Money Matters

STATE OF NEW JERSEY

Technical Assistance Paper Number 6

# Financial Management of After School Programs

According to Howard Gardner's theory of multiple intelligences, different people can be smart about different things in different ways. A person with a genius for dealing with people can have a real problem with numbers— and vice versa. Naturally, people like to do the things they are good at and usually stay away from things they're not so good at. So, just as many accountants prefer computer spreadsheets to children's playrooms, you may prefer to avoid finances and concentrate on caring for kids. Like it or not, however, an accountant can't do anything about managing your program's finances without your help. When it comes to money matters, kids, parents, and staffers will be counting on you to keep program service available, fees affordable, and wages reasonable.

Money matters involve two main subjects. Your budget is your plan for the money you expect to receive and to spend, and this paper provides a step-by-step overview of the planning process. Your financial management system, which includes bookkeeping and accounting, is your method for capturing information to keep track of how well you have planned.

This paper will introduce you to some basic aspects of financial management and budgeting. Remember that neither the authors of this paper nor the State of New Jersey are engaged in rendering legal, accounting, or other professional service. For legal advice or other expert assistance, you should seek the services of a competent professional.

photo courtesy of Tina Blackledge

## Financial Management

Like any other business, a school-age care program is critically dependent on fiscal expertise. You will need clarity of purpose, constant attention, and the flexibility to adapt quickly to the unexpected.

For new programs, one of your first financial decisions will be which accounting system to use. The simplest system, cash basis accounting, lets you easily record cash and check transactions at the time they happen. The system works best for programs that operate on the pay-as-you-go principle.

In accrual basis accounting, in addition to actual cash transactions, you keep track of the amounts you owe others and others owe you. This system would be appropriate for a program funded through vouchers, direct-deposit agency reimbursements, and/or government monies. If you use this method, be sure to stay on top of your operating cash needs; you can't meet your payroll with "paper balances" of amounts people owe you.

Whichever accounting system you choose, always employ the same basic accounting principles used by every successful business:

1. Build in checks and balances.
At least two people keep separate written records of income and expenses, then reconcile their records for accuracy.
2. Establish one formal system.
Everyone who keeps program records uses the same basic method to facilitate checking for accuracy and an easier audit trail.
3. Clarify procedures.
So they can support but not duplicate each other's work, each person understands the other's primary task.

4. Overlap responsibilities.

To keep tasks manageable, partners team up on the bigger assignments.

5. Maintain a contingency fund.

A cash reserve sits safely out of daily reach.

**Money In**

Just about everyone knows the old saying, "Don't count your chickens before they're hatched." Strange as it may seem, you'll have to throw that advice right out the window. A well-planned program emphasizes its service role with a well-planned basic income policy.

In order to prepare yourself for the budgeting process, you'll have to count plenty of unhatched chickens...and the first step is to find the eggs! Those eggs are projected income sources, the people and organizations from whom the program might expect to receive money. The combination of income sources you choose determines your basic income policy. Traditionally, parent fees have been the biggest source of program income, but other potential sources include:

- government vouchers or contracts
- foundation grants
- private corporate sponsorship
- school board allocations
- charitable donations

Frequently, the source of your income determines your degree of freedom in managing your finances. Restricted funds, such as a Department of Agriculture lunch program subsidy, must be spent as the funding source directs.

One administrative advantage to an income policy based on parent fees is that they are generally unrestricted funds, and you may direct these monies according to your own strategy for program success. To supplement their unrestricted income, many programs conduct occasional fund-raisers and engage in resource development. (See "School-Age Care Licensing," Technical Assistance Paper No. 9 in this series.)

In keeping with the principles of financial management, your basic income policy will include clearly defined procedures for:

- billing and collecting fees from parents
- receiving contributions from other sources
- recording income
- depositing income into separate payment accounts

Included in the Further Readings at the end of this paper are publications that can aid you in setting up policies for managing your income.

**Money Out**

Once you have a clear picture of where your program's money will come from, you can start thinking about where it has to go and how it will get there.

The smart program director establishes separate payment accounts for different types of expenses. That is, you might have one account strictly for payroll, another strictly for equipment and material purchases, a third for food costs, and a fourth for contingency funds. As a matter of course, large agencies and administrative bureaucracies keep separate accounts for each of their various services.

Without exception, pay and benefits for caregivers are the top expense of any well-managed school-age program. Depending on the size and extent of your service, as much as 85 percent of program income may go to pay caregivers. In this respect, your financial management policies are nearly identical with your personnel policies. The most successful programs attract and retain top-notch staff by hiring and paying caregivers for as many hours and days as possible.

