

Fiscal Check-Up Part 1: When a Budget Isn't Actually a Budget

BY ROBYN KELTON

Warning: we are about to shine a spotlight on money, a topic that many of us do not like to think, much less talk about. But as a business owner, it's imperative that you have a solid understanding of the financial health of your business. If you don't, you run the risk of actually paying to run your business rather than making money on it.

The 2018 reliability and validity study of the *Business Administration Scale for Family Child Care* (BAS) found that 44% of family child care providers do not have a budget (Talan and Bloom, 2018). This number is shocking, and is also reflective of what I have seen in the field when conducting formal BAS assessments as well as when informally conversing with family child care providers. I think one of the reasons this number is so low is confusion related to terminology. What I often see is that providers mistake their **actuals** for their **budget**. Let's take a moment to clarify the two terms:

Money Talk

The BAS defines a **budget** as is a projection, or a plan for the amount of money that will be made (revenue) by the child care business and the amount of money that will be spent (expenditures) to operate the child care business during the fiscal year (Talan and Bloom, 2018). It is important to note two key words: *plan* and *projection*. A budget is a document for the future, it captures what you *plan* to earn and what you *plan* to spend, it does not reflect the money you have actually spent or earned. It is also not an accurate reflection of the money in your bank account or pocket at any given time. Rather, it captures your financial goals and aspirations.

Actuals reflect how much money (income) has actually been received and how much money (expenses) has been paid out at a given point in time during a fiscal year (Talan and Bloom, 2018). Your actuals reflect how much money you *actually* earned and how much you *actually* spent, but they do not tell you how much you will earn next month or how much you will spend over the course of the year. These are sometimes referred to as "income and expense statements." According to the BAS reliability study, 64% of providers keep track of income they receive and 60% keep track of business expenses (Talan and Bloom, 2018).

When I am talking with providers, they often say they have a budget. However, when I begin to ask more about it, or when we look at their documentation, what commonly happens is that we discover what they thought was a budget is really their actuals. They have records that have tracked their income and expenses so that they can see money coming in and going out, but they haven't made the leap yet to crafting a budget which serves as a guide or plan for the future.

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Making the Leap

So how does one make the leap to a budget? One option is to start by looking at the past. Closely tracking all your income and expenses for a month or more (ideally more) allows you to predict what your financial habits might look like in the future. The following steps can be used to develop a budget:

1. Track all your income and expenses by collecting receipts and referring to paid bills.
2. Categorize all business-related income and expenses by type (e.g., rent/mortgage, food, supplies, insurance, utilities, parent payment, Food Program reimbursement). I find it easiest to do this in an Excel document making each row a line-item and each column a month. There are also numerous resources available to help you create a budget ranging from computer software to books—find whatever way works best for you.
3. Summarize the totals for each category so that you can clearly see how much you spent and earned in each area. Each category is called a line item.
4. Use those totals to predict how much you will spend and earn in each of the twelve months of the year. At this point you should also take a moment to think about any other money that you might earn or spend related to your business that may not have been captured in the month(s) you tracked. Examples might include business liability insurance payments or tax payments, or extra money spent during holidays. Add any of these additional items into the totals or create new line items for anything that was missing. You should have an estimated total for each line-item or type of expense of income you have. Do this for each month in the upcoming year.
5. After you have made your line-item estimates for each month, summarize the totals for the end of the year. This is your budget! It clearly communicates how much you plan to earn and how much you plan to spend for the year.
6. One last thing: is your total projected revenue higher than your total projected expenditures? If so, this means you are planning to make a profit! If not, are there places you can make adjustments, like reducing your expenses or generating additional revenue? The beauty of having a budget is that you can plan in advance to make sure that you are operating your business in a way to make money.

Benefits of both

The beneficial relationship between actuals and a budget is bi-directional, having one helps you navigate the other and vice versa. Having both is your first step to financial peace of mind. Tracking your actual income and expenses helps you keep tabs on your current fiscal status and helps you predict your budget for the future. Your budget then helps you plan long-term as well as make better spending decisions in the moment. Both documents are critical to sound financial health and having one without the other leaves you with only half the picture. You might be a family child care provider because you love children, but you need to make sure you are operating your business so you are not losing money by doing what you love!

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LOOKING FOR MORE INFORMATION ON FINANCIAL OPERATIONS? PART 2: TIPS FOR TRACKING ACTUALS AND BUDGETING IS FORTHCOMING.

If you are interested in receiving training on the BAS, the McCormick Center for Early Childhood Leadership offers several opportunities including an upcoming BAS Reliability Training, March 24-27, 2020. More information is available here <https://mccormickcenter.nl.edu/events/business-administration-scale-bas-reliability-training-032419/>.

Interested in learning more about financial operations for center-based child care administrators? Attend the PAS Reliability Training March 9-13, 2020 at the McCormick Center! More information is available here <https://mccormickcenter.nl.edu/event-type/reliability-training/>.

References

Talan, T.T. & Bloom, P.J. (2018). *Business Administration Scale for Family Child Care* (2nd ed.). New York: NY: Teachers College Press.

Robyn Kelton, M.A., is a Quality Training Specialist for the McCormick Center for Early Childhood Leadership at National Louis University (NLU). Robyn conducts training and research on the Business Administration Scale for Family Child Care (BAS) and the Program Administration Scale (PAS) and serves as a national reliability anchor for both tools. In addition, Robyn reviews BAS and PAS assessments for the assessor certification system. Robyn holds a Bachelor of Arts degree in Psychology from the University of Kansas and a Master of Arts degree in Psychology with an advanced certificate of study in Organizational Psychology from NLU. Robyn is currently a doctoral student in the brain, behavior, and quantitative science psychology program at the University of Kansas. Prior to joining the McCormick Center, Robyn spent three years as a lead teacher in a kindergarten classroom for an after-school program. Robyn's research interests include leadership in early care and education, family child care, child development, and autobiographical memory.

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