Opportunities Exchange

ECE Center Financial Management Tool Kit

Opportunities Exchange developed the ECE Center Financial Management Toolkit to address the persistent and inter-related challenges of financial instability, staff compensation, and marginal quality in child care settings.

While many initiatives offer "business training" to providers, this toolkit is designed to support individualized coaching that moves business training from theory to practice. The Toolkit is comprised of three interrelated documents:

Part 1 – ECE Center Financial Management Assessment Tool *(see website)*

This tool is designed to collect data in key areas of financial management:

- Iron Triangle
- Revenue
- Risk Management
- Human Resources
- Debt & Liquidity
- Fiscal Management

Program leaders complete the assessment (with support from the coach if needed) and the coaching entity analyzes and uses the data to prioritize and structure coaching. The assessment tool can be adapted based on the group of providers being assessed (e.g., if the providers are participating in an automation project, then some of the data will be available to the coaching team electronically) and the local environment (e.g., if there is a local PreK program then that funding source would be added to the list of options on the assessment tool). Coaches can have providers complete the assessment again after the coaching engagement has ended and compare the baseline and post-intervention data to document coaching outcomes.

Part 2 – ECE Center Financial Management Coaching Guide

This guide offers background information on the key elements of early childhood education financial management. Each section focuses on one key element, offering explanations and context along with coaching tips.

Part 3 – ECE Center Coaching Companion

This document provides hands-on templates, links, resources and checklists for coaches to use in supporting financial management best practices. The Companion is meant to be bolstered and specified with regional/local information to best tailor coaching to the local landscape.

ECE Center Financial Management Coaching Guide

The Context & The Challenge

There are multiple factors that impact the context in which ECE programs operate, among them federal, state and local ECE policy, regulations, program funding, cost of living, unemployment rates, minimum wage, and community economic development. To manage a business effectively, providers need a thorough understanding of the environment in which they operate so they can remain relevant and financially viable.

The context for ECE creates several challenges. First and most importantly, child care in the United States is treated as a *market-based service*. This means that the **price** of child care does not correlate well with the actual **cost** of delivering the service. The price of child care most closely correlates with the incomes of families in the community – so that child care prices are higher in more affluent areas, and lower in low-income areas. Therefore, when public reimbursement is based on the price – vs. cost – it hurts under-resourced lower-income neighborhoods (most often urban and rural communities).

This system also often hurts providers who serve infants and toddlers, because a smaller number of very young children can be served, it limits the income a provider can earn, and most parents are unable to afford a higher rate based on lower group size.

Rate-setting is even more complicated for home-based child care providers – where total revenue determines compensation, fixed costs can vary widely, and sometimes the cost of an assistant caregiver must be included. Moreover, home-based child care programs that seek to participate in publicly funded early care and education programs – such as child care subsidy, Head Start/Early Head Start, or PreK – must often comply with additional, more costly standards, and yet the public reimbursement rates are often significantly lower than their center-based peers.

Due to multiple reporting requirements (based on funding streams) effective and efficient recordkeeping is crucial – and becomes an integral part of the financial management process. Providers, already burdened with exceptionally long days to accommodate working parents, sometimes forgo new funding opportunities because of the arduous administrative burden they impose.

SECTION 1: IRON TRIANGLE

The Iron Triangle is a management concept specific to ECE that when applied to family child care promotes full enrollment, full fee collection and pricing for services that supports a sustainable wage for the owner/provider. Just as a triangle is stable, strong and balanced, so too can any ECE business be if all three "sides" of the triangle are managed with rigor. In order to manage a business using the Iron Triangle concept, providers need accurate and timely data regarding enrollment capacity and actual enrollment and revenue invoiced and collected.

In Section 1, this guide will cover full enrollment and full fee collection. Section 2, Revenue, will explore setting rates and the impact of rate setting on program sustainability.

Full Enrollment

Child enrollment is the key to earning income. While some costs are variable and will be less during periods of low enrollment (for instance, with fewer children enrolled, fewer arts and crafts materials are used), fixed costs (such as mortgage and utilities) must continue to be paid regardless of the number of children enrolled.