Too often, program planners have sought to limit or cut their expenses by limiting or cutting caregiver pay. Their strategies have included frozen wage ceilings, failure to offer benefits, and overreliance on inexpensive part-time staffers. The 1990 National Child Care Staffing Study determined that these strategies, while reducing immediate costs, lead to an atmosphere of low morale, carelessness, and resentment among staffers. As you plan your payment system, ask yourself whether the savings justify this kind of atmosphere. Low pay is also related to...staff turnover which, in turn, undermine[s] the stability of child adult relationships as well as nullifies in-service training efforts.

**– Lillian Katz,** Talks with Teachers (NAEYC, 1977)

Often, part-time school-age caregivers can make ends meet only by working another job whose hours don't conflict with the program's. Despite limited hours of operation—3:00 to 5:30 P.M.—programs can maximize caregiver pay and flexibility by means of two basic staffing systems.

You might use a split-shift system in a program with before- and after-school service. One caregiver could come in from 7:30 to 9:30 A.M., leave for a while, and then come back from 2:30 to 5:30 P.M. The idea is to afford your staffers full-time hours by overlapping their shifts. This system works best in programs with extended operating hours, offering full-day service (summer programs or programs on year-round school schedules).

In a job-combining system, one person plays multiple roles. To anyone who has funded, organized, enrolled, directed, prepared snacks for, and given care to thirty children—all without assistance — this approach speaks for itself. It works best when at least two people share responsibilities. In a larger multiple site program, one site group leader or director might also serve as the multisite activity coordinator.

To suit your particular program, you can use any combination of these staffing systems. Whatever system you design, build in paid time for staff meetings, planning sessions, parent conferences, and professional development and training. For more on the subject see "The Right Staff," Technical Assistance Paper No. 4 in this series.

In keeping with the principles of financial management, your payment account system will include clearly defined procedures for:

- petty cash expenses
- wage and salary payments
- benefits management
- purchase orders
- independent contractor fee payments
- noncash billing of outside agencies

Again the Further Readings will aid you in setting up policies for managing your expenses.

**The Battle of The Balance Sheet**

As with any business money is the lifeblood pumping through the heart of a school-age care program. Just as a blood pressure exam tells how a human heart is doing, a cash flow analysis tells how a

photo by Sarah E. Round

program is doing. At the end of each month, your bookkeeper and/or accountant will take the program's 'cash pressure' by summarizing all income and expense into a single document, the monthly financial statement.

The statement contains only monthly totals from checkbook entries, ledgers, journals, receipt books, purchase orders, and voucher records. It gives the reader a snapshot of the program's financial condition. The more accurately you've recorded your transactions, the sharper the picture will be.

Cash flow analysis depend on comparison to give meaning to your financial picture. If you're just getting started, you'll compare this snapshot with the monthly picture you've planned in your annual budget. After a year, you can begin comparing it with previous monthly statement for the same period.

If you wish to perform a cash flow analysis the old-fashioned way, consult Morgan, Managing the Day Care Dollars (see Further Readings) for the methodology. Computers can take much of the sting out of your analysis, to say nothing of your basic bookkeeping. For over a decade, software publishers have marketed computer-based child care financial management software. End-of-the-year issues of Child Care Information Exchange (see Further Readings) feature annual software buying guides.

Cash flow problems usually result from unexpected shortfalls. For parent-financed programs, late payment or nonpayment of fees can be the culprit. For others, delays between the time you file reimbursements requests and the time you receive payments can be long. Some government sources may reimburse programs only after records of attendance are received.

When faced with a temporary cashflow problem, the wisdom of having established your contingency fund becomes clear. You can use the money you've reserved here - between 5 and 10 percent of your customary income - to cover expenses for the short term. You may wish to establish a reserve equal to the operating cash needs for a certain number of months.

Consistent problems with cash flow indicate a deeper flaw in your financial management practices. In this case, look for ways to repair your system, such as: improving fee collection procedures developing new sources of funding streamlining non-personnel costs

### The Budget Process

All our dreams and aspirations for what we want to accomplish for children, for families, for staff and for the community are expressed in the budget in the language of money. Every line item in the budget is a policy decision that directly determines what the program will be. - Gwen Morgan, Managing the Day Care Dollars

Imagine yourself driving a car along a winding cliff road. A small curve takes a small steering correction; a big curve. a smooth, wide correction. If you don't make the correction , you could end up driving either of the cliff or into a wall of rock. In school-age care, your program is like the school-age care, your program is like the car and your budget is like the winding road. Navigating the budget is a back-and forth process much like driving along that road, steering between your plans and getting money to carry out those plans. Planning a budget you can navigate means planning a reasonable route for your program to take.

