Finances

Start-up Budget

The first step to building a sound financial plan is a start-up budget. This will usually include such one-time costs as major equipment, renovation, utility deposits and down payments. Additionally, your start-up budget should include at least 60 to 90 days of operating costs.
In estimating your costs, find out what it has cost other child care centers (i.e., planned and unplanned expenses) to open over the past two years and figure in the current inflation rate.

Table 1will help you identify the items to include in your start-up budget.

Table 1 -- Start-up Budget	
Expenses Amount	
Personnel (costs prior to opening)	
Occupancy	
Down payment or purchase of building	
Remodeling costs	
Rent deposit	
Utilities deposit	
Equipment	
Office	
Program	
Installation fee	
Supplies	
Program	
Office	
Housekeeping (toilet paper, cleaning supplies)	
Food service	
Miscellaneous	
Advertising	
Food (first month)	
Legal and professional fees	
Operating cash	
Insurance	
Depreciation	
Expenses Total	
Income Total	

Operating Budget

Prepare an operating budget when your center actually opens. This budget reflects your spending priorities, the expenses you will incur and how you will meet those expenses. From the moment the door to your new business opens, you will undoubtedly receive a certain amount of income. Do not count on this income, however, to cover operating expenses for the first 90 days.
As you estimate your expenses, the operators of other centers can help you project your actual costs, particularly for such items as telephone and supplies.
Table 2 includes a sample operating budget to help you project your annual operating expenses.

Table 2 -- Annual Operating Budget	
Expenses Annual Fringe Total salary benefits	
(15% of salary)	
Personnel Full-time (100%)	
Director/head teacher	
Teachers (#)	
Aide (1)	
Cook/maintenance	
Personnel Part-time (50%)	
Aides (2)	
Secretary/bookkeeper	
Substitutes (minimum wage/hour x # weeks)	
Occupancy	
Monthly rent 12 months ________ (number of square feet amt/sq.ft.) ________	
Heat/air-conditioning	
Electricity	
Telephone	
Insurance	
Equipment	
Educational	
Kitchen	
Housekeeping	
Office	
Depreciation	
Supplies	
Educational	
Housekeeping	
Office	
Food	
2 meals and 1 snack (cost x no. of children x no. of days in the center/year)	
Other expenses	
Advertising	
Licensing fees	

Liability insurance (cost/child/year)	
Publication subscription/association membership	
Audit	
Annual payment on start-up loan	
Total expenses	
Income	
Fees (Assess 90% enrollment**; no. of children x enrollment % cost/week x no. of weeks)	
Fund-raising/donations	
Total income	
* To cut operating expenses, you may be able to find volunteer aides through local community youth employment programs.	
**Since enrollment is rarely a consistent 100 percent, it is safer to start estimating at 70 percent and work up to 85-90 percent.	

Balancing Income and Expenses

Add your first-year operating costs and start-up costs to determine how much money you will need from the time you decide to open the center through the center's first year of operation. When including parent fees as income, remember that most centers do not have total enrollment until at least three months after they have opened for operation, and some take several years.
After completing your projected expenses and revenues, determine whether the expenses match the income. If not, you will need to lower the costs or reevaluate your market. If you cannot raise additional monies, decide where you can cut costs. For example, can you reduce your program's supply costs by relying more on recycled materials? Would such cuts help? You may be tempted to cut salaries or fringe benefits since they consume a large part of your costs. However, these are important in attracting and maintaining a well-qualified staff. Also, reducing staff may place you out of compliance with state licensing requirements and your own standards of quality.
You may want to consider increasing fees or tuition in addition to looking for other sources of revenue. Check your needs assessment and determine what parents can afford to pay and what seems to be the going rate at centers similar to yours. Be aware of tax credits available to parents for day care, and contact your local IRS office for the latest information on child care tax credits. Some centers have a sliding fee scale, which means that parents are charged different scales depending on their income level and number of children. Remember, if you lower a fee you have to make it up in other fees.

Fiscal Policies

Your budget should include fiscal policies. For example, determine when the staff is to be paid (weekly, biweekly, monthly), late fee payment policies for parents and tax reporting. Bill parents on a weekly or monthly basis. Don't let payments fall behind because the longer they are overdue, the harder they are to collect. Decide whether to charge parents for the days when a child is ill or on vacation or for holidays. There may be other policies that you will think of, so write them down and include them as part of the child care contract.