There are three key areas to support full enrollment – *marketing, customer service, and data management*. In order to successfully market their programs, providers need to understand their unique niche in the ECE landscape. They must feel comfortable that the tuition and fees they charge are reasonable, based on the local market, and they must understand how their program fits within that marketplace. They must also feel comfortable that the hours, days of operation and schedules (part day/part week) that they offer are competitive and responsive to parent needs.

Marketing

Once clear about the value, unique strengths, and market fit of their program, providers need to have multiple strategies in place to help parents find them – via website, social media, word of mouth, internet searches, and key community partners.

Many ECE providers believe that "word of mouth" is the best means of marketing available to them. Families turn to trusted friends, colleagues, neighbors and family members when selecting an ECE provider. However, a growing number of millennials are turning to the internet as their first source of information. Thus, while informal practices are important, all providers should have at least a simple **website** that lists basic program information, some

pictures that convey the setting, prices, hours, ages of children served and contact information. Websites that enable electronic submission of enrollment forms and other required documentation, tour scheduling -- and perhaps even virtual tours – can be even more helpful to families. Providers may also want to have a Facebook page to advertise their program; however, if the Facebook page is public (vs. only open to enrolled families), care should be taken regarding policies for posting pictures of children. Many providers offer incentives to families and staff members that refer other families to the program.

Providers can target their marketing by reflecting on their own experience. For instance, does enrollment dip at specific times of the year? Consideration of enrollment patterns and challenges can help providers to identify the tools needed to meet specific family recruitment needs and adjust their business accordingly.

Customer Service

Before a child is enrolled in a program, families looking for care must: hear about the program, contact the provider, take a tour, and complete paperwork. There are multiple junctures where a family might become frustrated or discouraged if the provider does not respond quickly, fully, and professionally.

A high level of customer service includes providing clear and accurate information on the website and on all social media, responding to inquiries in a timely manner, and offering multiple means by which a family can tour and enroll in the program.

Keeping a **waiting list** and staying in communication with families on the list is another way to help minimize the time it takes to fill a vacant seat. Since this is a time-intensive task, selecting a child care management software system with the capacity to automate and support wait list management, can provide a highly valuable resource.

Finally, providers should have firm guidelines about: 1) the advance notice needed prior to withdrawing from the center, and 2) the providers right to keep a portion of the advance payment/deposit that families made upon enrollment if they do not provide adequate notice. Because the percentage of families withdrawing from care is higher during summer months, the advance notice requirement can be longer than during the academic school year. This allows providers to better plan enrollment and intake schedules. It also encourages families to communicate any planned changes in advance.

Keeping slots full is a big job – and many child care providers have so much on their plate that finding time for marketing and enrollment management can be a challenge. This is a key role that Shared Service Alliance 'Hubs' can play –

creating strategies and systems to collectively support marketing and enrollment so that providers have a steady stream of families waiting to enroll at any given point in time.

Full Fee Collection

Once children are enrolled in a program, providers must actually collect all of the revenue earned. This can be challenging, especially given the personal relationship child care programs have with parents. Additionally, some families may receive funding from multiple public and private sources that require the provider to track attendance and submit separate invoices based on the funding source. Critical to this task is tracking attendance, generating timely and accurate invoices, tracking payments received, and implementing internal policies and funder requirements when payments are late or missed. A child care management software system can automate most of these tasks.

In order to improve collection practices, it isn't enough for providers to know that they "took in less revenue this month than last". Providers need to know how much was invoiced to each revenue source (parents, subsidy, etc.) and how much was collected from each of these sources. Once an area of discrepancy is identified, providers can begin a more detailed level of investigation.

In order to effectively collect parent fees, providers need a set of clearly written **fee collection policies** and they need to implement these policies consistently. Policies should cover critical areas such as when parent payments are due, how they may be paid, and when late fees are assessed. While providers want to be flexible in offering parents multiple methods of payment, flexibility can increase challenges.

Providers should be highly discouraged from accepting cash as payment for services. Tracking cash is always tricky – it is easy to forget to create a receipt each time you take cash, but without a written receipt you have no proof of payment. Cash must be deposited in person, but it takes time to prepare deposits and travel to the bank. Finally, cash is subject to being lost or stolen, increasing risk to the organization.