**The Budget at a Glance**

When starting a new program or adding a new service component, you can incur a wide range of one-time-only expenses: building renovation, play equipment, office furniture, brochure printing, and so on. Your start-up budget forms the basis for coping with these initial expenses (see Figure 1).

The start-up phase can last for six months or more. It takes time and money to incorporate, to line up outside funding and community partnerships, to secure licenses and insurance. Unless you're in a position to take cash deposits from parents hungry for your new service, you probably won't have any service-related income to cover these start-up costs. Plan your start-up budget accordingly.

One of your start-up tasks is to create a projected operating budget that outlines your financial predictions for the first full year of your service (see Figure 2). Of course, you'll want to be sure to temper high hopes with a sense of reality. For example, few programs achieve full enrollment during their first operating year. Plan your projected operating budget conservatively.

As suggested in a previous section, computer software can go a long way toward simplifying the creation of these budgets. The more desirable software can help you prepare future operating budgets and financial statements using the same financial database. Clearly, you'll do well to secure the services of a computer-literate bookkeeper.

**Creating Your Budget**

Budgeting is an ongoing cyclical process that can be divided into seven basic steps. The following descriptions were adapted from Child Care Information Exchange (March 1984).

**Step 1: Make a wish list**

At the beginning of each budget cycle, planners get together to consider what they want to accomplish during the coming year. This is the time to review all the basic elements that make up a school-age program. As you do so, review "Getting Started," Technical Assistance Paper No. 2 in this series.

Now is also the time to let loose your imagination, to consider new purchases, new improvements, even extravagances— all without regard to exact cost. Remember to put the children's wishes on your list, too.

**Step 2: Estimate costs**

Not every item on your list may have a dollar cost, but probably most will. Before you assume that you can or can't do this or that, determine the dollar figure for each item.

If you're just getting started, you have some research and guesswork ahead of you. You'll want to base your estimates on (1) current local prices and rates; and (2) predictions of increases or decreases beyond your control.

If you've been operating for a while, you'll have the previous year's actual figures to guide you, so you'll be able to estimate more closely the impact on your budget that your wish list items will make. A critical part of this step is to determine an approximate unit cost, the cost of serving one child over the course of the budget period. This figure can help you establish reasonable parent fees and determine potential increase or decreases in your overhead. You can calculate this figure to reflect the daily, weekly, or monthly cost per child; here's how to do it.

1. Total your estimated operating costs - (z)
2. Divide this total by the number full-time equivalents - (z/fte).
3. Divide again by the number of days, weeks or months - (z/fte)/t=unit cost.

A full-time equivalent (fte) is a measurement that represents thte total hours of service provided to one child enrolled full-time. In an after-school program that operations Monday through Friday from 2:30 to 6:00 P.M., the cost would be 5 days x 3.5 hours, or 17.5 hours. Many computer spreadsheet programs give you the ability to calculate and recalculate your unit cost with relative ease.

**BUDGET TIP:** Leave yourself room for errors.

No economist gets it right every time, and neither will you. Whatever total figure you come up with for expenses, add another 10 percent or so -and subtract the same percentage from your income estimate. This suggestion will make your budget more tolerant of cost overruns or income shortfalls.

**Step 3: Allocate income**

At this stage, you'll assign amounts from your projected income to cover your estimated costs. First, determine your total estimated income for the budget period.

When estimating parent-fee income, note the difference between the capacity of your program and actual utilization. Planning on

*photo by Sarah E. Round*

maximum enrollment at maximum rates for every single hour of operation will only give you your maximum potential income. It generally won't give you a realistic income projection.

In stead, consider the effects of family vacations, fees unpaid because of illness or relocation, and lower-than-expected enrolment as you calculate your projected utilization rate, the ratio of actual income to maximum potential income. Use this percentage - generally no more than 80 or 90 percent - to estimate your annual income. If you can plug in actual enrollment and income figures from the previous year's operation, so much the better.

For programs that receive funding from other sources, be sure to allocate restricted funds only to the times for which they are designated (see the section on Money In). Following this, allocate unrestricted funds in order of decreasing priority:

Fixed onetime cost (e.g. renovation to comply with licensing standards)
Fixed recurring costs (e.g., site rental, primary transportation, insurance)
recruiting cost (e.g., personnel)
Flexible and "wish list" costs.

