Establishing and Operating an Early Childhood Education Program in Oregon
A Small Business Case Study

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ESTABLISHING AND OPERATING AN EARLY CHILDHOOD EDUCATION PROGRAM IN OREGON

A Small Business Case Study

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A SMALL BUSINESS CASE STUDY:
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AN EARLY CHILDHOOD EDUCATION PROGRAM IN OREGON

Preface

This publication has two purposes. The first is to provide a detailed case study for those who are considering a small business venture or who wish to revamp an existing business. Many people find this sort of information vital to give life to the principles and concepts needed to run a successful business—philosophical approach, product/service quality, staff management, and financial analysis, to name a few.

These basic principles and concepts of small business management are already covered in part by OSU Extension Service workshops and in OSU Extension publications: Managing a New Business—A Beginner's Guide to Financial Concepts and Tools, EC 1222, and Government Requirements for New and Existing Businesses in Oregon, EC 1223 (see "For further reading," page 48).

The second purpose of this publication is to respond to a growing need for information on establishing and operating an early childhood education business in Oregon. Parent demand for such programs is on the increase, and small business operators are trying to meet those needs. We have included specific topics that will help you consider the key elements necessary to develop a viable early childhood education business: program philosophy, content, and credibility; personnel management; facilities; equipment and materials; and financial management.

Introduction

Over the last 25 years, early childhood education (ECE) programs have captured increasing attention among Oregon families with young children. Single-working parents, dual-career families, and parents at home continue to seek quality programs offering a safe, nurturing, and enriched environment that fosters optimal growth, development, and learning for their children.

Oregon owners, directors, and staff members of ECE programs strive to offer young children educational opportunities to enhance early learning experiences. Although many professionals in the field commit themselves to improving the quality of their programs, they may not know all the elements essential for a high-quality program. On the other hand, they may know and apply high standards of excellence, yet they may be plagued with inadequate budgets, high program costs, and few, if any, financial skills to remedy their situation.
We believe that financial losses are frequently resolved by merely cutting back on services to children and parents, program staff, and on the overall maintenance of adequate facilities, equipment, and materials. This is unfortunate at a time when the need for outside care and supplemental learning experiences are at their greatest.

The market potential for profitable small businesses offering credible, high-quality ECE programs appears promising, if financial problems can be overcome. To accomplish this, small business owners and directors must be able to assess their financial positions. By doing so, they will be better equipped to make timely decisions about program opportunities and improvements.

A high-caliber ECE program requires the management's commitment, knowledge, and expertise in five key areas: program planning; program quality and credibility; staff management and performance; appropriate facilities, equipment, and materials; and financial planning and analysis. Your business has every possibility of being profitable—especially if you consider your program's initial capital needs, budgeting, cash-flow needs, pricing strategies, and overall break-even analysis. If you have a good working knowledge in these areas, your program's services to children, their parents, staff, and the community at large should provide a valuable contribution and be a successful business endeavor, as well.

Assessing your professional interests

As you consider owning and operating a private, small business ECE program, a careful self-survey of your professional background, interests, and goals may help you determine whether or not you are prepared to begin a venture of this kind. Initially, a prospective ECE business owner may ask, "Why do I wish to begin and operate an ECE program? What are my needs, interests, and goals, personally and professionally?" Also, in the process of developing an ECE small business, will I enhance my skills and interests? Will I accomplish my goals and provide for my needs as I pursue an ECE small business endeavor?

Since the commitment and investment of your time, energy, and talents is substantial, we have included a basic small business survey to help you personally assess your position if you should decide to take the first steps in starting an ECE program in your area.

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AN ECE SMALL BUSINESS READINESS SURVEY

Professional and personal development

Do your professional interests and goals lie with young children, parents, and staff?

Are they compatible with your personal interests, needs, and commitments?

Have you had training or employment in a privately-owned ECE program during the last 5 years?

Are you able to delegate leadership roles, responsibilities, duties, and tasks to other staff members?

Are you able to represent your program to other community professionals, agencies, and organizations?

Do you have skills in financial management?

Standards of credibility

Can you identify the characteristics and criteria standards that should make up a high-quality ECE program?

Can you achieve these standards in your program?

Are you knowledgeable about the state and local regulations applicable to your program?

Are you aware of any constraints that will limit progress in your program's development and operation?

Assessing your community

Is there a need for an ECE program in your area?

Are other ECE programs nearby enrolled to their capacity?

Do you presently know parents interested in sending their children to your program?

Will your program offer unique services not offered by other programs?

YES   NO

***********************************************************************

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Financial awareness

YES   NO

Can you realistically estimate the amount of money needed to begin your program?

Can you invest a large portion of the capital needed to establish your business?

Can you estimate how much money your bank or major lending institution will loan under your name?

Do you know how much you can borrow from other sources?

Have you estimated the amount of income your business needs to generate in order to provide for your annual salary as well a return on your capital investment?

Have you inquired about the financial and legal requirements to operate your business?

************************************************************************

These questions were designed to help you determine some of the knowledge and skills you may need to operate a small business successfully. In this publication, we discuss many of the items contained in this survey as they pertain to program planning, staff development, and financial management of a small business ECE program.

Planning early childhood education programs

Beginning an ECE program that promises quality services to children and their parents is not a simple task. Your decision to start a small business requires ample time to plan for a solid philosophical framework, program goals, objectives, and policies.

Developing a philosophical perspective. In Oregon, ECE programs feature a variety of services and educational opportunities to young children and their families. Exceptional programs often reflect an identifiable, easily understood, sound philosophy about children, and how they grow and develop during the first 5 years of life. ECE program philosophies also imply how children should be guided, what they should learn, and the extent they will be encouraged to interact with teachers, program materials, and their peers. The development of a solid philosophical position will build continuity and integrity into your program's image and will affect basic decisions concerning policy, program goals, objectives, parent involvement, staffing, facilities, and financial management.

Generally, ECE programs can be classified by (1) the number of services offered to young children, (2) major psychological viewpoints
that explain early development, and (3) the degree of program structure imposed by interactions between teachers and children, materials and children, and children with their own peers. These basic groupings can help program developers determine the program's philosophical framework and its policy, goals, and objectives.

**Number of services.** Some programs provide a limited number of services that focus primarily on the child's physical well-being (health, safety, and nutritional needs). Other programs may offer several additional services that foster development in one or several primary areas, as in fine or gross motor, language, cognitive (intellectual), social, and self-concept (emotional) development. Comprehensive programs seek to serve the whole child and may provide custodial care, an educational program, and a wide range of support services for a variety of needs of children and their families.

**Psychological viewpoints.** Major theories describe how children develop and change throughout early childhood. The viewpoint adopted is often reflected in the teacher's interaction style, the program's physical environment, curriculum goals, as well as the type of activities, equipment, and materials available.

A behavioral position describes early behavior as a series of learned responses accumulated over time. As a child encounters new events, specific stimuli or cues signal a response from the child's set of learned behaviors. Thus the child is a responder to people, things, and events in the surrounding environment. From this perspective, teachers may look for the occurrence of desired behaviors in order to reinforce the child with praise or physical object rewards (such as stickers or stamps). Other teachers may reinforce children's behavior by verbally requesting, encouraging, or modeling desired behaviors.

On the other hand, teachers who support a cognitive-interactionist view focus primarily on the cognitive development of the child and promote learning experiences that help children acquire their own thinking skills. Programs based on this approach allow young children the chance to encounter meaningful activities that challenge them to new levels of thinking. Over all, a cognitive interactionist is most concerned with how young children learn or how they may reach solutions or conclusions, more than the accomplishment of the goal alone.

Other educators who adhere to a maturational-developmental view emphasize the importance of natural, unfolding growth patterns during early childhood. Teachers often focus on the overall development of the whole child and provide educational opportunities and enrichment as a child first demonstrates interest and readiness for specific activities. Thus the nonoppressed, enriched environment is designed to support social, emotional, physical, and intellectual development.

Finally, advocates of an eclectic, interactional perspective may select and combine major points from the previous three positions. They may explain that early development is shaped due to multiple ongoing processes linked to maturation, environmental input, developmental tasks,
social transactions, as well as the force of all these processes impacting on one another at the same time.

Program structure. A major characteristic of ECE programs concerns the degree of structure implied within a given philosophical perspective, especially as it pertains to educational activities and the interactions children have with teachers, materials, and peers.

Programs based on child-centered approaches frequently offer a learning environment with activities designed for the young child's developmental needs. Children attending these programs are allowed to be self-directed by choosing activities spontaneously during a given period of time. Their interactions are also self-directed at their own pace as they participate with other children, teachers, equipment, and materials.

Other programs, however, focus on behavioral outcomes the teacher has prescribed for children in order to achieve specific skills. Teachers design learning objectives and provide appropriate activities that encourage desired behaviors. A child's success is primarily facilitated by the teacher's interaction style, praise, requests, modeling, or physical reward system. Programs of this kind are frequently labeled teacher-centered or teacher-directed.

Accomplishments may, on the other hand, be promoted by the design of specialized learning materials, activities, kits, games, and equipment that offer self-correcting responses to a child's problem-solving efforts. Children in an activity-centered setting learn to depend on their own intellectual resources to achieve a goal with little or no interaction from teachers or peers. Their reward is found as they complete a creative thought process to achieve the goal or solution imbedded within the structural and conceptual design of each activity.

Many programs are not exclusively centered on the child, teacher, or activities but on a combination of interactions. Often involvement is spontaneous and directed as the situation may demand more direction at certain times and less at others. With these kinds of programs however, it may be difficult to determine whether their methods are consistent with any philosophical underpinnings that should serve as the foundation of any program. It may be important then, to state the philosophy of your program in understandable terms in order for teachers to implement supportive activities, materials, and styles of interaction.

These ECE classifications emphasize significant variations in the degree of program structure. Awareness of these program differences may assist you in developing a philosophical framework for planning and organizing your ECE program.

A child development program

A common philosophical perspective among ECE programs emphasizes a priority to foster the development of the whole child. Many educators support a developmental view that acknowledges that a child's
developmental processes tend to be continuous, orderly, and progressive. This approach recognizes that each child is a unique person who progresses through developmental stages at his or her own rate socially, emotionally, intellectually, and physically. Children are regarded as self-directed learners who may make choices among available activities. This kind of program often utilizes a more flexible, child-centered approach based on developmental needs and interests. A program founded on these major principles and beliefs provides a basis from which to state important goals, objectives, and policies as a part of the planning process. Thus, we have chosen a developmental perspective throughout this publication that we will use as a model framework to state important goals, objectives, and policies.

Stating goals and objectives

We have identified and stated a number of goals and objectives for a child development program in an effort to illustrate how they are worded, what they encompass, and their function in the planning process. Our ten major goals cover a number of program areas: parent involvement, staff quality, program management, the physical environment, health and safety, and an evaluation process. These goals not only support a developmental perspective, they also represent similar goals required by the recently established accreditation system of the National Academy of Early Childhood Programs (NAECP), a division of the National Association for the Education of Young Children (NAEYC), to improve program quality. Major goals and possible objectives are stated as follows:

1. To foster positive and supportive interactions among program staff and children.

   Possible objectives:

   - Staff will communicate effectively with children, individually, in a friendly, positive manner.
   - Staff will give each child opportunities to express or describe their ideas, feelings, needs, and experiences.

2. To implement a program curriculum that actively involves young children in the learning process.

   Possible objectives:

   - To design a curriculum based on the program’s philosophy and realistic goals based on their developmental needs.
   - To select developmentally appropriate materials and equipment that do not discriminate according to age, race, and sex.

3. To implement a program curriculum that gives young children a variety of opportunities to experience developmentally appropriate learning activities, materials, and equipment.
Possible objectives:

To design a daily schedule at the child's level of development that offers balance within several program options--indoors and outdoors; quiet and active; individual, small, and large groups; fine and gross motor activities; and child-initiated and staff-initiated.

To select a set of daily activities at the child's level of development that foster skills in all developmental areas--social, self-concept, cognitive, language, and physical development.

4. To implement a program curriculum that encourages young children to pursue their own interests at school, at home, in the community, and in the world.

Possible objectives:

To design activities that foster numerous learning applications in a variety of settings.

To design activities that can be creatively completed with many possible variations.

5. To inform parents about the program and opportunities for their involvement.

Possible objectives:

To designate a process that will introduce and orient parents and children to the program.

To give parents written information about the program's philosophy, goals, and policies.

To give parents opportunities to contribute their time, input, and skills.

6. To staff a program sufficiently with competent professionals who work well with children, have a working knowledge of child development, and respond to children's developmental needs and interests.

Possible objectives:

To select trained and qualified staff in the field of early childhood education or child development.

To select a trained and qualified early childhood specialist to direct the curriculum.