Electronic payment systems are much easier to track, and much more likely to ensure prompt payment. However, credit card fees can be a challenge. Providers need to understand when fees are charged, and how much, and explore the feasibility of a policy that passes these fees on to the parents. A much better option for electronic payment is ACH transfers or low/no fee payment platforms (such as Venmo, PayPal, or collection platforms supported by technology partners like Wonderschool and Alliance CORE).

Full fee collection and bad debt are two sides of the same coin. Bad debt is the percentage of parent fees not collected and number of unpaid days from state/local subsidy agency (reasons include: absences, lack of subsidy authorization, and failure to record attendance). Bad debt is an open receivable (or an asset) for the business on the balance sheet that would, with proper fee collection policies and procedures, instead be money (revenue) in the provider bank account!

The use of Child Care Management Software (discussed below) for parent invoicing and automated payments should greatly reduce bad debt for parents. However, providers need to ensure that their fee schedule and their parent fee/enrollment agreement are clear, consistent, and updated. Providers must also follow all of the policies – such as late pick-up fees, late payment fees – outlined in the agreement consistently for all parents.

Providers may have multiple revenue sources that need to be invoiced and from which payment must be tracked and reconciled. These might include child care subsidy, PreK, Head Start/Early Head Start, or a military or employer contract. Based on the contractual terms, providers will need to submit invoices and enrollment/attendance data to these funders and will need to record expected payments, track actual payments, note any differentials, and potentially re-bill as necessary.

Finally, providers need to have clear policies around **writing off bad debt** based on the aging of the receivables. Debts that remain uncollected after a fixed period of time are considered uncollectible and no longer appear as an asset (receivable) for the business. The policy for writing off bad debt needs to be consistently implemented annually.

Child Care Management Software

It has been noted that Child Care Management Software (CCMS) can be used to help providers fully implement best business practices. There are several off-the-shelf systems (including Procare online, Smartcare, Alliance CORE from Early Learning Ventures, Brightwheel, Wonderschool, etc.) that can be used effectively by individual providers or in the context of a Shared Service Alliance to enable the provision of back-office services. See CCMS: Frequently Asked Questions

Many of the newer CCMS systems are "mobile first" – meaning that they can be effectively operated from a mobile device such as a smart phone or tablet – and are designed to be extremely easy to use. Providers who may not be comfortable using a desktop computer for financial or administrative tasks but who can successfully interact with Facebook, send text messages, or purchase

goods online, may find that, especially with these new mobile-friendly products, they can successfully navigate an online CCMS.

It is difficult to overstate the benefits of moving from paper to software for managing a child care business. Providers are able to market their programs, enroll families, track/report attendance, maintain records for business and regulatory compliance, invoice/collect tuition, and communicate with families in a fraction of the time it takes to do these tasks manually. Added to this, the benefit of electronic tuition collection virtually always results in faster, fuller payment to providers.

If at all possible, the business coach should explore opportunities to assist providers in selecting and onboarding to a CCMS as a first and critical step toward best business practices.

SECTION 2: REVENUE

There are multiple sources of funding for ECE services and providers can maximize their financial sustainability by increasing the number of funding programs for which they qualify/in which they enroll.

The primary sources of funding for Early Education include:

- **Private pay (Tuition)**
- **Public (Government)**
  - Child Care Subsidy
  - PreK
  - Head Start
  - Child and Adult Food Program
  - Contracts to serve military families
  - Stipends or grants via Quality Rating Improvement System
  - Tax Credit Programs
  - Small Business Administration grants and loans
  - Wage subsidies from programs like TEACH or WAGES
- **Private Sector Funding**
  - Foundation and corporate grants

- Individual donations (major gifts, United Way, small donations)
- Contracts for Services

Tuition Rates

The primary source of income for most child care programs is tuition and fees paid by families. Even programs that serve low-income children whose care is paid for by a government subsidy often find that the amount they receive is based on the local market price (that is, the amount most providers charge.) Figuring out how to establish rates (prices) that cover your costs can be challenging.

Rates are established by each child care provider, and may vary based on location, population served, or quality level of the program. However, the single largest determinant of tuition rates is the income levels of the families served. Providers who operate in communities of moderate to high wealth will be able to charge much higher rates for their service. This is the primary reason why government subsidy should not be based on market prices. In most cases, providers serving families in low-income communities need to supplement revenue with additional funding sources.

