Six Symptoms and Some Prescriptions

Is Your Center in Good Financial Health?

by Mary R. Brower and Theresa M. Sull

Is your center in good financial health? The financial health of a child care program is rarely included as a component of quality care for children. Finances have often been left out of the discussion because money tends to be a sensitive topic. This is unfortunate. Children can be adversely affected in several ways when their child care centers are on shaky financial ground.

In a worst-case scenario, children may suffer when a center goes out of business, resulting in the sudden loss of one or more caregivers. Families need to scramble around looking for substitute child care, which may again be temporary. A child's sense of trust, which lays the foundation for psychological health, can be eroded by inconsistent care.

Chronic financial instability, however, can also be detrimental to children enrolled in the center. Lack of adequate cash flow could cause owners or directors to hire less qualified staff, resulting in fewer educational opportunities for children. When money is a problem, facilities may not be kept as clean as possible, or equipment may not be repaired or replaced as needed to insure children's optimal health and safety. Underpaid caregivers, or those who are waiting for a tardy check, may not give their full attention to the children. Second jobs could be sapping caregivers' energy, or stress connected to financial worries could surface as short tempers. After juggling the finances of a child care center for 12 years, one director reported, "I felt like I was only one step ahead of the sheriff."

In our experience, centers get into financial hot water when they ignore the following six symptoms of poor financial health:

- Payments of families' fees are past due.
- Enrollment is below capacity.
- Reporting deadlines are not met for requests for reimbursement.
- Fundraisers cost more than they earn.
- Bills are not paid on time.
- Bookkeeping uses too much of the director's time.

To maintain the financial health of the center, pay attention to these warning signs! If you recognize one or more dangerous symptoms, it's time for some financial therapy. Get professional help, if necessary, to avoid the most common pitfalls of child care center financial management. We've seen that centers

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that repeatedly violate the following six rules tend to get into financial trouble.

Collect all fees required of families in a timely manner

Violating this rule seems to be a center's most common financial management problem. As human service professionals, we're all tempted to do a family a favor now and then. We reason that everyone runs into cash flow problems from time to time. The truth is that late payments can become habitual, especially when there are no consequences. If a family that is behind in payment of fees suddenly removes their child from the program, the center is not likely to recover the lost revenue. Realize that allowing late payment is the same as providing a loan to families. Would you make the loan out of your own pocket? Would you charge interest?

Strategies

Establish a policy regarding what fees are due, when they are due, and the consequences for families that miss a payment due date. Follow your policy to the letter. Remember that you have a business to run and you cannot run it without income.

Don't base the center's budget on enrollment to capacity

Your center's capacity for enrollment is based on several factors including adult/child ratios and classroom square footage required by local child care regulations. Tuition, whether from family fees or sources of subsidy, is probably your main source of revenue. Based on your budgeted income you will know how much you can spend during the year in various categories, such as personnel, equipment, and materials. A program budget that factors income based on 100% enrollment is headed for trouble because that is rarely the reality. Children age out of the program. Families change child care centers. Some communities, like those connected to a university or the military, may be fairly transient, having families that move frequently.

Strategies

Base your budget on about 95% enrollment. Keep a waiting list of interested families. Advertise your services frequently, to keep the waiting list full. Anticipate children leaving and begin to recruit early so that enrollment remains high.

Meet all reporting deadlines so that payments for subsidy or child care food program reimbursements arrive on schedule

That red tape is so annoying! You feel that keeping up with paperwork takes you away from working directly with children. Remember that a mismanaged center will not remain financially viable and that if the center closes, you'll lose all your opportunities to facilitate children's development.

Strategies

Keep excellent attendance records. Be sure that each child's arrival and departure are recorded quickly and accurately. Some centers record attendance using high tech tools such as *smart cards* which are swiped like a credit card and record a child's arrival and departure electronically. Use computer software that makes it easy to keep attendance records. Designate responsible persons, like family members and classroom staff, to insure that all sign-in procedures are followed.

Raise funds beyond those provided by tuition payments

The fact is that high quality child care is very expensive. Few families can afford to bear the full cost of child care, even when both parents work. Child care is very labor intensive, and the truth is that child care providers often subsidize our nation's families by accepting low wages.

Strategies

Take advantage of any funding opportunities that may exist in your area. In North Carolina, for example, Smart Start is the state's funding mechanism for programs that help children under five. State funds are administered by local Partnerships for Children. Child care providers may be eligible for such diverse benefits as training or playground equipment. In most communities, parents as well as local businesses may be sources of in-kind donations or volunteers. Careful consideration should be given to all fundraising ideas to determine whether enough cash can be raised to offset the time and labor required by staff and parents.

Have enough money in the bank to pay all your bills on time

To stay in business, your cash flow must be adequate to cover your fixed expenses when they become due. These expenses include staff salaries, rent or mortgage, utilities, insurance, and taxes. The costs of program and office supplies, educational equipment and materials, and groceries for children's meals and snacks are a few of the variable expense items that, along with fixed expenses, make up your accounts payable.

Strategies

Set up systems to pay all bills and meet payroll in a timely manner. Don't try to choose between paying your bills and paying your staff. All financial obligations must be met each month or the center cannot remain fiscally healthy. If you are not able to meet a payment due date, contact your creditor immediately so that you can make some arrangement for payment. Also, develop a close relationship with your bank. If you manage your center's finances responsibly, your bank may be willing to extend a line of credit that you can use if something comes up that you haven't planned for.

6 Designate a competent person to manage the center's finances

Too often, responsibility for financial management falls on a director who has had plenty of training in child development, but none in business. When the director must spend many hours a week with bookkeeping, other areas of child care management, such as curriculum development, family involvement or even fundraising, may be neglected. Keeping the books and making financial decisions is a huge part of child care administration. Poorly managed centers frequently get into trouble, disappointing families, children, and staff.

Strategies

Decide who will have the responsibility for financial management, and be sure that the person has adequate education and experience to do the job well. You may be lucky enough to have a board member, director, or assistant director who is willing and able to take on the job. If so, provide the technology, including up to date child care management software, to insure that accurate and timely reports can be filed. Make sure that the person designated stays current with tax law, financial reporting requirements, and financial management strategies. In many cases, an accountant or a paid financial management service is the answer, but be sure that the person you hire is familiar with the uniquely challenging field of child care.

Monitoring the financial health of a program is essential to assuring quality child care. Sound financial management is as much a component of quality as are appropriate adult/child ratios, adequate staff education, and safe and stimulating environments. Be aware of the symptoms of poor financial health and, when you notice any, have the right prescription to nurse your center back to health.

Suggested Reading

Neugebauer, R. & Neugebauer, B. (Eds.) *Managing Money: A Center Director's Guidebook*. Redmond, WA: Exchange Press.

Cherry, C., Harkness, B., & Kuzma, K. *Child Care Center Management Guide,* 3rd edition.

Foster-Jorgensen, K. with Harrington, A. *Financial Management for the Childcare Executive Officer*.

Montanari, E. O. *101 Ways to Build Enrollment in Your Early Childhood Program*.

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Whitebook, M. & Bellm, D. (1999). *Taking on Turnover: An action guide for child care center teachers and directors*. Washington, DC: Center for the Child Care Workforce.