7. To provide effective program management focused on the needs and interests of children, parents, and staff.
Possible objectives:
To state and enforce written policies for staff and parents.

To evaluate program effectiveness and establish program goals each year.

To maintain fiscal records for effective financial planning.

8. To provide a physical environment that fosters active learning, discovery, and involvement among young children.

Possible objectives:
To arrange space, equipment, and materials for children as they learn alone or in small or large groups.

To design for adequate physical spaces for each child or a minimum of 35 square feet per child indoors and 75 square feet per child outdoors.

9. To provide a healthy and safe environment for children and adults.

Possible objectives:
To comply with State health and safety standards.

To check staff records and references to insure that staff members are free of serious physical and mental disorders that could adversely affect young children.

10. To provide a continuous and systematic evaluation process that assesses program effectiveness and quality.

Possible objectives:
To evaluate staff performance by gathering classroom observations based on a well-defined set of criteria.

To give parents, staff, and other professionals an opportunity to evaluate program effectiveness based on children's needs.

To collect written descriptions of each child's development in order to more effectively design appropriate learning activities.

Other goals may pertain to financial planning, supportive program services to children and families, a board of directors, or the promotion of your ECE business, among others. Program goals tend to provide staff with a sense of direction toward a greater mission as they pursue their daily tasks.

While goals reflect a program's rationale and show direction, they must be supported by objectives which specify how the program will
progress and accomplish its purpose. Goals provide a general perspective from which objectives are delineated to facilitate program implementation. Program objectives are often stated more specifically, depicting the process, structure, and content of a program in motion. Like goals, objectives should represent all aspects of program development.

The language used in written objectives varies, and primarily depends on their importance in the evaluation process. Frequently, objectives serve as guiding targets from which program performance and progress can be determined in measurable terms.

Objectives often help program staff to organize their efforts into a realistic framework. Usually additional objectives are listed to represent all aspects of a child development program. As objectives are established, implemented, and then evaluated, staff may choose to revise and update them to insure their vitality for a quality program.

Policies

Policies can provide ECE programs with essential benchmarks from which to guide and direct management decisions. Without policy guidelines, program staff, parents, and children may be unnecessarily burdened with inconsistent, untimely, or poorly communicated information. Effective policy-making efforts demonstrate management's effective judgement over time, as well as useful guidelines to base critical and timely decisions. Overall, written policies support the functioning of an ECE program, its philosophical framework, goals, and objectives. More specifically, rules, regulations, and procedures delineate particular actions based on these policies.

Who begins the policy-making process? Policy is commonly established by a board of directors that may include parents, community citizens, ECE professionals, and others in related fields, or a combination. A board's policy decisions are frequently implemented by the director and staff members. In order to maintain an effective policy, the board and the director may periodically exchange ideas concerning the needs for new and revised policies. At times, the board's input and resourcefulness can be invaluable, especially when a written explanation about a policy's intention is required to ease its acceptance among staff and parents.

There are often traditional methods for communicating written policy; these may include policy booklets, pamphlets, brochures, typed statements, and bylaws for a policy board. Once program policy has been created, organized, and communicated, it can be reviewed and updated annually. In general, policy reviews may be most helpful for maintaining a viable, functioning small business program.

Even though you may just be starting a new ECE program, we recommend that you establish a number of policies to promote greater efficiency and stability in overall management the first year. Celia and John Decker
(1984) have identified seven policy areas common to most ECE programs: administrative, staff-personnel, child-personnel, business, records, parents, and public relations. Detailed information about these policy areas is available in their text (see "For further reading," page 48).

Insuring quality

Careful program planning does not necessarily guarantee quality services to children and their families. Owners and directors who strive for a profit often realize the continual challenge they face to offer what is called a "high-quality" program.

Until recently, ECE professionals frequently alluded to high quality based on their own experiences, intuitions, and informal observations. Although these judgments about quality may show excellent judgement and sensitivity through a "trained eye," perceptions and opinions often vary in response to the question, "What is a high-quality program?" The NAECP (1984) described a high-quality program

...as one which meets the needs of and promotes the physical, social, emotional, and cognitive development of the children and adults--parents, staff, and administrators--who are involved in the program.

Based on this definition and on their own research, expertise and years of practical experience, hundreds of ECE professionals contributed toward the establishment of criteria essential for a high-quality program. We think you should give some consideration to three related questions:

What characteristics comprise a high-quality program? The NAECP's criteria standards reflect those commonly found among 50 notable evaluation documents and research studies throughout the nation. The criteria were established to help staff improve program quality and encourage them to apply for accreditation. Criteria areas include the following general components: interactions between staff and children, staff expertise and performance, staff size, the curriculum or educational program, interactions between staff and parents, administration, physical environment, health and safety, food management, and evaluation. Each of these program components is described more fully in the NAECP publication, Accreditation, Criteria, and Procedures (see "For further reading," page 48). This guide may be invaluable as a tool to evaluate and improve your program. It may also help you and your staff arrange your goals in priority order--and add, revise, or eliminate certain goals.

Are you developing a credible image?

Ensuring a quality program promotes a good public image and professional credibility to serve children and their families. Your program's performance is continually evaluated by parents, the program's
most valuable resource. Gaining parental and community acceptance can begin with your knowledge and understanding of local and state regulations that govern child care services, provided by the Children's Services Division. Even though a privately-owned, half-day ECE program is not eligible to receive this certification, the regulations may serve as helpful guidelines to at least meet these minimum standards.

The Oregon State Health Department requires ECE programs to pass State and local health and safety codes. Compliance with these codes helps to ensure greater physical protection for each child against unnecessary risk of injuries or infectious diseases. For further information about these codes, contact your local health department.

You may also choose to register your program with the Oregon Department of Education to show that your program is in compliance with minimum standards enforced by the private school advisory committee. Oregon registration

...reaffirms the unique qualities of private school education and supports the responsibilities of parents to choose the manner in which their children shall be educated, while reserving to them the confidence that such education shall be conducted according to adequate educational programs in healthful and safe surroundings. (ORS 345.515)

Minimum standards required by the advisory committee pertain to the ECE program's statement of philosophy, transportation, staff qualifications, curriculum, sufficient staff, children's records, physical site and facility, equipment, and materials. Registration requires no fee, is voluntary, and is renewable each year. An application and evaluation form must be submitted for approval by the advisory committee. Overall, registration may represent basic standards of quality that promote a commendable image about your program to parents in the surrounding community.

What about NAEYC accreditation? As you begin your first year of operation, your program may be eligible to apply and participate in self-study (evaluation) activities to enhance your program's effectiveness and receive program accreditation from the NAECP, a division of NAEYC. After you submit a self-study report to NAECY, trained evaluators visit your program and validate your self-study report. Then a decision is made by the NAECY concerning your accreditation status. Many ECE professionals believe that NAEYC's accreditation program offers the best professional standing of credibility for a high-quality ECE program. Given a set of achievable, high standards, you and your staff can begin to improve the quality of life for young children and their families.

As program staff strive toward higher standards of excellence through informal and formal evaluation procedures, they will also begin to build professional credibility and promote program quality. By
conducting evaluations, listening to parents, receiving state registration, and seeking professional accreditation, your staff will be making important strides toward promoting a credible, high-quality program.

**Staff development and management**

In the course of developing a new program, you may wish to seek methods and procedures to form and manage a new staff. Initially, some reflection about the program's philosophy and mission may generate some ideas to identify major services, tasks, and responsibilities to be fulfilled by your staff members, at several levels.

Qualified early childhood educators possess specialized knowledge, attitudes, and skills concerning how young children develop socially, intellectually, physically, and emotionally. Their expertise will help you shape your program's effectiveness, vitality, and success. Research, observation, and experience, have led ECE professionals to a commonly accepted principle: The most essential program ingredient is its staff. We underscore the idea that the overall excellence of ECE programs can be frequently linked to quality staff performance.

Experienced directors have recognized the dedication and merit of exceptional staff persons as they fulfill a number of demanding roles and tasks. Yet, while high-caliber personnel continuously strive to facilitate learning and development, guidance, emotional support, safety, health, and a variety of other services to each child, salaries and benefits often remain at low levels. High employee turnover rates, lowered staff satisfaction and motivation, and resentment are among the unfortunate consequences which often hamper program development. In response to this problem, you may ask, "What financial management strategies can I use to ensure that reasonable salaries and benefits are offered to qualified staff?"

To begin addressing this prevalent problem, we need to pursue the following concerns:

1. What factors determine staff quality?
2. Who should teach young children?
3. What factors encourage qualified staff to excel in their performance?

We will carefully examine staff needs, roles, and qualifications in order to propose appropriate staff descriptions and requirements. Recommendations and guidelines will also be given which represent the latest efforts of the NAECY Task force on Nomenclature, Salaries, and Benefits. Following this discussion, a variety of opportunities and strategies will be suggested on the professional development of your staff. Finally, special administrative services and records will be identified to maintain important small business functions as they relate to staff development and management.
Staff roles and qualifications

Once you have established your program's goals and objectives, a major task involves translating them into possible staff roles and descriptions which form the basis for particular qualifications. The NAEYC task force has examined the profession of early childhood education and proposed essential skills and knowledge necessary for various levels of expertise. Frequently, early childhood educators are identified by the major roles they perform. Both the task force and (more recently) the NAECP accreditation system have classified these roles into the following four levels:

Level 4: Early childhood specialist*
A professional who supervises and trains other staff members and designs and administers the educational program.

Qualifications--
Holds a B.A. degree in early childhood education or child development. Three years of successful on the job teaching experience or the completion of an advanced degree.

Level 3: Early childhood teacher--
A professional who is responsible for the care and education of a group of young children.

Qualifications--
Holds a B.A. degree in early childhood education or child development.

Level 2: Early childhood associate teacher--
A professional who has the ability to independently implement program activities and who can take the responsibility for the care and education of a group of children.

Qualifications--
Holds a child development credential or an A.A. degree in early childhood education or child development.

Level 1: Early childhood teacher assistant--
A preprofessional who implements program activities with supervision.

An early childhood specialist frequently has the administrative skills and expertise to fulfill the functions and responsibilities of an ECE director as well. Thus, an early childhood specialist may complete some or all of the program's administrative tasks in addition to those identified at Level 4.
Qualifications--
Holds at least a high school diploma. Specialized early childhood education training is not required.

As you decide which services will become an integral part of your program, it may be necessary to specify those roles, tasks, and responsibilities that comprise each program service. Then you may wish to categorize these roles, tasks, and responsibilities into respective job level classifications.

The roles and responsibilities you fulfill as an ECE director are numerous and cover a wide range of program functions and services. Frequently, directors are well-trained with specialized knowledge and skills in early childhood education or child development areas. Those who often excel as director have outstanding interpersonal, public speaking, and written communication skills. These skills are continuously used as they relate to the board of directors, program staff, parents, and children, as well as other businesses, agencies, and citizens in the community. Overall, the director oversees all program functions in a number of ways and is held legally responsible for the management of the entire program. Thus the roles and duties of this position tend to be considerably widespread.

More specifically, the director may supervise and train staff members, although this is not always the case. The director also supervises all support services and facility improvement and maintenance, prepares the annual budget, promotes the program within the community, supervises all volunteers and resource personnel, evaluates program progress, and informs and assists the board of directors.

To accomplish these tasks, it is important that the director have a broad knowledge about the management of human service agencies or businesses. Often directors may have a liberal arts university education with some business courses. Ideally, a director may also have specialized training and experience in early childhood education or child development. Directors who have a variety of experiences at several position levels within an early childhood education program may offer additional insight to their administrative functions.

Salaries and Benefits

In many ECE businesses, qualified staff members typically receive low salaries and few, if any, benefits. We think that concerned professionals should attempt to improve these conditions. As a part of that process, you should consider the value of your investment in human services. Competitive salaries in exchange for professional skills can help promote staff commitment, career satisfaction, and greater job security among employees. The problem is that there are few guidelines for establishing attractive salary and benefit packages.

What is a reasonable salary level? Generally, a salary is based on qualifications (the skills and knowledge necessary to provide program
services) designated for a particular position. Factors that may indicate the extent of an applicant's contribution include the years of education, the areas of study and degree completed, the number of hours taken in early childhood education or child development, past experiences with young children, credentials or certificates, and related skills and background useful in program development and implementation.