Tuition rates and any fees (e.g., application, field trips, late pick-up, late payment, diapers) should be reviewed regularly by the provider in the context of rates and fees charged by other comparable programs and actual costs. Tuition rates should be raised as necessary and possible within the perceived limitation of what parents can afford.

Setting part-time rates

Full enrollment is made more challenging by part-time schedules, which require specific matching for providers to remain "whole" or "full". To address this complexity, providers should carefully calculate part time rates. (Suggested methodology in the coaching companion)

Because a provider should never lose money by doing part week rates, the general rule should be that part time fees should be at such a rate the provider earns more than the full-time rate to cover the increased costs to handle the paperwork, family engagement, and other supports and services required for each enrolled family using a single spot.

Government/Public Funding

There are multiple sources of federal, state, and local funding for ECE services and providers can maximize their compensation by increasing the number of funding streams for which they qualify and enroll. In some cases, these dollars

are awarded directly from a government entity; in other cases, they flow through an intermediary organization under contract with government. Laws and regulations set the amount of public funding and the purposes for which it can be used. While laws are written and voted on by elected officials, appointed and non-appointed government employees usually establish regulations and administrative systems that control and may restrict the use of public funds. In addition, intermediaries may have latitude regarding the administration of funds. Both non-profit and for-profit childcare organizations can receive most types of public funding.

Private Sector Funding

While it represents a relatively small percentage of total child care funding, support from the private sector – foundations, employers, and individual donors – can also be worthy of exploration. In some communities, employers are willing to help subsidize the cost of care or create provider networks to help their employees find care. United Way is another helpful partner for child care programs seeking to tap funding from business or philanthropy.

Many, though not all, of these contributions are restricted to nonprofit entities, and therefore need to be disbursed through an intermediary – such as a provider network.

SECTION 3: RISK MANAGEMENT

ECE providers face a large amount of risk related to the operation of their businesses. While compliance with all local, state and federal laws and with quality rating improvement and/or accreditation standards can lessen the exposure, providers need insurance to protect them from unforeseen circumstances. For instance, a child might become ill or get injured while in their care, resulting in a lawsuit.

Business liability insurance is designed to address this issue. This is a specific type of insurance that is needed to protect a provider from lawsuits related to accidents and daily operation of the business. It is vital, and in many states required, that providers carry appropriate levels of insurance ($1-2 million). **General liability** covers a provider if there is proof of negligence. But the **professional or business liability** coverage is needed to protect the provider when she is accused by a parent of failing to offer professional services – even if she isn't negligent.

It is important for providers to understand the insurance policies that they need. Insurance agents (who work free to their customers and are paid by the insurance companies) are a helpful resource. Knowing how to ask the right

questions, and using insurance agents that understand the business of child care are important factors in securing effective coverage. Insurance, like most industries, uses language and terms that are specific to that industry and can be difficult to grasp. Providers should not be intimidated or discouraged by this!

Insurance policies vary in price based on several factors, including the amount of coverage offered. Ideally the provider needs a **business liability policy** that covers for $1 million per occurrence (or for each incident) and $2 million aggregate (or the total amount that the policy will pay out in a single year).

In addition to shopping for insurance based on the amount of coverage, providers should understand if the **attorney fees** that an insurance company has to pay to defend the provider will lower the amount of coverage under the policy limits. Providers should ask their broker to find a policy that does not deduct attorney fees from the total possible payout.

Providers also need **business insurance (or commercial insurance)** if they transport children. Because the cost of business insurance is high, it may not be financially viable to transport children.

Finally, for-profit providers should be aware as they shop for comprehensive coverage that the full cost of a business liability insurance policy is tax deductible. Programs incorporated as a nonprofit organization should secure **directors and officers liability insurance** to cover the Board of Directors in the case of a lawsuit.

SECTION 4: HUMAN RESOURCES

Because ECE is a labor-intensive field, personnel management is one of the most critical components of running a successful ECE business. Providers need to find and retain capable and qualified staff to teach children and to interact well with families and professionally with each other. Most directors/owners, however, have had little or no training in Human Resources (HR) or personnel management and may not have worked in settings with HR professionals on the team. And, because employment is a highly legalistic area of operations, the stakes are high.

