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## INTRODUCTION

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Family child care providers are both small business owners and teachers to the children in their care. Daily, providers must balance the immediate needs of teaching the children in their program with the mid- and long-term demands of managing their business. An inability to balance these two demands contributes to high turnover rates among family child care providers, which does not promote positive outcomes for the children in their care or their communities. On several occasions in the last decade, research efforts have attempted to make use of the list of licensed family child care providers in Massachusetts only to discover that fully 50% of licensed providers were not active at the time. Connecting family child care providers with the financial and budgeting tools they need to establish long-term sustainable businesses is imperative. This policy brief discusses areas of training essential for family child care providers. Training should meet their knowledge needs from the time they decide to become a family child care provider until they are managing a viable business. Providers should be encouraged to use the tools suggested in this brief in a self-study format, and the topics discussed in this brief should be incorporated into a training series required of all family child care providers as part of their annual training requirements.





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# FINANCIAL TOOLS FOR FAMILY CHILD CARE MICROENTERPRISES

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## Getting Started in Family Child Care

When a prospective provider decides she is interested in opening a family child care business, and before she can open her doors to children, she must begin by

- Checking her state's *licensing requirements*,
- Obtaining *liability insurance*,
- Creating a *budget* to determine the feasibility of the business, and
- Legally *establishing the business* by registering the business name, and opening a separate bank account for the business.

### *Licensing Requirements*

Many states require that family child care providers become licensed to legally receive payment for early child care and education. Licensing requirements typically specify the health and safety aspects of the provider's home environment, such as the amount of square footage available for children's play, child-to-provider ratios, and the safety certifications of the provider. To learn about a state's regulations, prospective providers should contact the department in their state responsible for child care licensing. The National Resource Center for Health and Safety in Child Care website (<http://nrc.uchsc.edu/STATES/states.htm>) can direct prospective providers to the appropriate department in their state.

Licensing is also important because a provider's adherence to licensing regulations can be an indicator of quality in family child care homes, depending on the stringency of the state's regulations. In states without licensing, would-be providers can increase their likelihood of success by reviewing the standards of states that do require licensing.

### *Landlords and Liability Insurance*

Because family child care takes place in the provider's home, the owner of the home must check the zoning regulations for that dwelling and obtain liability insurance. If the provider is not the owner of the home, she must have the landlord's permission prior to opening the business. Standard homeowner's insurance typically does not include liability insurance, and many homeowner policies specifically exclude liability insurance for family child care. Liability insurance is absolutely necessary for providers. The National Child Care Information Center website (<http://nccic.org/poptopics/liability.html>) provides information about finding an appropriate insurance company.

### *Budget*

In addition to finding out about licensing and insurance requirements, the prospective provider should determine whether her family child care business will be solvent. She should create a budget, using a computer spreadsheet, that includes line items for revenue, expenses, and income from parent fees. Providers should survey local families and programs to determine the extent of demand for care and the market rate. This preliminary budget will only provide a best guess, however, and providers should routinely revisit their budgets to find ways to increase their profits. Many local organizations, including Child Care Resource and Referral centers, agencies supporting family child care providers, and sometimes the state licensing authority, can provide assistance with the budgeting process. The local office of the Small Business Administration may also be able to assist or direct potential providers to assistance.

In setting out a budget, the provider should consult a knowledgeable tax advisor to understand and account for expenses that

may be tax deductible as a business cost. One review of a group of providers showed substantial underreporting of deductible expenses. Further information about helping providers with taxes is discussed later in this brief under record keeping.

### *Establishing the Business*

Once a provider determines that her business will be viable, and that she can meet licensing and liability requirements, she is ready to make the business legal. Many of these steps are analogous to the opening of all small businesses. She must select a business name, register the business, and open a separate bank account. *The Business of Child Care* (<http://www.qualitychildcare.org/pdf/BusinessChildCareAll.pdf>), written for Massachusetts providers, but applicable to those in most states, includes worksheets to guide providers through this stage.

## **Contracts and Policies**

Once a provider is ready for business, she should establish rules and policies to govern her operations. Although some trainers report initial resistance among new providers to creating such formalized procedures, seasoned providers confirm that having written policies and signed agreements with customers prevents future miscommunications. Policies and contracts should include:

- A standard contract for parents, specifying the hours and days of operation (including approved closure days), rates and payment due dates (including consequences of late payments), and termination procedures;
- Policies on discipline, guidance, and field trips;
- Meal and nap schedules;
- Emergency procedures, including completed forms with every child's emergency contact information; and
- An employee handbook (for providers with assistants).

The National Center for the Business of Family Child Care's *Family Child Care Contracts and Policies: How to Be Businesslike in a Caring Profession* by Tom Copeland is a useful hands-on guide for providers concerning this topic.

## Marketing

Providers may have children lined up when they open their doors, but turnover should be expected. Providers need a simple marketing plan to recruit new families and children to their program. In a training setting, providers should be encouraged to describe what makes their services unique and to use this as a basis for their marketing plan. Marketing strategies useful for providers could include regularly contacting their local Child Care Resource and Referral agency, handing out or posting flyers, or distributing business cards.

## Record Keeping and Taxes

Effective record keeping is essential to the financial success of the family child care provider. Effective record keeping allows providers to have key information easily accessible at tax time to take advantage of the credits and deductibles for which they are eligible. Good records can help providers to refine their budgets and make well-informed business decisions. Although licensing regulations require that providers keep records about children on file, many providers need support in understanding what information is important to keep and how to strategically maintain financial information.