In two recent surveys of child care salaries and working conditions conducted by NAEYC and the Oregon state affiliate, OAEYC, the following most common hourly wage levels were reported for various staff levels for day-care and preschool programs:

<table>
<thead>
<tr>
<th>Position level</th>
<th>1984, U.S. $/hour</th>
<th>1985, Oregon $/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant teacher</td>
<td>3.36 - 5.00</td>
<td>3.35 - 5.49</td>
</tr>
<tr>
<td>Associate teacher</td>
<td>3.36 - 6.00</td>
<td>***</td>
</tr>
<tr>
<td>Teacher</td>
<td>3.36 - 7.50</td>
<td>3.35 - 8.79</td>
</tr>
<tr>
<td>Head teacher</td>
<td>3.36 - 10.00</td>
<td>***</td>
</tr>
<tr>
<td>Assistant director</td>
<td>5.01 - 12.50</td>
<td>***</td>
</tr>
<tr>
<td>Director</td>
<td>5.01 - 12.50</td>
<td>3.35 - 9.00</td>
</tr>
<tr>
<td>Owner</td>
<td>3.36 - 10.00</td>
<td>***</td>
</tr>
</tbody>
</table>

*** Data not available

A majority of national survey respondents indicated that they had scheduled breaks, a paid lunch, a written job description, written personnel policies, a formal grievance procedure, a written contract, annual cost of living increases, regular inservice training, educational expenses, time off for education, preparation or planning time, and compensation for overtime. Most frequently reported benefits included at least one sick day each month, at least four holiday breaks each year, some vacation breaks, personal days off for emergencies, social security, workers compensation insurance, unemployment insurance, and some health coverage.

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Some exceptional programs have maintained higher salaries for each level as shown below:

<table>
<thead>
<tr>
<th>Position</th>
<th>Annual salary</th>
<th>Rate/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner/director</td>
<td>30,000</td>
<td>16.30</td>
</tr>
<tr>
<td>Head teacher, early childhood specialist</td>
<td>20,000</td>
<td>10.87</td>
</tr>
<tr>
<td>Early childhood teacher</td>
<td>15,000</td>
<td>8.15</td>
</tr>
<tr>
<td>Early childhood associate teacher</td>
<td>12,000</td>
<td>6.52</td>
</tr>
<tr>
<td>Early childhood assistant teacher</td>
<td>10,000</td>
<td>5.43</td>
</tr>
</tbody>
</table>

Using salaries at these levels, three or more staff members (including the director) could serve 20 3- and 4-year old children for (as many as) two half-day sessions each day. Although one teaching staff member for each group of 10 children is considered adequate, you may wish to consider volunteer help or hiring additional staff to enhance the educational program.

Programs striving to attain high standards of excellence for children, parents, and staff often recognize the need to offer more adequate salaries with improved benefit packages and working conditions. The list of benefits can also include complete health coverage, dental coverage, a retirement plan, life insurance, and maternity or paternity leave. Among the highest paid of program employees are those hired at university-based child development centers. Head teachers employed at these centers receive between $15,000 to $20,000, full-time, for a period of 9 months. To protect and professionally motivate contributing staff members, we think it is essential for you to consider offering attractive salaries and benefits.

Professional development

Professional development involves supportive and collaborative efforts among directors and staff for the purpose of self-improvement among all members. The process can be continuous to help staff members improve their strengths, skills, information, and expertise. A variety of opportunities for staff development commonly include program orientations, inservice training, supervision, performance evaluations, and support to upgrade skills and knowledge in educational pursuits outside the program. A supportive, open, learning environment between the director, supervisor, and teachers can enhance staff motivation and
commitment. Program effectiveness may often depend upon the extent and quality of supportive services for staff, its most valuable resource.

Many programs orient new staff to the essential aspects of the program. Orientations often include a number of activities and events like open houses, individual conferences, program tours, and group meetings. Brochures and other written materials provide basic information to describe program philosophy, goals, objectives, policies, organizational structure, and services to children and parents.

You may find that beginning teachers require considerable onsite support and instruction on specific teaching skills. They may acquire this from their experiences in observation, demonstrations, on-the-job training, sharing ideas with other teachers, and supervised individual and group conference sessions. Paraprofessionals and volunteers often require basic information about the principles and concepts of child development. Their contributions are most valuable if they are able to apply these principles and concepts within the program setting.

The orientation process can be effectively followed with inservice training in specific skills, topics, and issues that will enhance staff performance. Workshops and seminars can provide staff with additional opportunities to enhance their professional expertise. Hopefully, you will select topics on the basis of those skills and information that will improve staff performance in their daily interactions with young children.

As staff become involved in their roles and responsibilities in your program, their overall commitment to the ECE profession may be enhanced significantly. You may want to encourage their participation in local, state, and national professional associations. Conferences sponsored by these associations provide an additional way to exchange ideas, gain access to valuable research information, evaluate new methods and materials, and meet other professionals in similar positions. Local, state, and national membership is available in two major associations:

The Association for Childhood Education International
11141 Georgia Ave., Suite 200
Wheaton, MD 20902
(301) 942-2443

The National Association for the Education of Young Children
1934 Connecticut Ave., N.W.
Washington, DC 20009
(202) 232-8177

The Oregon Association for the Education of Young Children
Membership Secretary
P.O. Box 1455
Tualatin, OR 97062
(503) 244-6111

http://extension.oregonstate.edu/catalog

For most current information:
Staff records

A variety of records and services are frequently maintained for administrative reference as important decisions are made. A complete set of records for each staff member is desirable and often entails individual staff contracts and terms of employment, job descriptions, insurance and retirement plans, application forms, health records, emergency information, qualifications and past experience, degrees, certificates, and records of service for those presently employed by the program, among others.

To enhance the well-being of staff, you may wish to keep records on many staff transactions which pertain to the program. You will find that effective communications, decisions, and policies are based upon accessible, organized, and complete written records about the program and its staff.

The staff in action

As you make new staff additions, it is important for you to enforce an effective management style that encourages staff members to work well together in a number of team efforts. Common understandings promote positive feelings and interactions and may include any of the following for your consideration:

- A commitment to provide quality services for the welfare of young children.
- A commitment to exchange information and feelings for the purpose of program and staff development and evaluation.
- A commitment to affirm and respect the skills, knowledge, and ideas of individual staff members.
- A commitment to encourage positive staff relationships based on trust and respect.
- A commitment to work together to accomplish short and long-term goals and objectives.
- A commitment to develop interpersonal communication skills, such as empathy, listening, problem solving, and conflict resolution to enhance staff relations.
- A commitment to avoid critical statements or gossip to others that may destroy staff management, trust, and integrity.

These basic understandings can be rooted within a management style that values the critical nature of effective staff management and development. In general, try to promote opportunities to exchange ideas, information, and feelings. In this context, interactions can become more open and flexible, yet compatible with the time constraints that are often commonplace at staff planning and debriefing sessions.
Program facilities, equipment, and materials

Your program's physical environment will have a major impact upon children and staff and may support or hamper their daily performance. Ideally, compatible program facilities, equipment, and materials are carefully designed, arranged, and organized to reflect the program's philosophy, goals, and objectives.

As you prepare to select and equip a potential facility, it may be worthwhile to consider the essential qualities and characteristics common among quality child development programs. While reading this section, make a checklist of the qualifying criteria specifically tailored to your program. A thorough assessment of indoor and outdoor spaces will help you determine more accurately the merit of a facility and its surroundings.

Scanning a potential facility site

Initially, a general survey of the facility and outdoor play areas will offer impressions and information as you scan the property. When you arrive, it is important that you examine your perceptions and expectations as an owner, director, teacher, child, and parent. For example, what impressions can you imagine parents would have as they arrive at this site? Common factors having the greatest impact on a program's success may include the following points about facilities:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is the prospective center well located relative to its position within local community areas, towns, suburban areas, and major cities?</td>
<td></td>
</tr>
<tr>
<td>Is it accessible for those children and parents who may use program services?</td>
<td></td>
</tr>
<tr>
<td>Are there adequately maintained road systems leading to this site?</td>
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</tr>
<tr>
<td>Are there public transportation services in the area?</td>
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</tr>
<tr>
<td>Is the site close to busy streets or heavy industry?</td>
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</tr>
<tr>
<td>Is the facility well-positioned on the lot?</td>
<td></td>
</tr>
<tr>
<td>Does the drive-up area afford easy access and adequate parking space?</td>
<td></td>
</tr>
<tr>
<td>Are parking spaces and drive area suitable to walk and drive on?</td>
<td></td>
</tr>
</tbody>
</table>

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Are the facility and surrounding property designed and organized for young children?

Does the design reflect any particular features that serve children's basic developmental needs?

Do facilities and outdoor play areas appear appealing?

Do they offer any environmental features specified in your program objectives?

Are there sufficient play spaces indoors and outdoors? NAEYC recommends that indoor space consist of at least 35 square feet per child (or 700 square feet for 20 children) and that outdoor space consists of 75 square feet per child (or 1,500 square feet per 20 children).

Is the overall design flexible and adaptable to serve children and staff as they engage in a variety of individual and group activities?

Is the financial investment for the property and facility large?

Are there various options available—purchase, lease, or rent of this property and facility?

In addition to these factors, it may be important to pay attention to your senses. What do you see, hear, smell, and feel? Does the air smell fresh? Do walking surfaces feel stable? Do you see rust, fallen shingles, or peeling paint? Do you hear noisy traffic continuously? Do the grounds and facility appear open and inviting or closed-in and cramped? You may discover many other impressions as well.

As you carefully scan the property, it may be possible already to determine whether this facility and grounds warrant further examination. Assuming that this is a feasible site, you can continue our suggested assessment procedure indoors and then proceed again, outdoors. First, however, you may wish to consider the entrance and exit areas, where first, last, and strongest impressions can be formed, instantly.

Entry and exit areas

The importance of a safe, appealing entrance and exit cannot be overemphasized. The entry serves a variety of functions, primarily as a landmark for meeting, greeting, waiting, watching, and passing through to other areas of the facility. Since the area is used frequently, it is desirable that the entry area have exceptional qualities to promote good images and feelings among parents, children, and staff.

As you approach the entrance, are you entering a hall, a mall area with indoor and outdoor activities within view, a porch, or a room? A
bright, accessible, spacious entry may enhance cheerfulness, easy movement, and accessibility for all ages. Does the entry have any of these qualities? Dark, small entries may not be unattractive, but children may feel strange and frightened as they are brought into the center. Parents may also find it difficult to move easily in cramped spaces as they leave children, wait, or pick them up. Cramped spaces may not encourage opportunities to interact with children, staff, and other parents.

We recommend that entries have the following characteristics: bright and colorful; close to parking; large and suitable for greetings, brief conversations, brief observing; comfortable for waiting; usable for many parents and their children to leave at the same time; and well-maintained (solid structure, fresh paint, firm walking surfaces, and wide, easy-swinging door).

The function and appeal of the entry can be critical as you strive to promote positive attitudes about the center. It is often the first and last place the parent and child pass through. If the entry appears attractive, makes the child and parent feel welcome, and promotes social exchanges, parents will more likely feel that your center is a good place for their children. The child may also feel more secure and satisfied upon arrival.

Many entries will also serve as exits. In general, exits should be well-placed to aid foot traffic from the facility to the parking lot. Accessible exits are also necessary to ease movement from indoor to outdoor play areas. Exit doors are essential in the case of fire or other emergencies. If door knobs operate easily and doors swing out, movement flows with greater ease.

Assessing interior spaces

Once inside, browse around each room to capture the overall placement and arrangement of rooms, walls, ceilings, halls, windows, and doors. Important features to note include the location of water sources, electrical outlets, and phone connections. While on tour, you may envision which room is most appropriate as the activity room where children will play and work for longer periods of time.

An ideal choice would be a room with

1. a southern exposure for optimal natural lighting;
2. a minimum of 35 square feet per child;
3. a rectangular-shaped room for flexible room organization and supervision;
4. attractive, comfortable, and durable floors, ceilings, and walls;
5. spaces for storage and display and
6. ample space to arrange interest centers.
There are other criteria that specify additional requirements. We have identified some of the more important ones in the following questions:

With the present floor covering, can floors stay dry, clean, and warm while children play? If it includes a rug, is it soft? Does it absorb noise, minimize risk of injury and accidents? Will it be difficult to clean and remove stains? Can furniture be easily moved on casters? Can toys with wheels roll easily? Will children with allergies have reactions to the rug fibers? Is it a resilient floor covering? Is it located in an area where children would possibly be involved in messy activities as water, glue, and paint?

How does the ceiling appear? Is it located 10 to 11 feet above the floor level? Do ceiling heights vary to promote interest and noise control?

Are permanent walls limited to the exterior boundaries of the room to facilitate flexibility? What color are the walls? Are they soft greens or other pastels that are often suited to southern exposures?

Is there adequate storage space to store seasonal equipment and materials? Is there storage for consumable art materials? Is there a place for low storage cabinets? Low open shelves? Are there high, locking cabinets to store unsafe items? Is there an accessible place to store major appliances and audio-visual equipment? Will there be adequate space for a variety of learning centers?