Personnel-related Documentation

Most providers have **HR manuals**; these often include operational policies and procedures as well. Many providers access templates in creating their HR manuals, but fail to include local standards and regulations.

HR forms include job descriptions, employment applications, interview scripts, reference check forms, hiring packet, orientation checklist, performance evaluation tool, and timekeeping-related documents such as leave request slips. These forms should be referenced in the HR manual and copies of forms should be included as attachments. The availability of written (or online) forms for employees to use supports transparent and equitable HR processes.

Employers that distribute an updated **salary scale** annually are well positioned in terms of transparency, equitable treatment of staff, staff retention, and staff advancement. Staff need assurance that they are being treated equitably in relation to their peers. The salary scale provides clarity around why staff are paid as they are, and how they can increase their compensation. Salary scales may consider role, credential, educational degree, ECE credits, length of employment at the center, and/or length of employment in the field.

Providers often confuse a salary **range** with a salary **scale**. A range is simply a list of the lowest starting salary and highest possible salary that an employer will offer for any specific position. It might look something like this:

Teacher Aide - $8.00 - $9.00 per hour
Assistant Teacher - $9.25 – $12.25 per hour
Lead Teacher - $12.50 - $17.00 per hour

A salary scale is a more complex tool that explicitly notes the factors that determine an employee's wage and the alignment between wages of various positions within the center. In this way, the salary scale not only supports equity and transparency, but it also rewards experience/retention in the field and encourages credential/degree attainment. Wages should not be based on the age of the child taught, or funding for the seat.

Accurate **attendance/timekeeping** is critical for employees and employers, as it forms the basis for wages. Many automated systems are available to support accurate timekeeping, including, for instance, mobile applications and systems that use PINs and fingerprint recognition. Automated timekeeping systems are often available directly from the payroll vendor and/or a CCMS. The expense of these systems is saved in the time and labor associated with the collection, transcription and delivery of hand-written time in/time out sheets to payroll.

Accurate **Job/Position Descriptions** are the primary tool for successful personnel management. Position Descriptions document the expectations that an employer has for an employee and form the basis on which an employee is oriented, trained, and evaluated. All Position Descriptions should follow the same format, should appear professional (without typographical errors) and should be dated. While each organization is different, the minimum set of

information in a job description should include: the position title, a summary of the position, a list of job responsibilities, and job requirements (experience, credentials, degrees, skills).

The **organizational chart** is a visual depiction of the ECE business. This document orients employees to their position, confirms lines of reporting and supervision, and presents a path to advancement.

Compliance

Personnel management is governed by myriad federal, state, and local laws. Failure to fully implement required personnel ordinances and policies can result in expensive lawsuits and penalties.

The use of a **payroll company** is highly recommended, as the payroll company is responsible for ensuring that all payroll taxes are properly deducted and paid. **Unemployment insurance** and **worker's compensation insu**rance are required and should be priced and purchased via a broker annually, as rates can fluctuate based on utilization.

Employers are legally obligated to treat all employees fairly. This includes areas such as hiring, compensation, and advancement. Factors such as race, gender, ethnicity, religion, sexual orientation and age, must also be considered. The **Equal Employment Opportunity Commission** (EEOC) is one of several bodies that specifies standards and monitors performance in these areas.

At-will employment means that both the employer and the employee have the legal right to sever the relationship at any time. At-will employment is determined at the state level. **Family Medical Leave Act** (FMLA) is a Federal HR regulation that applies to public agencies, public/private primary and secondary schools, and employers with a 50+ employees.

Overtime pay (hourly rate + ½ hourly rate) must be paid to non-exempt employees that WORK more than 40 hours in any given week. Providers must define their work week and track "hours worked" versus "hours scheduled". Employee vacation, sick, paid lunch and paid break time are not considered time WORKED in calculating overtime. Exempt employees are salaried and they are paid the same amount every pay period regardless of the number of hours worked. Exempt positions are excluded from minimum wage, and are NOT eligible for overtime pay.

Breaks are an area of confusion in ECE. Quality and accreditation standards call for breaks, but government regulation typically does not. Government regulation does stipulate, however, when employers must pay for breaks should they choose to provide them. Any break that is for 15 minutes or less must be

paid. If employers provide staff breaks for longer than 15 minutes, those breaks may be paid or unpaid.