**BUDGET TIP:** Be sure your budget reflects all in-kind donations.

Are your paper supplies donated by a neighborhood printer? Do unpaid volunteers help keep down your child-staff ratios? It's important that your budget reflect the value of these and other noncash contributions. Otherwise you risk understating the cost of providing a given type or level of service.

**Step 4: Weigh conflicting priorities**

By the time you reach the flexible and "wish list" costs, it may appear that your projected income will cover every potential expense. You may even project a cash surplus for the year. If so, perhaps you haven't set your sights high enough. It's a rare school-age child care program that can afford everyone's idea of excellence. Perhaps you're overcharging parents. Perhaps you've miscalculated your utilization rate. Check out all the possibilities.

The vast majority of budget planners will find a difference between what they want and what the program can afford. Questions can arise about program excellence, mission strategy, and community relevance.

With fixed and firm costs covered, one way to decide between the remaining options is to apply a reasonable standard of cost effectiveness, the degree of value you get for your money. If a service component meets a critical demand, or if it seems indispensable to your mission statement, cost effectiveness plays a less important role in your decision. Budgetary discretion comes into play. Which changes can wait for another year? To better manage personnel, can the staffing pattern be reorganized? Is there an activity that might be started at one site, then expanded to other sites if it proves successful? The answers to these types of questions call for your best judgment.

**BUDGET TIP:Watch for hidden costs.**

At first glance, a borrowed video camera looks like an inexpensive activity, but it may not come with video tapes. The beach may be free, but how much is parking? Have you added the cost of a program director's overtime to your field

*Figure 1*

## *Sample Start-Up Budget*

Revenue
Advance Deposits from Parents ____________________
Parent Fees ____________________
Contributions ____________________
Grants ____________________
Fundraising ____________________
Other ____________________
TOTAL REVENUE ____________________
Expenses
Staff (for planning period) ____________________
Staff (for start-up period) ____________________
Fringe @ 15%-25% ____________________
Essential ____________________
Employer portion of state and federal taxes
____________________
FICAW.C. SUI ____________________
Optional suggested items ____________________
Health/dental/life/retirement/education benefits
____________________
Consultants ____________________
Educational supplies ____________________
Office supplies ____________________
Rent or mortgage ____________________
Deposits ____________________
Utilities ____________________
Staff training ____________________
Equipment ____________________
Vehicles ____________________
Insurance ____________________
Publicity ____________________
Advertising ____________________
Other ____________________
TOTAL EXPENSES ____________________

*Adapted from Morgan (1982).*

trip expenses? Don't let a good idea turn into more than you budgeted for.

**Step 5: Adjust and balance**

From year to year, successful program administrators renew their approach to budgeting. They take fresh looks at fee structures, salary rates, and the economic environment in which their program operates. With at least one year of service behind them, they develop an adjusted operating budget that takes account of these realities. An adjusted budget can encompass the perspectives of children, parents, and others involved with the program; every option can receive general consideration before lives and pockets are affected. Even though one person or a small committee actually draws up the final version, all concerned should have an opportunity for input before you submit your budget for approval.

**Step 6: Get administrative approval**

This step varies form program to program. With a nonprofit center, the board of directors has final approval. A school corporation or board of education could approve the budget of a school-based program. In a privately-held organization, an executive director might have the final say. If for some reason the budget is not approved, you'll probably return to Step 1 sooner than you had planned and begin the process again.

**Step 7: Monitor and amend.**

As changes occur, the budget demands change. Here's where the effectiveness of your financial management system comes in. Successfully carried out, those procedures will provide you with the tools to monitor your budget and make the requisite changes.

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**Sample Operating Budget**

**Revenue**

| | |
|---|---|
| Parent fees | ________ |
| Department of Public Welfare/Human Services | ________ |
| USDA child food program | ________ |
| Fundraising | ________ |
| United Way | ________ |
| Donations | ________ |
| Other | ________ |
| | |
| TOTAL REVENUE | ________ |
| | |
| **ExpensesPersonnel** | |
| Adminstration salaries | ________ |
| Direct care salaries | ________ |
| Fringe @ 15%-25% | ________ |
| Consultant | ________ |
| Subsitutes | ________ |
| | |
| SUB-TOTAL PERSONNEL | ________ |
| | |
| **Non-Personnel** | |
| Rent or mortgage | ________ |
| Utiliies | ________ |
| Maintencance | ________ |
| Food and educatoinal supplies | ________ |
| Other supplies | ________ |
| Equipment | ________ |
| Insurance | ________ |
| Other | ________ |
| | |
| SUB-TOTAL EXPENSES | ________ |
| | |
| TOTAL EXCPENSES | ________ |

Adapted from Morgan (1982)

## *Further Readings*


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