Is there a firm, flat, low-pile carpet space away from foot traffic to accommodate block play for several children (or about 115 square feet)? Is there about the same amount of space for the housekeeping area? In the art area, is there space for chalkboards, motifs, easels, tables, and a sink with a large counter space? Is there adequate space for tables and storage for manipulative and fine motor activities? Is there space on uncarpeted flooring near several outlets for a microcomputer, if you desire?

Is there adequate lighting in each of the activity areas?

Is there adequate natural or forced ventilation in each room where children will play? Can the heating system maintain a temperature of 68 degrees Fahrenheit in each room?

Does the children’s rest room provide at least one toilet for every 15 children and one handwashing sink for every two toilets?

Just as the activity room offers a number of learning experience through a variety of space arrangements, they continue to learn in other
areas of the facility. See figure 1. Necessary, accessible areas such as the children's rest room, the kitchen, and the cubby-locker areas enable a child to develop self-help skills in the care of physical needs.

Other areas that promote the success of a program focus on the needs of parents and staff. A parent observation and resource room allows parents to watch and listen to children through a two-way mirror and audio system, and perhaps read parenting books and magazines nearby. An adjoining area could be used as a parent or staff lounge and meeting area. The center's office provides space to store administrative records, an area where the owner and/or director offers administrative services, and a place for parents to inquire about the program's opportunities. A separate workroom with desks, dividers, and work tables provides the teaching staff with an isolated area to prepare curricular activities and materials. An adult rest room could be ideally located in this section of the facility.

Assessing exterior play areas

Another group of special considerations pertains to outdoor play spaces. A quality play area is functional in a number of ways with a variety of ground surfaces, plantings, and terrain, shelter, and places for outdoor equipment and storage. Is there room for children to run off steam? Is there a sizeable play area ranging from 75 to 150 square feet per child, where one-third of the area can be used for passive outdoor play and one of two-thirds for active play? Ideally, the play area will be located on the south side of the building for best outdoor lighting, especially for outdoor covered areas. Is the outdoor space adjacent and accessible to the activity room? A 4-foot nonclimbable fence bordering the play area will relieve teachers from unnecessary supervision.

Outdoor terrains that have a variety of mounds, knolls, and hills can offer a number of opportunities to jump, leap, run, and hide. Continuous, flat surfaces offer less flexibility as play areas. Flat surfaces should vary with areas that include grass, concrete or asphalt, sand, sticks, logs, or bark chips. The largest surface often consists of grass. A concrete or asphalt strip can be used for a variety of vehicles.

The covered play area will offer space for passive play in all types of weather conditions. Clear roofing material allows natural light to penetrate a covered area. This area should remain as open as possible to allow fresh air to circulate through the area.

Other specifications include attractive landscaping for shade and beauty, a source of water for play and drinking, and an outdoor sink area. It is ideal if the children's rest room is easily accessible from the outdoor play area and has an outdoor entrance.
Figure 1 -- Outdoor and Indoor Areas of a Child Development Center
Does the play area you’re considering meet a number of these suggestions? If not, can any of these features be added to enhance the use of the area? We have suggested these requirements for exterior play spaces as a guide to help you make decisions concerning improvement and maintenance. You may find assistance in "For further reading--Facilities, Equipment, and Materials" (page 48).

Equipment and materials

Carefully selected, high-quality equipment and materials can dramatically enhance a program’s physical learning environment. A variety of recommended standards and characteristics that we discuss below may help you determine important criteria for selecting items for your program. These are based in part on suggestions by many early childhood educators.

Initially, we recommended that you focus your efforts on how desired equipment and supply needs will support the program goals and objectives you have chosen, especially those which pertain to the curriculum. What items will facilitate the objectives specified for the learning environment for 3-, 4-, and 5-year-old children? Can you justify these selections? A common problem that occurs for those purchasing equipment and materials is the lack of adequate preparation and criteria to guide an effective decisionmaking process. Financial problems may be avoided by not purchasing inappropriate or overpriced equipment.

Using criteria to assess preliminary choices. When you have identified program furnishings, play equipment, and materials as potential selections, it is often necessary to evaluate their quality, suitability, and usefulness. The following questions offer a number of criteria to guide you in the assessment process:

How versatile is the use of this item? Can it be used for a variety of activities to accomplish a number of objectives?

Does it promote and hold a child’s interest, curiosity, imagination, manipulation, resourcefulness, independence, problem solving, or self-initiative in several developmental areas, simultaneously?

Does it enhance basic skills in motor development such as small muscle coordination, large muscle coordination, freedom of movement, strength and skill, and eye-hand coordination?

Does it facilitate the practice of several skills necessary for concept development such as sensory perception and application along dimensions of balance, depth, space, color, weight, shape, and size and sensory discrimination skills provided by visual, auditory, tactile, olfactory, and gustatory input?

Does it encourage at least several social skills concerning language expression (verbal recognition, identification, and description); verbal and nonverbal interaction among peers and teachers; cooperative turn-taking behaviors; sharing of parts
and pieces with others; helping others who may demonstrate a problem; and sharing one's imaginary events with others?

Does it support a child's self-image through the exploration and expression of self-perceptions and feelings?

Does the item exhibit safe features and characteristics? Is it sturdy, steady, accessible, free of splinters, protrusions, sharp edges, and defects? Does it have a good safety record? Is it nontoxic?

Does this item demonstrate durability? Can it take hard, rough wear? Does it appear to be well-constructed with a functional design? How would you evaluate the quality of raw materials used for construction? Are moving parts easy to use? Are parts replaceable? Will this item be used at various levels as a child increases developmental skills? Is it washable?

Is the item appropriate for age levels and sizes of children attending the program?

Is the item esthetically pleasing in its design, color, brightness, sound, texture, size, form, odor, or temperature?

Can this item be adapted or made from previously purchased items?

Is there space available for using and storing this item? Does it have special requirements for care, or for electricity or water while in use?

You can also evaluate outdoor play equipment on the basis of these criteria. But give special consideration, to the climate in the area, available space, effective space arrangements, and the number of children the piece of equipment can accommodate safely.

As you evaluate, you may revise and improve your list of selections. By following an assessment process, your decisions will more likely be based on their demonstrated qualities instead of information provided by advertisers, distributors, influential friends, parents, or even personal biases. Using equipment and materials of high-quality standards that provide for the needs of your program should prove to be an excellent investment for staff and children.

Recommended equipment and materials. Once essential equipment and materials have been assessed, refer to the list of recommended selections for a group of 20 children, aged from 3 to 5 years, published by the Association for Childhood Education International, Selecting Educational Equipment and Materials, by Elizabeth Hedges. Some of the items she mentions can be highly useful for a variety of program needs. In general, her listing represents a comprehensive identification of items needed to begin a program and continue with annual updates of certain items (the purchase of some new items for a period of several years).
Using this excellent reference, we outlined essential equipment and materials for a number of curriculum categories. These are listed in the appendix (page 42). This reference list is intended as a guide to select useful items.

You may find many of these items difficult to purchase. If so, we suggest that these be made, collected, donated, or substituted with other comparable items. Free materials are available from a variety of large and small business sources throughout Oregon and the nation. Usable items and scraps are often disposed at substantial business cost. Thus requests for donated materials may help businesses defray unnecessary costs and waste. Donations not only promote local business interests but provide an ECE program with invaluable resource items from which children can enjoy and learn new concepts and skills.

Financial management of the program

So far, we have outlined the important programmatic elements that you should consider as you develop an early childhood education business. This section addresses some of the financial aspects of running a successful business. A high-quality program and financial management go hand in hand toward developing a profitable business.

Even in the best of economic times, a relatively small percentage of new businesses are able to survive. Most frequently, problems for a business first appear in the financial management area. Our intent here is to provide an analysis format and conceptual framework to help you plan and monitor the financial progress of your business. We have provided space in the table formats for you to calculate values based on the specific data for your business. Thus, your estimates may be different than ours, even though you used the same calculation procedures that we recommend. In addition, you may find it necessary to add cost categories beyond those we have identified to adequately capture the cost elements of your business. By doing all of this, we think you can increase the probability of making your business a financial success. (For a more detailed discussion of financial statements and their uses, see "For further reading—Business Management," page 48.)

As we begin our discussion of financial management, there are several ideas you may want to consider as you do the financial analysis of your business:

1. One of the initial things you will need to do is identify available resources including human capital (management and labor needs), physical assets, and financial capital (debt and/or equity [your] money). It will be your job to organize these resources. In part, this will be a response to the objectives you have set and the actual rate of success in meeting them. Establish realistic time expectations for meeting your objectives -- most businesses are not instant financial winners.
2. Avoiding common business mistakes can help ensure that your enterprise will survive and prosper. Someone in the business must pay attention to the financial side of the venture. Budgeting, cash-flow management, and office procedures are critical to even naturally successful businesses. You may find that it is economical and efficient to hire outside professionals (bookkeepers, for example) to prepare financial statements. However, be careful not to allow these professionals to make management decisions. Your management control function will be critical to the financial health of your business. As time goes by, your skills and self-confidence in this area will increase.

3. Be conservative in estimating costs and revenues for the business. Many new businesses make the mistake of being too optimistic in budgeting: costs for producing and marketing the good/service are frequently understated or sales overestimated. Worse yet, both problems may occur simultaneously. Inevitable cash-flow problems develop. Lack of quick action to correct such problems may lead to the financial failure of your business.

4. Your business may have great potential for long-run profitability. But you may need to pay close attention to the initial cash-flow situation and plan for meeting shortages. Many small businesses find out too late that not enough money was being generated early enough from sales.

5. You or someone in your business needs to pay attention to selling what you have to offer. That does not necessarily mean a large budget commitment. Instead, it requires an emphasis on imaginative and unique concepts in the area of public/customer relations, advertising, and other image-building activities. Well-planned promotional activities can greatly enhance the financial viability of your business. In addition, it can provide valuable experience that will enhance future promotional creativity.

6. In managing the purchases for your business, be sure to use competitive bidding for major items. Weigh carefully the balance between cost and quality -- a slightly higher per-unit cost may provide considerably higher quality goods/services that will enhance your program. Check out quantity discounts, but don't overbuy -- it can unnecessarily tie up cash in inventories. Do, however, plan your cash flow to take advantage of discounts for timely payment to your vendors. Consider buying used or even "garage sale" items.

7. Finally, you can also reduce costs by the use of outside human capital. Parents or other volunteers may be very willing to provide labor, snacks, project materials, or cleanup time. Even the children in the program may be called upon to do minor jobs for the business, including setup and cleanup.
The model ECE business

As we developed the ECE model business, we incorporated the basic characteristics identified earlier as important program functions. The major elements of the model include: program size, staff arrangement, space requirements, and interest rates.

Program size. We looked at three representative sizes for our ECE business model. As you prepare your own financial estimates, be sure to use the cost formats for the size that best fits your situation. The major difference between size classifications is capacity for number of children served at any one time. For any given size, we assumed that two groups of children would be going through the program per day (one morning session and one afternoon session), and that 90 percent of the available capacity would be used on an average full-time-equivalent (FTE) basis. This would allow the business to accommodate parents who wished to have their children in the program for fewer than 5 days per week (the maximum) or longer than the normal 3-hour half day. Regardless of size, the model business was assumed to be open 46 weeks per year.

A class 3 enterprise was designed for a capacity of 10 FTE children per half day (figure 2). Besides a one-third-time director, we assumed 1 FTE early childhood education specialist.

A capacity of 20 FTE children per half day was the capacity of the class 2 enterprise. The staff complement was a one-half-time director, 1 FTE head teacher/early childhood education specialist, and 1 FTE teacher.

A class 1 enterprise had an assumed capacity of 30 FTE children per half day and a staff of 4 people. In addition to the staff of a class 2 enterprise, we assumed that a class 1 business had a 1 FTE teacher assistant. Conceptually, any combination of staff can be assumed as long as it equals the specified FTE at the stated salary.

Staff arrangement. We also constructed the model on an FTE employee basis. This allows for the possibility of job sharing -- two or more qualified people working in shifts to provide the service equivalent to a full-time employee. We felt that might avoid employee burnout and so promote continuity in program services. For all size classes, we assumed a child capacity/staff ratio of 10:1. Inservice training for the staff was assumed to be provided by the director and head teacher.

We assumed that all staff positions would be funded on a full-time basis except for the director. With the exception of the teaching assistant positions, only professionals (by reason of educational training/experience) would be employed. All positions were budgeted at salary levels consistent with the expectations of the position.