Providers may be more familiar with federal HR regulation than **local or state ordinances and requirements**. Many HR manuals provided as 'templates' do not reference nor include non-federal information. Providers that do not have a local HR lawyer review their HR manual may be unaware that they have omitted necessary policies and procedures.

Staff Recruitment, Hiring & Orientation

Staff **recruitment, screening, hiring, and orientation** are time-intensive functions and benefit from structured and standardized processes. Providers should examine each component of their current process to make sure they: 1) consistently document the task or step; 2) are maximizing opportunities to streamline or automate in order to save time; and, 3) contribute to the efficient hire and orientation of a qualified staff person who will likely remain in their employ for two years or more. Rates of turnover are high in the teaching profession and even more so for those teaching in ECE. Estimates are that 30% or more of ECE teachers leave their jobs each year.

After an individual is hired to work in ECE, the employer needs to collect information such as clearances and references, ensure that the new hire has the minimum training required by the state licensing body, and sufficiently explain all policies and procedures that are unique to the center. This **onboarding process** needs to be efficient, thorough, and accurate so that the new hire can quickly begin work and the employer has the required ratio to operate safely. For many employers, the minimum training is just the beginning of an orientation process that might include spending time in classrooms (while not counted in ratio) in order to fully understand the teaching roles, the learning culture, and other elements of center operations.

Staff Retention/Turnover

Teacher turnover negatively impacts quality. Staff consistency supports children's learning and parent relationship-building. Turnover also creates burdens on remaining staff, who are often asked to step in and cover for vacancies, work extra hours, support the hiring and/or orientation process, etc. Turnover can hurt providers' ability to meet funding program, quality, and accreditation standards. Staff turnover generates instability, which can trigger families to leave a provider for another, more stable provider. Family departures can lead to enrollment vacancies and revenue shortfalls.

Providers must develop **intentional strategies** to collect, track, monitor and analyze specific HR data to ensure consistent staff retention. When employees

leave, providers should document the reason using a consistent set of designations (termination, resignation, left the field, and so forth). Staff turnover should be analyzed by site and by classroom to identify patterns. And if this analysis reveals that staff are leaving within a two-year period of hire, providers must consider changes to the recruitment, hiring and orientation process to better screen candidates and ensure job success.

Performance Evaluation

Performance evaluation tools are an important personnel management tool and serve several key purposes, including the opportunity to: 1) recognize strong performance, 2) reward strong performance if evaluations are tied to wage increase, 3) comply with accreditation/QRIS/licensing requirements, 4) document and address performance deficiencies, and 5) develop training, education, and career goals. Performance is typically evaluated when staff complete a probationary period (usually 3 months), upon the first anniversary of their hire, and annually thereafter. If an employee is placed on a performance improvement plan, s/he may require more frequent evaluation.

While the regular evaluation of staff performance is important, there is no perfect tool available to guide the process. Tools are, by nature, subjective. And most employees believe that they are performing well. There are some steps, however, that employers can take to mitigate these issues. The more closely that the performance tool relates to the position description, the more valuable the evaluation will be. Rather than measuring performance on global issues such as "dependability" or "customer service", tools that are behaviorally focused (arrive to work on time vs. dependable, treat families with courtesy and respect vs. customer service) support clear communication and performance improvement.

Compensation & Work Environment

ECE is a stressful environment in which to work. Teachers not only have to meet the numerous and varying demands of the children in their classrooms, but also support parents, and work in partnership with another adult. Their work environment is highly regulated – with rigorous documentation requirements, and any error that they might make could literally endanger the lives of children. Center directors understand that the level of stress is high and know that the compensation is low, but don't always consider strategies available to them to help mitigate stress or recognize strong performance.