Many providers must first come to understand the rewards of time spent on creating and managing their financial records. Training sessions that demonstrate the potential profit of key record keeping strategies are effective in promoting this understanding.

Once they understand that their extra efforts have rewards, providers will need a tool for separating their business from their personal expenses. Because their homes and businesses overlap and can be easily co-mingled, specific tools or strategies are needed to separate them. For example, providers might use a spreadsheet to separate business from personal expenses; separate business shopping trips from personal shopping trips; or use separate checking accounts for paying bills. Providers should also use a receipt book to generate their own receipts for the parents' payments.

The initial budget that a provider creates when the business is first opened should not be viewed as a static document. Providers need to track variances in their budgets. Understanding the timing of

income and expenses will enable them to make better financial decisions, and to refine their budgets to more accurately reflect reality.

### *Taxes*

Good financial records benefit providers tremendously at tax time. As both small business owners and caregivers, providers qualify for many credits and deductions that may have a significant impact on their bottom line. The following forms are necessary for providers at tax time:

- Formula for the time/space allocation of the home,
- Depreciation worksheet
- Child and Adult Care Food Program expenses worksheet,
- W-10 forms to document income from parents, and
- Forms for hiring and paying an assistant.

Additional information can be found on the Internal Revenue Service website about child care (<http://www.irs.gov/businesses/small/industries/content/0,,id=99878,00.html>). For more detailed workbooks about record keeping, *The Basic Guide to Family Child Care Record Keeping* and the *Family Child Care Tax Workbook and Organizer* have useful step-by-step organizers for providers. These can be purchased online at (<http://www.redleafpress.org>).

## **How to Run a Sound Business**

Each of the areas addressed thus far has focused on *launching* a family child care business. As providers advance, training on other topics will help them to stabilize and expand their businesses.

### *Financial Literacy*

To succeed, providers must move beyond merely *handling* their money to skillfully *managing* their money. Topics to be covered in training should include

- Repairing credit and reducing debt,
- Effective spending and saving habits,
- The relationship between actual costs and rates, and
- The profit and loss margin and the break-even analysis.

### *The Child Care Service Delivery System*

Family child care providers are one component of a larger child care delivery system in a state. Understanding this larger delivery system—whether it involves a Family Child Care System they could join, or an understanding of how to provide subsidized child care within their state’s system—enables providers to identify new ways to expand services. This topic can be covered in a training session.

### *Law*

Providers are often employers. They should be familiar with the laws regulating employment in their field, and the penalties for not adhering to such laws. Local lawyers may be brought in to talk to providers about this topic. The Child Care Law Center produces publications specifically for California providers (<http://www.childcarelaw.org/publications.cfm#family>).

### *Family Child Care Systems*

Providers may choose to work independently or participate in a Family Child Care System. A Family Child Care System is a formalized network consisting of a sponsoring agency and the family child care providers with whom it contracts. A system offers providers access to resources such as trainings, peer support, and centralized administrative functions like enrollment and billing. Some systems require providers to meet higher quality standards than those required by licensing agencies, which may increase provider costs. Providers should understand the benefits and costs of belonging to a system and choose accordingly.

### *Knowledge of Other Resources*

Although family child care can be an isolating business, many organizations are eager to help foster or mentor small business owners. Family child care providers should be connected to business resources in their community such as the local bank, the Internal Revenue Service, and SCORE (<http://www.score.org>). Family Child Care Systems or other support organizations for family child care providers can also provide resources and expertise about business management.

## Behavioral Changes—An Important Component of Training

Successfully using these financial tools depends on providers having the behaviors required to use them. Some providers may need to dramatically change their practices to be able to do this. Several training models use the following to support these changes:

- *Visioning process*: Providers see themselves as entrepreneurs, and then create a vision for their businesses.
- *Cohorts*: A network of other providers can be supportive during the training and afterwards. Incorporating group activities into the training provides a way for providers to learn from each other.
- *Time*: Providers need time to use each tool and become familiar with the associated behaviors.
- *Coursework deliverables*: Providers need tools and worksheets they can immediately implement.
- *Trainer or panel with direct experience*: Trainers may be former providers, or panels of veteran providers may be brought in to share their experiences.

## Why Providers May Still Not Use the Available Tools

Despite best efforts, the training strategies and tools suggested in this brief may still not be put to best use, for such reasons as

- Literacy level of the provider or the materials,
- Written language of the materials,
- Lack of understanding about costs versus revenue,
- Lack of understanding about how to grow a business,
- Perception of government as a taker rather than as a resource, and
- Lack of understanding about the details of owning and registering a business.





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## CONCLUSION

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Connecting family child care providers with the training and the appropriate tax and business tools they need to successfully negotiate the teaching and business demands of their work will foster the growth and sustainability of the family child care microenterprise. Many gifted family child care providers have unnecessarily struggled with the business side of their work. Taking the steps and suggestions set forth in this brief will significantly increase the likelihood of their success.





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## RESOURCES

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Child Care Law Center (produces publications about legal issues for family child care providers). Available online <http://www.childcarelaw.org/publications.cfm#family>.

Copeland, T. (2004). *Family child care tax workbook and organizer*. St. Paul, MN: Redleaf Press (updated annually).

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*The business of child care* (produced by U.S. Senator John Kerry, the U.S. Small Business Administration, Massachusetts District, and the Massachusetts Office of Child Care Services). Available online <http://www.qualitychildcare.org/pdf/BusinessChildCareAll.pdf>.