Space requirements. In general, we based the facility needs for each business size on a per-child basis. We provided 50 square feet of indoor space and 250 square feet of outdoor space for each child FTE. In
Figure 2 -- Representative sizes for the general early childhood education business model

Choose the size of early childhood education business

Class 1
- 30 children per 1/2 day
- 4 staff people
  * 1/2-time director
  * Full-time head teacher/early childhood education specialist
  * Full-time teacher assistant

Class 2
- 20 children per 1/2 day
- 3 staff people
  * 1/2-time director
  * Full-time head teacher/early childhood education specialist
  * Full-time teacher

Class 3
- 10 children per 1/2 day
- 2 staff people
  * 1/3-time director
  * Full-time head teacher/early childhood education specialist

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addition, we allowed enough parking to accommodate all staff plus one-third of the parents at any one time.

Interest rates. We used two rates of interest in the budgeting. We assigned a 12 percent annual interest charge to the investment in capital items, regardless of its source (debt/equity). Any short-term borrowings to meet cash-flow shortages were charged at an annual 14 percent interest rate.

Calculation procedures and interpretations

First, a note about the 12 tables you'll find on pages 30-61. There are actually three sets of similar tables, four each for class 1, class 2, and class 3. The next four sections tell how we constructed these tables to serve four basic purposes. You might want to glance at the tables now, but we'll discuss them in detail when we analyze each of the three class sizes (pages 38-40).

Budgeting for capital items. For each size class, we constructed a representative capital investment budget (tables 1, 5, and 9). It included classroom, office, kitchen, and workroom furnishings and equipment; indoor and outdoor play equipment; nonconsumable maintenance, health and safety, and creative expression equipment/materials; equipment related to dramatic play, math, music, and science; nonconsumable office equipment and supplies; audio-visual equipment; and an initial stock of program/publicity brochures.

Then we converted the total capital investment to a constant annual cost using an amortization table. This technique, which we explain later in some detail, allows the capital investment to be paid back over a specified time, and the declining outstanding balance receives a specified interest rate. We chose a 15-year payback at the 12 percent long-term rate. Then we included the annualized return of capital investment including interest in operating costs (tables 2, 6, and 10).

Developing an operating budget (tables 2, 6, and 10)

Indirect management/labor expenses. We included indirect management/labor expenses in each operating budget. The employer portion of social security taxes was the largest single item. We used the 1985 rate of 7.05 percent of gross wages. The unemployment insurance tax was calculated at 3.5 percent of gross wages, the standard rate for new businesses. We calculated the workers' compensation insurance cost using the State Accident Insurance Fund (SAIF) rate for school professional employees/administrators: 0.49 percent of payroll, plus 16.8 percent premium tax, plus 12 cents per day per employee.

We decided that each employee would be covered by health/dental insurance under a group plan available through the National Association for the Education of Young Children. Assuming that the business would pay two-thirds of the premium, the cost for the employer portion was calculated as $171 per year for each employee -- the 1985 rate.
Professional liability insurance up to $500,000 was also available through the association for a 1985 premium of $25 per employee per year. We included that as an expense for the business.

**Facility operating costs.** The major facility operating cost is rent. We used typical 1985 rates for the Willamette Valley as identified by local professional property managers. The employee/child accident insurance cost was based on coverage available through a National Association for the Education of Young Children group plan. We used catalogue information to estimate supply cost information.

As of 1985, property and general business liability insurance was still available for early childhood education businesses such as the one modeled here. But we found that there were few carriers who would write such a policy. We included a premium cost on the low end of the range. It would provide $300,000 of liability coverage in addition to standard property insurance. For an additional premium, liability coverage could be increased to $1 million. We discovered that schools in higher risk categories might pay as much as $1,000-$2,000 per year for this type of insurance. Premiums as high as $5,000 per year were a possibility for the highest insurable risk categories. If you will need very specific data for your business before an insurance carrier can provide you with premium costs for your budget estimates.

**Developing a cash-flow statement.**

We constructed a quarterly cash-flow statement for each size class (tables 3, 7, and 11). Using a tool like this will help you identify likely periods during the year when cash will be short and periods when the funds used to cover the shortage can be repaid with cash surpluses. Experience may tell you that cash-flow analysis on a monthly or even biweekly basis is necessary to track the actual cash shortage/surplus situation of your business.

The cash inflows (revenues) that we calculated for each quarter were based on an assumed number of weeks open (this number is given in the footnotes to tables 1 to 12). The price per hour was based on the weekly cash break-even cost (cash outflow) per child FTE. Each child FTE was assumed to be in attendance 15 hours per week.

We determined the cash outflows per quarter by applying payment requirements as identified during our process of gathering representative cost data. As an example, Social Security and unemployment insurance taxes (indirect labor expenses) must be paid quarterly. The health/dental insurance coverage we included would also be paid quarterly. However, any professional liability insurance would be payable in the first quarter. In contrast, workers’ compensation insurance, the remaining item under indirect labor expenses, would likely be payable in a lump amount during the fourth quarter.

A summary section is included on each cash-flow table. We list for each period net cash from operations, which is cash inflows less cash...
outflows. Add that value to the beginning cash balance, and compare the resulting net cash available to a minimum acceptable cash balance. We arbitrarily chose $500 as the minimum acceptable cash balance. (You may feel comfortable with more or less to meet cash contingency needs.)

If the net cash available less minimum acceptable cash balance is negative (short), we assumed an operating loan would be obtained at a 14 percent annual interest rate. We then carried the operating loan until "cash over" was sufficient to pay off the loan principal. We included the associated (accumulated) interest cost in cash outflows to the payoff period. Finally, we calculated the ending cash balance as the sum of net cash available and any new operating loan. The ending cash balance for any period becomes the beginning cash balance for the following period.

Break-even analysis

The last table that we calculated for each size class was break-even cost per child FTE for alternative labor and other-than-labor cost situations (tables 4, 8, and 12). We treated the representative annual labor and other-than-labor annual costs identified in the respective annual cost tables as base levels. We then calculated percentage changes in those base costs to represent higher and lower cost combinations.

As an example, we looked at total break-even costs when labor-related costs were allowed to vary between 125 percent and 75 percent of base costs. Setting labor at 125 percent of base would represent a higher salary schedule and associated indirect labor expenses than those included in our representative calculations. We did not calculate any break-even values for labor-related costs below 75 percent, because we doubt that the high caliber of employees assumed in our model could be hired at salaries below that level.

We calculated break-even figures for other-than-labor costs as low as 50 percent of base. We reasoned that you may be able to lower these costs through negotiation and/or the use of used equipment/materials. The base costs we included reflect general 1985 market prices and supply catalogue information for new equipment/materials.

In calculating break-even costs per hour, we obtained the total labor/other-than-labor cost for the particular combination of base percentages. Then we divided total cost by the respective total annual child FTE hours for the class size under consideration. The resulting number was the break-even cost per child FTE contact hour. Once you have calculated the specific costs for your business, you can use the same procedure to calculate the related break-even cost (and the impact of percentage changes in cost).

In a particular cost structure, we interpret the break-even cost per child as the amount that you would have to charge each child per hour of attendance to cover all labor and other-than-labor costs for your business -- including debt service, return to your equity investment,
and management charges. Any amount you receive above the break-even level would be profit, an entrepreneurial return to you.

Usefulness of the financial formats

We think the financial formats presented here are quite useful as tools to help you analyze the financial condition of your business and plan for future growth and profitability. The cash-flow statement in particular can help you to plan future growth in revenue or strategies for cost controls. Knowledge in advance of cash shortages and repayment potential may help you to secure favorable lines of short term (operating) credit.

Doing break-even cost analysis as we have done may help you determine combinations of labor/other-than-labor costs that will keep the price you must charge competitive with similar operations in your market area. As an example, if you wanted to keep labor costs no less than 100 percent of base, you might be able to reduce other-than-labor costs and still maintain break-even costs in a competitive range with other early childhood education providers in the market your area. Analysis of break-even costs might also help you to plan future price increases that would allow for improved wages and facilities over time.

It seems appropriate at this point to underscore something we mentioned earlier. You may need to modify the formats to more specifically identify the cost/revenue situation unique to your business. That is why we have included a "Your estimate" column. For example, you might operate fewer weeks per quarter, or you might wish to add a pension system to indirect labor costs. More importantly, you will need to gather the best cost information available for your particular operating environment. Once you have obtained the best possible cost estimates, your assessment of alternative operating procedures will be much more meaningful. Moreover, you will be in a much better situation to analyze the profit potential for your business, given its operating flexibility and market constraints.

Financial analysis by business size

For each business size, we adjusted capital investment and operating costs to reflect the program needs that the size of operation under consideration would require. The adjustment ratios/values were identified in many cases by the professional/industry people who supplied us with representative data. In other cases, we determined these ratios/values across size classifications by assumption. As an example, the computer hardware/software included in office equipment investment was for both office/business management and child education purposes. We felt that the complement of computer hardware/software included in the 10-child FTE per half-day operation would be sufficient for a business even operating at the 30-child FTE per half-day level.
To include the capital investment in the operating costs, we annualized the repayment of the investment at interest using an amortization interest factor. An amortization interest factor can be calculated using the following formula:

\[ \frac{i}{1 - (1 + i)^{-n}} \]

where \( i \) = percentage rate of interest per year
\( n \) = number of years to repay the investment

The annualized investment cost = \( \frac{[Your \ total \ capital \ investment]}{1 - (1 + i)^{-n}} \)

The annualized cost of the capital investment can be interpreted as the amount of money needed each year to repay the investment over a specified number of years \( n \) at \( i \) rate of interest per year on the outstanding amount of the investment.

A simple (amortization) table of interest factors can be calculated for various combinations of \( i \) and \( n \). As an example, rounded to four places, the values would be:

<table>
<thead>
<tr>
<th>( n )</th>
<th>10%</th>
<th>12%</th>
<th>14%</th>
<th>16%</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 years</td>
<td>0.1627</td>
<td>0.1770</td>
<td>0.1917</td>
<td>0.2069</td>
</tr>
<tr>
<td>15 years</td>
<td>0.1175</td>
<td>0.1468</td>
<td>0.1628</td>
<td>0.1794</td>
</tr>
<tr>
<td>20 years</td>
<td>0.1175</td>
<td>0.1339</td>
<td>0.1510</td>
<td>0.1687</td>
</tr>
</tbody>
</table>

You can use the equation to calculate your own factors or use this type of table which is frequently found in financial texts. We assumed for each business size that the capital investment could be annualized over 15 years at 12 percent interest per year. Thus, the annual cost for each $10,000 of capital investment using the above calculation technique and amortization table would be:

\[
\text{Annual capital cost} = [10,000] \times \text{Amortization interest factor for 12 percent, 15 years}
\]

\[
= 10,000 \times 0.1468 = 1468
\]
Class 3 business. We constructed the class 3 business for a maximum of 10 children on a half-day FTE basis (10 per morning session and 10 per afternoon session). Our estimate for total capital investment was $19,489 as shown in table 1. Over 15 years at 12 percent annual interest, it would cost $2,861 per year to pay off that investment.

That value is shown in table 2 as an annual operating cost, amortized return of capital investment. We calculated the total operating costs over a 46-week operating year to be $45,239. That included a 1/3 FTE director-manager and a full-time early childhood education specialist. We reasoned that the personnel, general business, and promotional activities for such a small unit would only require a one-third-time person.

The cash-flow calculations in table 3 were done with our standard assumption that the business would average 90 percent use of capacity on a child FTE basis. Revenue was calculated at $3.65 per child FTE contact hour, just above the break-even amount we calculated was necessary to cover total costs. (For each size classification, we assumed a different method for financing the capital investment; for class 3, we assumed all debt financing.)

The total costs from table 2 were the basis for our break-even calculations in table 4. We found the break-even costs to be $3.64 per child FTE contact hour when we set costs at 100 percent of base level labor and other-than-labor costs. A price of $4.51 was necessary when we set cost levels at 125 percent of base labor and other-than-labor costs at 120 percent of base. Even at 75 percent of base labor costs and 50 percent of other-than-labor costs, a price of $2.50 per child FTE contact hour was necessary to break even.

Class 2 business. We constructed a class 2 business to handle a maximum of 20 children on a half-day FTE basis. As shown in table 5, the total capital investment was estimated to be $22,660. Some investment costs were the same as for the class 3 operation, but other costs were as much as 25 percent more, reflecting the doubled capacity. The annualized cost to pay off that investment over 15 years at 12 percent interest was $3,327.

We included this last value in table 6 as one of the annual operating costs, amortized return of capital investment. The total operating costs were estimated to be $69,627 on the basis of a 46-week operating year. In addition to a full-time teaching staff of 2 people, we assumed that the director/manager would be hired on a half-time (0.5 FTE) basis. Our reasoning was that the personnel, general business, and promotional activities for this size would require no more than half-time.