Compensation includes salary/wages and employee benefits. While many ECE providers are small businesses, unable to afford to offer health insurance benefits, it may be possible to help staff access health insurance from the

Affordable Care Act Health Care Exchange. Additionally, a broader view of benefits might underscore strategies that are appealing to employees and affordable to employers – such as retirement funds or access to Employee Assistance Programs or purchasing discount programs. Shared Service Alliances can help identify some of these opportunities. Additionally, insurance brokers may be able to help price benefit offerings, at no charge to providers, as well as support providers in selecting and administering benefits to their employees

SECTION 5: DEBT & LIQUIDITY

Debt and liquidity are two sides of a coin. **Debt** is money that a business owes. **Liquidity** is a provider's ability to access the cash that she needs to operate her business. The balance sheet is a financial report that includes both assets (segmented by liquidity) and liabilities – including debt – and is considered an essential complement to the profit and loss statement for assessing the financial health of a business.

Debt can take many forms, including: credit card debt, college loans, car loans, bank line of credit, mortgage, or other type of loan. Small businesses often need to access debt either at start-up or at challenging points in time during the life cycle of the business. Debt isn't necessarily bad, but some debt includes high rates of interest that can wipe out profitability and de-stabilize a business.

Liquidity is essential for the smooth operation of a business. If a center suddenly needs to complete a major facility repair in order to remain open, for instance, the business needs a means to pay for that unplanned expense. Cash or credit can be used, but center operators need multiple means of paying for both the ongoing, typical expenses tied to operations and the unanticipated expenses that may arise.

There are many types of **financial counseling** available to individuals and businesses. Many are available free of charge to all or minimally to those with incomes at 150% of Federal poverty level or below via the **National Foundation for Credit Counseling** (NFCC). These services include budget and credit counseling, financial health counseling, credit report counseling, debt management, pre-purchase housing counseling, foreclosure prevention and mortgage default or reverse mortgage counseling.

Different than a bank and a certified financial counselor, **Community Development Financial Institutions** (CDFIs) offer low interest loans based on community need. If a provider has a current loan of any kind, exploring alternative loan options via a CDFI could potentially save money on interest and

fees – depending, of course, on the possibility that the current loan could be pre-paid.

SECTION 6: FISCAL MANAGEMENT

Sound financial management begins with a **budget** and a **chart of accounts** that allows providers to correctly assign all income and expense to the appropriate category.

Budgets

There are multiple types of budgets and they can be used for multiple purposes:

A **start-up budget** includes one-time and ongoing costs, and typically includes a phased enrollment and staffing plan.

Operating budgets typically are based on the previous year's actual performance, with updates based on changes in the context or business environment.

A **capital budget** for new building or renovation is highly specialized. If renovations will result in specific classroom or center closures, then revenue projections need to be reduced in alignment with this assumption.

Chart of Accounts

One of the key steps to generating fiscal reports is having consistent means of tracking and allocating expenses. The list of revenue and expense categories is called a "chart of accounts" and creating this chart so that it is neither too limited nor too specific is a fundamental aspect of ECE business management. If the chart of accounts is too limited – for example bundling "supplies" then reporting and analysis and the ability to take action based on this financial data point will be lacking. If the chart of accounts is too specific "parent late pick-up fees, parent late payment fees, diaper fees, cot fees, parent co-pay", the process of coding and reconciling payments received become onerous. (A template chart of accounts is provided as part of this toolkit.)

Once a chart of accounts is established, providers need mechanisms for coding expenses to these accounts.

Fiscal Reports

Financial statements are critical tools for providers to use in documenting, tracking, and managing the financial performance of their businesses. While many providers look to the level of funds in their bank accounts as an indication

of their profitability, financial statements are required for a comprehensive picture of fiscal status.

Financial reports allow providers to understand their current and future financial position by generating fiscal scenarios. Budgets and financial reports allow providers to answer critical questions such as:

- ✓ How big is your business (the amount of your **current** annual operating budget)?
- ✓ Does your business earn more income than you spend on expenses?
- ✓ How much are you earning per year?
- ✓ Are you collecting income at the rate that you had budgeted? For instance, if you estimated that you would collect 98% of the parent tuition invoiced but you only collected 95%, then you would answer "no" to this question.
- ✓ Are you meeting your enrollment goals/projections?
- ✓ How does your current financial performance compare to previous years?
- ✓ How much cash do you have on hand?
- ✓ Of every dollar earned, how much is retained (vs. spent to operate the business)?

