kind. Perhaps you'll need a construction loan, or a loan to cover start-up costs until you can generate revenue, or a line of credit to cover cash needs. Regardless of the purpose or timing, there are basic things you should know and have in order to successfully negotiate and establish financing.

The Loan Proposal Checklist is a quick guide through the major steps you must take. You will need realistic budget projections (which the Financial Projection Workbook will give you) and an understanding of a bank's expectations of a "small business" such as a child development center.

For more information

The Small Business Administration is an excellent resource:

http://www.sba.gov

Another source of invaluable, in-depth information is the National Economic Development and Law Center:

http://www.nedlc.org

Finally, we recommend the Building Child Care collaboration which, though geared toward California, has an excellent selection of publications, information, and other treasures:

http://www.buildingchildcare.org

Consider adding all three of these to your toolbox.

See tool #3 -- Elements of a Loan Proposal