Our cash-flow analysis in table 7 assumed that the business would average a 90 percent use of capacity on a child FTE basis. We calculated revenue at $2.75 per child FTE contact hour, which was just above the break-even amount necessary to cover cash costs. We included one-half of the amortized return of capital investment as a cash cost under the
assumption that only half of the initial investment would be financed using debt. We treated the return to the equity portion of the investment as a noncash expense. Thus the cash remained in the business (excluded from cash outflow).

The break-even calculations in table 8 were based on total costs (cash plus noncash) from table 6. At the base (100 percent cost level for labor and other-than-labor costs), we found the break-even cost to be $2.81 per child FTE contact hour. Cost levels as high as 125 percent of labor and 120 percent of other-than-labor base levels required $3.48 per hour to break even. We only found one combination in the range of cost percentages that kept the break-even cost below $2.00: 75 percent of base labor costs and 50 percent of other-than-labor costs resulted in a break-even cost of $1.97 per hour.

The break-even figures in table 8 for a class 2 business were considerably below the levels we observed for a class 3 business in table 4. In the higher end of the labor/other-than-labor range, break-even costs dropped as much as $1.00 (and more) per hour. At the lower end of the range, the drop exceeded 50 cents per hour in every case.

The relationship between increased operating costs and child FTE hours explained the situation. Our total cost estimates for the class 2 operation were about 54 percent higher than the class 3 estimates. However, the corresponding increase in child FTE hours was 100 percent. Thus total costs for the size 2 class were much more effectively spread compared to the class 3.

Class 1 business. Our class 1 business assumes a program/facility designed for 30 FTE children per half day. The total capital investment as shown in table 9 is $26,435 or $3,881 on an annualized basis. While such items as maintenance equipment and office furniture were kept constant compared to the class 2 business, a number of categories were increased 25 percent to reflect the needs of a business 50 percent larger in terms of FTE child capacity.

Besides the increased annual cost for return of capital investment, table 10 reflects 25 percent higher costs for some supply/materials categories compared to the class 2 business. We did, however, assume that a class 1 business would be handled by the director/manager on the same half-time basis as the class 2 operation. Thus our estimate for total operating costs on a 46-week basis was $83,279.

The total operating costs included an interest charge on operating capital. The inclusion of that charge can be seen by looking at our analysis of cash-flow requirements in table 11. Cash inflows were calculated on the basis of a cash break-even value of $2.15 per child FTE contact hour. That created a negative net cash from operations value that exceeded the beginning cash balance. Thus an operating loan of $656 was necessary in the third quarter to offset the negative net cash situation and maintain the minimum acceptable cash balance. There was sufficient net cash from operations in the fourth quarter to pay off the total interest and principal on the loan.
We assumed for the class 1 example that the initial capital investment was made entirely with equity funds. (For the class 2 situation, we showed how the part-debt/part-equity setup could be handled.) As a result, amortized return of capital investment was not included as a cash outflow. This example situation also reduced the cash outflow burden in the fourth quarter, and avoided an operating loan carryover situation into the succeeding year.

The break-even costs we calculated in table 12 were considerably below the values we calculated in table 8 for the class 2 business. Break-even costs in the higher end of labor/other-than-labor cost range dropped as much as 70 cents per hour from class 2 to class 1. At the lower ends of the range the drop was no less than 30 cents.

This situation existed because of the relationship between increased operating costs and child FTE hours. Total costs for the class 1 business were about 20 percent higher than the class 2 business -- mostly labor-related. But, the corresponding increase in child FTE hours was 50 percent. So total costs for the class 1 business were more effectively spread, especially related to the higher labor end of the range.

To test the impact on break-even levels for even larger programs, we looked at a 50-child FTE capacity per half-day business. This size of operation may not be practical even in larger market areas such as major cities in the state. But our analysis helps to show that there is potential for economies as your program size increases. You may find that market conditions in your area require a larger operation to make relatively low prices per child FTE hour profitable.

After comparing the break-even costs for this larger business with the class 1 business shown in table 12, we quickly determined that most of the values for the 50 FTE per half-day operation fell below the $2.00 mark. The exceptions were the higher ends of the labor/other-than-labor cost ranges. The drops in break-even costs per hour were as high as 56 cents in the upper range of the cost multipliers. The drop was never below 31 cents per hour -- the value at the lowest part of the cost range.

Having noted economies of size for large operations such as the 50 FTE children per half-day facility, we have serious reservations about your being able to obtain those economies. Specifically, we think that there are health and safety, staff burnout, facility inadequacy, and equipment wear and tear concerns that may be insurmountable with a very large operation.

Concluding thoughts

No matter what type of business you are considering, we hope this publication has been of help to you as an illustration of the type of planning process and important components necessary for business success. If you are specifically interested in operating an ECE business, we have
tried to identify the key elements we believe are central to ensuring a high-quality, profitable business.

Foremost among these are: careful planning; a highly qualified staff and effective staff management; well-selected facilities, equipment and materials; and thoughtful financial analysis.

We think these program components are the major building blocks which support and maintain high-quality services to your clientele, adequate financial returns to you, and personal satisfaction to yourself and your employees.

In completing the financial analysis of your business, we suggest that you prepare formats (tables) for a range of possible outcomes -- optimistic, expected, and pessimistic. As an example for the ECE business, you might want to prepare the financial formats for different levels of capacity. Suppose you decided to analyze the class 2 business, which has a maximum capacity of 20 FTE children per half day. (We assumed an expected use of 90 percent of capacity.) You might calculate one set of formats on the basis of 100 percent use of capacity -- the optimistic level. You might decide to do another set of calculations for the 80 percent of capacity level -- your assessment of expected usage. Finally the worst (most pessimistic) level of use you could conceive might be 60 percent -- you could do a third set of formats for that level. We think this procedure, if you do it at the start, will give you a better perspective for the long-term financial viability of your business.
Appendix: Recommended equipment and materials

Basic furnishings

These items offer interest and convenience in the program setting. For indoor use we recommend the following items:

**Indoor Use**

- children's bookcase
- adult bookcase
- portable chalkboard
- wall clock
- counter or shelf for art supplies or food
- drinking fountain
- pegboard with hooks
- refrigerator
- rug
- shelf unit for blocks
- 20 wooden cubbies

**Outdoor Use**

- 2 long benches
- storage shed

Wholesale prices may be difficult to obtain for major appliances and furnishings, which usually sell for high retail prices. You may be able to buy used items at considerably lower prices -- but be careful to obtain high-quality items.

Maintenance

Continual facility and equipment maintenance help the staff to operate their program without major disruptions at inopportune times. Major items necessary for both indoor and outdoor maintenance and repair include the following items:

- broom
- heavy duty electrical cord
- and plug
- hardware kit
- iron
- step stool
- handpowered lawnmower
- plunger
- few feet of rope
- trash can with lid
- cone of twine
- sink with counter
- step stool
- stove
- folding table
- serving cart
- 2 bulletin boards
- 3 movable shelves
- wastebaskets with lids
- 4 pillows
- 4 low tables
- 20-30 stackable low chairs

36 bars of soap
1 quart liquid detergent
6 sponges
sink strainer
24 rolls toilet paper
8 dish towels
12 hand towels
4 cases paper towels
vacuum cleaner
2 large wastepaper baskets
1 small wastepaper basket

For most current information: [http://extension.oregonstate.edu/catalog](http://extension.oregonstate.edu/catalog)
6 light bulbs
wet and dry mops

Health and safety

These items are necessary for many physical injuries and emergencies which may occur at any time. Essential first aid supplies include the following items:

- 3 cots
- 3 cotton blankets
- stocked first aid cabinet
- 2 boxes of band-aids
- rubber ice pack
- 2 bars of medicated soap
- 6-oz. bottle disinfectant
- 2 rolls of sterile gauze
- pair of tweezers
- 12 boxes facial tissues
- 10 rolls paper towels

Audio-visual equipment

These items support a variety of preschool activities. Initially, they include basic pieces of equipment. The most essential items in this section include a record player and/or a cassette tape recorder with additional accessories such as headphones, microphone, tapes, and records. Other items that you might consider include closed-circuit TV equipment and a microcomputer, disk drive, screen, keyboard, and printer.

Play equipment for gross motor development

As young children engage in a variety of physical activities, basic equipment for active play allows them to practice basic skills. The following items are good possibilities for gross motor play:

- 4 balls
- 1 barrel
- 4 bean bags
- 2 jumping boards
- 3 plain boards
- 2 large boxes
- 2 climbing structures
- 1 hose
- 4- to 6-foot ladder
- 3 assorted pails
- sandbox frame
- 2 sawhorses
- 4 shovels
- swingset
- metal tub
- 2 trikes
- tricycle trailer
- 2 wagons
- few feet of rope

Additional items (perhaps purchased in future years) may include a balance beam, climbing net, slide, steering wheel to fit on block or frame, tumbling mat, wheelbarrow, playhouse frame, more balls, and more pails.

THIS PUBLICATION IS OUT OF DATE. For most current information: http://extension.oregonstate.edu/catalog
Building and construction materials

These materials are commonly used in a variety of activities to enhance fine motor skills and conceptual tasks. Essential materials include the following items:

- 30 hollow blocks
- a parquetry set
- 3 sets of table blocks
- full set of school blocks (150)
- 1 set of legos
- rising towers
- bench tools
- 4 floating toys and objects
- 2 funnels of different sizes
- 2 sets of measuring cups and spoons
- 3 assorted molds
- 1 pitcher
- dishpan
- 4 containers

Additional materials may include play logs, crystal climbers, rig-a-jig, tinker toys, a box of assorted washers, more lumber, tools, large brushes, containers, dishes, sheets, and vehicles.

Creative expression materials

Activities using natural and manufactured materials and junk frequently support many areas of learning and development. A vast assortment of materials is listed here -- some to be bought wholesale; some to be collected from kitchens, yards, and field; and others to be donated by parents, community members, and businesses. Within this category, you might consider the following items:

- 4 plastic aprons
- 500 stringing beads
- 12 1/2"-1" paint brushes
- large box of colored chalk
- box of white chalk
- 50 lb. grey clay
- 50 lb. red clay
- 50 clothespins
- 2d sheets
- plastic drapes
- collage materials -- cloth, paper, plastic, styrofoam, pieces, old cards, buttons, yarn, ribbon, sequins, glitter, beads, and a variety of other collected items
- kitchen shelf paper
- wrapping paper
- cardboard
- egg carton
- gallon white paste
- 6 thick pencils
- 6 pie tins
- 5 pounds plasticine
- homemade play dough
- printing materials for dough
- 2 rolling pins
- box of salt
- pound of sand
- pair of rounded scissors, left-handed
- pair of pointed scissors, left-handed
10 small cans with lids for paint
4 cookie cutters for play dough
10 boxes of jumbo crayons
drying rack
2 double adjustable easels
single-hole puncher
knives for dough
12 laces for stringing
2 handmade looms
paper plates
wood and nails for weaving
6 pints of commercial finger paint
10 quarts of liquid tempera paint
6 boxes of powdered tempera paint

Additional items may include boxes of water colors, butcher paper, tissue paper, newsprint, paper sacks, shaving cream, and many other materials.

Dramatic play

As a child spontaneously symbolizes his or her world during unstructured playtimes, a number of props and accessories enhance a variety of fantasies. Common equipment items and accessories pertain to animal play, personal grooming, home management, family living, dress-up, office or career work, outdoor playhouse, puppets, and repair and yard work. Items that support these areas of play include the following:

16 small plastic or rubber people figures
assorted puppets
stuffed animals
backpack
flashlight
set of utensils
several grooming items
small broom
dishcloths
small dry mop
small wet mop
dust pan
play iron
dressing accessories -- aprons, belts, wallets, purses, blouses, shirts, dresses, hats, jackets, jewelry, pants, shawls, shoes, pillow
sheets
spread
high chair and tray
rocking chair
straight chairs
dresser or chest
full-length mirror
refrigerator
stove/oven
sink/counter
table
telephone
TV frame
brief case
paper pads
pencils and erasers
4 family puppets
4 occupational puppets
skirts, suitcase, ties, watches, wigs, etc. occupational clothes sewing notions
blanket

Additional items may consist of costumes, a tent, sleeping bag, bathinette, dishpan, drainer, pail, clothes rack with hangers, hat rack, sofa, typewriter, tool box, tool kit, toy lawnmower, and traffic signs.

Language development

Items that may help to promote language arts and literature include about 300 alphabet letters in varying sizes, textures, and colors; 30 or more borrowed, high-quality library books about animals, adult activities, child activities, the community, fairy tales, fantasies, holidays, Mother Goose, picture alphabet, and dictionary; felt or flannel board, felt or flannel pieces; picture games; and 12 pictures and posters on selected topics. A primary typewriter may be added at a later time.