An important consideration is whether financial reports are based on **cash or accrual accounting.** Accrual accounting is considered to be the standard accounting practice for most businesses. Financial reports that use accrual accounting reflect all financial transactions during the reporting period – including purchases made on credit and revenue invoiced but not received – not just those changes in cash that may have occurred. For a deeper dive into cash vs. accrual accounting see Accrual Accounting.

Basic fiscal reports include:

- ✓ Income statement (comparing income and expenses as budgeted to actual performance)
- ✓ Balance sheet (assets – what the business owns, and liabilities – what the business owes)
- ✓ Change in financial position statement (sources and uses of funds; how cash/working capital change over a specific time period)
- ✓ Cash flow statement (monies in and out)

- ✓ Accounts receivable and aging
- ✓ Audited financial statements (These are issued by external auditor, with accompanying management letter and notes, and may be required for non-profit providers and/or those with government contracts requiring this level of fiduciary oversight.)

The Income statement, sometimes called a Profit and Loss statement (P&L), allows providers to see their actual performance in comparison to what was budgeted. The income statement typically includes current month and year-to-date (YTD) data so that providers can see the larger context of operations. Timing issues that may impact one month's performance should be balanced out by YTD data.

Accounting Software

All financial information should be entered into an **accounting software system**. Most CCMS systems have a way to transfer revenue received into an accounting software system software, so that only expenses need to be entered manually.

Many ECE providers use both Excel spreadsheets and QuickBooks to manage their fiscal data. QuickBooks is an on-line system that allows data entry and sharing from any internet accessible location. Use of automation for fiscal functions minimizes data entry errors and also allows accurate and detailed revenue and expense coding as well as accurate, detailed, and timely fiscal reporting.

Fiscal Roles & Responsibilities

There are many ways to build a fiscal team. Some providers depend only on consultants; others perform some key tasks themselves in partnership with experts. Regardless of how a provider fields the team, it is critical to document what fiscal tasks need to be completed, and on what schedule. From this set of tasks providers can determine the skill level required for the completion of the work – i.e., is a clerk or an accountant needed?

Generally speaking, the higher the educational degrees and certifications, the higher the rates charged. So, if a bookkeeper is capable of performing a task, having her conduct this work instead of paying an accountant to do so should save the center money. (For those operating within a **Shared Service Alliance/Network,** the Hub should be able to deliver financial management services with maximum skill and minimal cost.)

The regular, ongoing fiscal tasks and the skill/education level requirements for this work should be included in scopes of work for consultants. Key questions include:

- ✓ Who creates the budget?
- ✓ Who tracks actual performance to budget?
- ✓ Who creates other, related financial reports?

Regardless of educational degrees or credentials, not all accountants are familiar with early childhood education, and may, therefore, be limited in the type of strategic financial planning and detailed financial reporting that they can provide. In addition to ensuring that the accountant under consideration has experience with ECE centers or capacity to learn about ECE businesses as well as knowledge of the fiscal software used by the provider, the hiring process should include recommendations from colleagues and interviews with the accountant's current clients.

The provider is the ECE expert. The accountant will need the provider's guidance in establishing a process to track the financial data in ways that are meaningful for ECE. For instance, tracking fiscal data by classroom or by age group would not be intuitive to an accountant, but is critical for ongoing success in ECE.

Fiscal Documentation

There are specific areas of documentation that can support sound business practices at a center. These include:

- ✓ Fiscal and administrative position descriptions that are accurate and thorough;
- ✓ Executed consultant agreements that include clear scopes of work and fees/rates; and,
- ✓ Policies and procedures covering the primary fiscal and administrative (non-service) aspects of operations.

Organizational Chart, Position Descriptions, & Scopes of Work

Providers should include all staff and ongoing consultant positions on the organizational chart. This allows a comprehensive view of all of the varied roles and responsibilities required to successfully operate the ECE business.

In order to hold the fiscal team accountable for accomplishing the work required, providers need up-to-date **position descriptions** and **consultant scopes of work.** Fiscal staff performance should be evaluated annually. Consultant

contracts should be renewed, and scopes of work updated, annually to ensure the most efficient use of consultant time.

Fiscal Policies & Procedures

Most large corporations have an established set of fiscal policies and procedures, which they regularly review with new employees and update as needed. Because ECE providers are typically small businesses, fiscal policies and procedures are often not written down. A checklist of recommended policies can be found in the Coaching Companion.