Number concepts

Items and equipment that promote beginning math skills include an accumulation of unbreakable, assorted counters; sets of animals, beads, blocks, buttons, and cards; a set of measuring equipment (4 dry units, 4 liquid units, a tape measure, 2 rulers, and a hand-manipulated thermometer); 2 number games, a variety of numerals; a collection of shapes in assorted sizes, texture, and colors; several types of sorting containers, baskets, cups, and boxes; 2 calendars; a hand-wound alarm clock, a wood clock (with geared, adjustable hands) and a watch; and bathroom and kitchen scales. Supplemental purchases may include fraction manipulatives, a food timer, and more games.

Music

Equipment suitable for musical activities includes an autoharp or guitar, a collection of dancing clothes, 20 streamers or ribbons, high-quality records and tapes, and an assortment of rhythm instruments -- various bells, castanets, drums, maracas, rhythm sticks, and tambourines. We recommend a 20- to 25-piece set here. Cymbals, triangles, tuning fork, a tone block set, and wood blocks may be added to provide more variety. Ideally, you will buy or secure the donation of a piano.

Science

An assortment of items that promote science activities pertain to a variety of simple experiments about air, water, color, light, weight, height, balance, electricity, gravity, seasons, planets, our bodies, and animals. The following supplies will be helpful:
package of balloons
20 bubble pipes
package of straws
36" tubing
live animals
cages
animal food
incubator and eggs
children's cookbook
assorted bottles, cartons, jars, and boxes
dirt plot
5 lb. fertilizer
seeds
basic foods -- nuts, fruits, vegetables
4 packaged mixes
flour, salt, cornstarch, soda, spices, and sugar in covered containers
cooking oil
supply of batteries
bulbs, buzzers, simple circuits
flashlight
2 hand magnifying glasses
a magnifying glass stand
2 unbreakable mirrors
2 different prisms
kettle
2 medicine droppers
2 sponges
squeeze and squirt bottles
set of magnets
rubberbands
siphon
donated take apart items -- clocks, vacuum cleaner
supply of rocks and stones
planting supplies
stakes and twine
terrarium

Other items may include such things as a kite, bellows, other animals, a pair of binoculars or a microscope.

Office equipment and supplies

In order to support a number of administrative needs, several basic furnishings and supplies are important. Equipment essentials include a desk, several chairs, a typewriter, extra lighting if necessary, and file cabinets to keep records. A phone is also necessary. Appropriate supplies include at least the following: envelopes in 2 common sizes, 36 manila folders, at least 4 marking pens, a calendar, 2 boxes of paper clips in differing sizes, pencils, a pencil sharpener, a box of safety pins, a roll of straight pins, 2 boxes of rubber bands, 2 rulers, a ream of plain stationery, a ream of letterhead stationary, business cards, a roll of masking tape, program brochures, 2 rolls of transparent tape, a transparent tape dispenser, 2 boxes of thumbtacks, 8 writing tablets (ruled and unruled in various sizes), and a yardstick.
For further reading

There are many articles, bulletins, and books that pertain to program development, staffing, and facilities, equipment, and materials. We recommend the following references for each of these areas.

Planning early childhood education programs

Children's Services Division, State of Oregon. Rules Governing Standards for Day Care Facilities (Salem, OR: Children's Services Division, 1979).

Decker, Celia and John Decker. Planning and Administering Early Childhood Programs, 3rd ed. (Columbus, OH: Charles E. Merrill, 1984).


Staff development and management


Decker, Celia and John Decker. Planning and Administering Early Childhood Programs, 3rd ed. (Columbus, OH: Charles E. Merrill, 1984).

Employment Division, Department of Human Resources. Oregon Wage Information (Salem, OR: Department of Human Resources, 1983).


**Facilities, equipment, and materials**


Mitchell, Donald. *Equipping the Child-Care Center,* 15-17.

Madden, Peter. *Equipping a Teacher Center,* 18-21.


Martin, Lucy. *Annotated List of Manufacturers and Distributors of Educational Equipment and Materials,* 82-93.

**Business management**

To order these Oregon State University Extension Service publications, enclose the amounts indicated and send your order to Bulletin Mailing Office, OSU, Corvallis, OR 97331.


Table 1. Representative capital investment for a class 3 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Capital item</th>
<th>Budget Estimate ($)</th>
<th>Your Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program/publicity brochure</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Basic furnishings</td>
<td>4,500</td>
<td></td>
</tr>
<tr>
<td>Maintenance equipment</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety equipment</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>A-V equipment</td>
<td>340</td>
<td></td>
</tr>
<tr>
<td>Active play</td>
<td>3,512</td>
<td></td>
</tr>
<tr>
<td>Building &amp; construction materials</td>
<td>$1,436</td>
<td></td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>152</td>
<td></td>
</tr>
<tr>
<td>Dramatic play</td>
<td>1,216</td>
<td></td>
</tr>
<tr>
<td>Math equipment</td>
<td>176</td>
<td></td>
</tr>
<tr>
<td>Music equipment</td>
<td>297</td>
<td></td>
</tr>
<tr>
<td>Science equipment</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>Director/teachers office furniture</td>
<td>1,336</td>
<td></td>
</tr>
<tr>
<td>Office equipment</td>
<td>4,250</td>
<td></td>
</tr>
<tr>
<td>Beginning office supplies</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19,489</strong></td>
<td></td>
</tr>
</tbody>
</table>

Annualized cost, 12 percent interest, 15 years = $2,861

* A class 3 facility is designed for 10 FTE children per half day (10 per morning session and 10 per afternoon session).
Table 2. Representative annual operating costs for a class 3 early
childhood education business in Oregon\textsuperscript{a}

<table>
<thead>
<tr>
<th>Cost item</th>
<th>Budget Estimate ($)</th>
<th>Your Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct management/labor expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director/manager (1/3 FTE)</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Early childhood education specialist</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td><strong>Indirect management/labor expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer portion social security tax</td>
<td>2,115</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance tax</td>
<td>1,050</td>
<td></td>
</tr>
<tr>
<td>Workers’ compensation insurance</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>Health/dental insurance</td>
<td>341</td>
<td></td>
</tr>
<tr>
<td>Professional liability insurance</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,765</td>
<td></td>
</tr>
<tr>
<td><strong>Facility operating costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent (including utilities)</td>
<td>6,120</td>
<td></td>
</tr>
<tr>
<td>Property/liability/accident insurance</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Employee/child accident insurance</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>Food/kitchen supplies</td>
<td>515</td>
<td></td>
</tr>
<tr>
<td>Custodial/maintenance supplies</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety supplies</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Office supplies</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7,385</td>
<td></td>
</tr>
<tr>
<td><strong>Creative expression materials</strong></td>
<td>228</td>
<td></td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Interest on operating capital</strong></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Amortized return of capital investment</strong></td>
<td>2,861</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating costs</strong></td>
<td>45,239</td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a} A class 3 facility is designed for 10 FTE children per half day (10 per morning session and 10 per afternoon session). It is assumed to be operating 46 weeks per year.
Table 3. Representative quarterly cash flow for a class 3 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Item</th>
<th>Jan.-March ($)</th>
<th>April-June ($)</th>
<th>July-Sept. ($)</th>
<th>Oct.-Dec. ($)</th>
<th>Total ($)</th>
<th>Your Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash inflows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First quarter, 13 weeks</td>
<td>12,818</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second quarter, 12 weeks</td>
<td></td>
<td>11,832</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third quarter, 9 weeks</td>
<td></td>
<td></td>
<td>8,874</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth quarter, 12 weeks</td>
<td></td>
<td></td>
<td></td>
<td>11,832</td>
<td></td>
<td>45,356</td>
</tr>
<tr>
<td><strong>Cash outflows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct mgt./labor expenses</td>
<td>7,500</td>
<td>7,500</td>
<td>7,500</td>
<td>7,500</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Indirect mgt./labor expenses</td>
<td>926</td>
<td>877</td>
<td>876</td>
<td>1,086</td>
<td>3,768</td>
<td></td>
</tr>
<tr>
<td>Facilities operation</td>
<td>1,577</td>
<td>1,506</td>
<td>1,360</td>
<td>1,577</td>
<td>6,310</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>327</td>
<td></td>
<td>327</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>938</td>
<td></td>
<td>938</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>228</td>
<td></td>
<td>228</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>500</td>
<td>300</td>
<td>0</td>
<td>1,000</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Interest on operating capital b</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Amortized return cap. invest. c</td>
<td>228</td>
<td>228</td>
<td>938</td>
<td>938</td>
<td>1,322</td>
<td>2,871</td>
</tr>
<tr>
<td><strong>Total cash outflows</strong></td>
<td>13,996</td>
<td>10,223</td>
<td>9,736</td>
<td>13,224</td>
<td>45,239</td>
<td></td>
</tr>
<tr>
<td>Net cash from operations</td>
<td>822</td>
<td>2,549</td>
<td>(862)</td>
<td>(1,392)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning cash balance</td>
<td>500</td>
<td>1,322</td>
<td>2,871</td>
<td>2,009</td>
<td>617</td>
<td></td>
</tr>
<tr>
<td>Net cash available</td>
<td>1,322</td>
<td>2,871</td>
<td>2,009</td>
<td>617</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum acceptable cash bal.</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Cash over (short)</td>
<td>822</td>
<td>2,871</td>
<td>1,509</td>
<td>117</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating loan (payment)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>1,322</td>
<td>2,871</td>
<td>2,009</td>
<td>617</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

a A class 3 facility is designed for 10 FTE children per half-day (10 per morning session and 10 per afternoon session) -- 90 percent use of capacity. The facility is assumed to be operating 46 weeks per year. Revenue was calculated at $3.65 per child contact hour = $986 per week.

b Cash shortages in any quarter are assumed to be covered by a loan at 14 percent annual interest rate.

c The original capital investment was assumed to be financed entirely with debt.

d Beginning cash balance assumed to be $500.
Table 4. Break-even cost per child FTE contact hour for a class 3 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Other-than-labor costs as a percent of base</th>
<th>Labor-related costs as a percent of base</th>
<th>Break-even cost per hour ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>125</td>
<td>120</td>
<td>115</td>
</tr>
<tr>
<td>110</td>
<td>105</td>
<td>100</td>
</tr>
<tr>
<td>100</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td>90</td>
<td>85</td>
<td>80</td>
</tr>
<tr>
<td>80</td>
<td>75</td>
<td>70</td>
</tr>
<tr>
<td>70</td>
<td>60</td>
<td>50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>120</th>
<th>4.51</th>
<th>4.37</th>
<th>4.23</th>
<th>4.10</th>
<th>3.96</th>
<th>3.83</th>
<th>3.69</th>
<th>3.56</th>
<th>3.42</th>
<th>3.28</th>
<th>3.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>110</td>
<td>4.41</td>
<td>4.28</td>
<td>4.14</td>
<td>4.01</td>
<td>3.87</td>
<td>3.73</td>
<td>3.60</td>
<td>3.46</td>
<td>3.33</td>
<td>3.19</td>
<td>3.06</td>
</tr>
<tr>
<td>100</td>
<td>4.32</td>
<td>4.19</td>
<td>4.05</td>
<td>3.91</td>
<td>3.78</td>
<td>3.64</td>
<td>3.51</td>
<td>3.37</td>
<td>3.23</td>
<td>3.10</td>
<td>2.96</td>
</tr>
<tr>
<td>90</td>
<td>4.23</td>
<td>4.09</td>
<td>3.96</td>
<td>3.82</td>
<td>3.69</td>
<td>3.56</td>
<td>3.41</td>
<td>3.28</td>
<td>3.14</td>
<td>3.01</td>
<td>2.87</td>
</tr>
<tr>
<td>80</td>
<td>4.14</td>
<td>4.00</td>
<td>3.87</td>
<td>3.73</td>
<td>3.59</td>
<td>3.46</td>
<td>3.32</td>
<td>3.19</td>
<td>3.05</td>
<td>2.91</td>
<td>2.78</td>
</tr>
<tr>
<td>70</td>
<td>4.04</td>
<td>3.91</td>
<td>3.77</td>
<td>3.64</td>
<td>3.50</td>
<td>3.37</td>
<td>3.23</td>
<td>3.09</td>
<td>2.95</td>
<td>2.82</td>
<td>2.69</td>
</tr>
<tr>
<td>60</td>
<td>3.95</td>
<td>3.82</td>
<td>3.68</td>
<td>3.54</td>
<td>3.41</td>
<td>3.27</td>
<td>3.14</td>
<td>3.00</td>
<td>2.87</td>
<td>2.73</td>
<td>2.59</td>
</tr>
<tr>
<td>50</td>
<td>3.86</td>
<td>3.72</td>
<td>3.58</td>
<td>3.45</td>
<td>3.32</td>
<td>3.18</td>
<td>3.04</td>
<td>2.91</td>
<td>2.77</td>
<td>2.64</td>
<td>2.50</td>
</tr>
</tbody>
</table>

a A class 3 facility is designed for 10 FTE children per half day (10 per morning session and 10 per afternoon session -- 90 percent use of capacity. The facility is assumed to be operating 46 weeks per year.

b Costs as identified in Table 2.
Table 5. Representative capital investment for a class 2 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Capital item</th>
<th>Budget Estimate ($)</th>
<th>Your Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program/publicity brochure</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Basic furnishings</td>
<td>5,625</td>
<td></td>
</tr>
<tr>
<td>Maintenance equipment</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety equipment</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>A-V equipment</td>
<td>340</td>
<td></td>
</tr>
<tr>
<td>Active play</td>
<td>4,390</td>
<td></td>
</tr>
<tr>
<td>Building &amp; construction materials</td>
<td>1,795</td>
<td></td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Dramatic play</td>
<td>195</td>
<td></td>
</tr>
<tr>
<td>Math equipment</td>
<td>195</td>
<td></td>
</tr>
<tr>
<td>Music equipment</td>
<td>330</td>
<td></td>
</tr>
<tr>
<td>Science equipment</td>
<td>210</td>
<td></td>
</tr>
<tr>
<td>Director/teachers office furniture</td>
<td>1,670</td>
<td></td>
</tr>
<tr>
<td>Office equipment</td>
<td>4,250</td>
<td></td>
</tr>
<tr>
<td>Beginning office supplies</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>22,660</td>
<td></td>
</tr>
</tbody>
</table>

Annualized cost, 12 percent interest, 15 years = $3327

a A class 2 facility is designed for 20 FTE children per half day (20 per morning session and 20 per afternoon session).
Table 6. Representative annual operating costs for a class 2 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Cost item</th>
<th>Budget Estimate ($)</th>
<th>Your Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct management/labor expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director/manager (1/2 FTE)</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Head teacher/early childhood ed. spec.</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Teacher/early childhood education</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Indirect management/labor expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer portion social security tax</td>
<td>3,525</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance tax</td>
<td>1,750</td>
<td></td>
</tr>
<tr>
<td>Workers' compensation insurance</td>
<td>512</td>
<td></td>
</tr>
<tr>
<td>Health/dental insurance</td>
<td>512</td>
<td></td>
</tr>
<tr>
<td>Professional liability insurance</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,218</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Facility operating costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent (including utilities)</td>
<td>7,200</td>
<td></td>
</tr>
<tr>
<td>Property/liability/accident insurance</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Employee/child accident insurance</td>
<td>137</td>
<td></td>
</tr>
<tr>
<td>Food/kitchen supplies</td>
<td>740</td>
<td></td>
</tr>
<tr>
<td>Custodial/maintenance supplies</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety supplies</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Office supplies</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,797</strong></td>
<td></td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>285</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Interest on operating capital</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Amortized return of capital investment</td>
<td>3,327</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating costs</strong></td>
<td><strong>69,627</strong></td>
<td></td>
</tr>
</tbody>
</table>

A class 2 facility is designed for 20 FTE children per half day (20 per morning session and 20 per afternoon session). It is assumed to be operating 46 weeks per year.
Table 7. Representative quarterly cash flow for a class 2 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Item</th>
<th>Jan.-March ($)</th>
<th>April-June ($)</th>
<th>July-Sept ($)</th>
<th>Oct.-Dec ($)</th>
<th>Total Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash inflows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First quarter, 13 weeks</td>
<td>19,305</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second quarter, 12 weeks</td>
<td></td>
<td>17,820</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third quarter, 9 weeks</td>
<td></td>
<td></td>
<td>13,365</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth quarter, 12 weeks</td>
<td></td>
<td></td>
<td>13,365</td>
<td>17,820</td>
<td>68,310</td>
</tr>
<tr>
<td><strong>Cash outflows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct mgt./labor expenses</td>
<td>12,500</td>
<td>12,500</td>
<td>12,500</td>
<td>12,500</td>
<td>50,000</td>
</tr>
<tr>
<td>Indirect mgt./labor expenses</td>
<td>1,522</td>
<td>1,447</td>
<td>1,447</td>
<td>1,802</td>
<td>6,218</td>
</tr>
<tr>
<td>Facilities operation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>1,855</td>
<td>1,292</td>
<td>1,600</td>
<td>1,855</td>
<td>7,300</td>
</tr>
<tr>
<td>Insurance</td>
<td>387</td>
<td></td>
<td>387</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>1,210</td>
<td></td>
<td>1,210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>285</td>
<td></td>
<td>285</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>300</td>
<td>200</td>
<td>200</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Interest on operating capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortized return cap. invest.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash outflows</td>
<td>16,259</td>
<td>16,137</td>
<td>15,547</td>
<td>18,021</td>
<td>67,964</td>
</tr>
<tr>
<td><strong>Net cash from operations</strong></td>
<td>1,046</td>
<td>1,683</td>
<td>(2,182)</td>
<td>(201)</td>
<td></td>
</tr>
<tr>
<td>Beginning cash balance</td>
<td>1,500</td>
<td>1,500</td>
<td>3,229</td>
<td>1,047</td>
<td></td>
</tr>
<tr>
<td>Net cash available</td>
<td>1,546</td>
<td>3,229</td>
<td>1,047</td>
<td>846</td>
<td></td>
</tr>
<tr>
<td>Minimum acceptable cash balance</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Cash over (short)</td>
<td>1,046</td>
<td>3,229</td>
<td>547</td>
<td>346</td>
<td></td>
</tr>
<tr>
<td>Operating loan (payment)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>1,546</td>
<td>3,229</td>
<td>1,047</td>
<td>846</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) A class 2 facility is designed for 20 FTE children per half day (20 per morning session and 10 per afternoon session) -- 90 percent use of capacity. The facility is assumed to be operating 46 weeks per year. Revenue was calculated at $2.75 per child FTE contact hour = $1485 per week.

\(^b\) Cash shortages in any quarter are assumed to be covered by a loan at 14 percent annual interest rate.

\(^c\) One half of the original capital investment was assumed to be financed by debt. The return to the equity portion was not included as a cash flow requirement.

\(^d\) Beginning cash balance assumed to be $500.
Table 8. Break-even cost per child FTE contact hour for a class 2 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Other-than-labor costs as a percent of base</th>
<th>Labor-related costs as a percent of base</th>
<th>Break-even cost per hour ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>125</td>
<td>120</td>
<td>3.48 3.37 3.26 3.14 3.03</td>
</tr>
<tr>
<td>115</td>
<td>110</td>
<td>2.92 2.80 2.69 2.56 2.46</td>
</tr>
<tr>
<td>110</td>
<td>105</td>
<td>2.64 2.52 2.41 2.30</td>
</tr>
<tr>
<td>105</td>
<td>100</td>
<td>2.36 2.24</td>
</tr>
<tr>
<td>100</td>
<td>95</td>
<td>2.24</td>
</tr>
<tr>
<td>95</td>
<td>90</td>
<td>2.24</td>
</tr>
<tr>
<td>90</td>
<td>85</td>
<td>2.19</td>
</tr>
<tr>
<td>85</td>
<td>80</td>
<td>2.13</td>
</tr>
<tr>
<td>80</td>
<td>75</td>
<td>2.08</td>
</tr>
<tr>
<td>75</td>
<td>70</td>
<td>2.02</td>
</tr>
<tr>
<td>70</td>
<td>60</td>
<td>2.02</td>
</tr>
<tr>
<td>60</td>
<td>50</td>
<td>1.97</td>
</tr>
</tbody>
</table>

a A class 2 facility is designed for 20 FTE children per half day (20 per morning session and 20 per afternoon session) at 90 percent use of capacity. The facility is assumed to be operating 46 weeks per year.

b Costs as identified in Table 6.
Table 9. Representative capital investment for a class 1 early childhood education business in Oregon\textsuperscript{a}

<table>
<thead>
<tr>
<th>Capital item</th>
<th>Budget Estimate ($)</th>
<th>Your Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program/publicity brochure</td>
<td>625</td>
<td></td>
</tr>
<tr>
<td>Basic furnishings</td>
<td>7,030</td>
<td></td>
</tr>
<tr>
<td>Maintenance equipment</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety equipment</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>A-V equipment</td>
<td>340</td>
<td></td>
</tr>
<tr>
<td>Active play</td>
<td>5,490</td>
<td></td>
</tr>
<tr>
<td>Building &amp; construction materials</td>
<td>2,245</td>
<td></td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>245</td>
<td></td>
</tr>
<tr>
<td>Dramatic play</td>
<td>1,900</td>
<td></td>
</tr>
<tr>
<td>Math equipment</td>
<td>245</td>
<td></td>
</tr>
<tr>
<td>Music equipment</td>
<td>415</td>
<td></td>
</tr>
<tr>
<td>Science equipment</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>Director/teachers office furniture</td>
<td>1,670</td>
<td></td>
</tr>
<tr>
<td>Office equipment</td>
<td>4,250</td>
<td></td>
</tr>
<tr>
<td>Beginning office supplies</td>
<td>375</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26,435</strong></td>
<td></td>
</tr>
</tbody>
</table>

Annualized cost, 12 percent interest, 15 years = $3,881

\textsuperscript{a} A class 1 facility is designed for 30 FTE children per half day (30 per morning session and 30 per afternoon session).
Table 10. Representative annual operating costs for a class 1 early childhood education business in Oregon

<table>
<thead>
<tr>
<th>Cost item</th>
<th>Budget Estimate ($)</th>
<th>Your Estimate ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct management/labor expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director/manager (1/2 FTE)</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Head teacher/early childhood ed. spec.</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Early childhood education teacher</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Early childhood education teaching asst.</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Indirect management/labor expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer portion social security tax</td>
<td>4,230</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance tax</td>
<td>2,100</td>
<td></td>
</tr>
<tr>
<td>Workers' compensation insurance</td>
<td>440</td>
<td></td>
</tr>
<tr>
<td>Health/dental insurance</td>
<td>681</td>
<td></td>
</tr>
<tr>
<td>Professional liability insurance</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7,551</td>
<td></td>
</tr>
<tr>
<td>Facility operating costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent (including utilities)</td>
<td>8,280</td>
<td></td>
</tr>
<tr>
<td>Property/liability/accident insurance</td>
<td>694</td>
<td></td>
</tr>
<tr>
<td>Food/kitchen supplies</td>
<td>925</td>
<td></td>
</tr>
<tr>
<td>Custodial/maintenance supplies</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Health &amp; safety supplies</td>
<td>125</td>
<td></td>
</tr>
<tr>
<td>Office supplies</td>
<td>125</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10,469</td>
<td></td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>355</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Interest on operating capital</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Amortized return of capital investment</td>
<td>3,881</td>
<td></td>
</tr>
<tr>
<td>Total operating costs</td>
<td>83,279</td>
<td></td>
</tr>
</tbody>
</table>

A class 1 facility is designed for 30 FTE children per half day (30 per morning session and 30 per afternoon session). It is assumed to be operating 46 weeks per year.

**Note:** This publication is out of date. For most current information, visit [http://extension.oregonstate.edu/catalog](http://extension.oregonstate.edu/catalog).
Table 11. Representative quarterly cash flow for a class 1 early childhood education business in Oregon

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash inflows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First quarter, 13 weeks</td>
<td>22,633</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second quarter, 12 weeks</td>
<td></td>
<td>20,892</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third quarter, 9 weeks</td>
<td></td>
<td></td>
<td>15,669</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fourth quarter, 12 weeks</td>
<td></td>
<td></td>
<td></td>
<td>20,892</td>
<td>80,086</td>
</tr>
<tr>
<td>Cash outflows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct mgt./labor expenses</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Indirect mgt./labor expenses</td>
<td>1,853</td>
<td>1,753</td>
<td>1,753</td>
<td>2,192</td>
<td>7,551</td>
</tr>
<tr>
<td>Facilities operation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>2,133</td>
<td>2,174</td>
<td>1,840</td>
<td>2,133</td>
<td>8,380</td>
</tr>
<tr>
<td>Insurance</td>
<td>694</td>
<td></td>
<td></td>
<td>694</td>
<td>1,388</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,495</td>
<td></td>
<td></td>
<td>1,495</td>
<td>2,980</td>
</tr>
<tr>
<td>Creative expression materials</td>
<td>355</td>
<td></td>
<td></td>
<td>355</td>
<td>710</td>
</tr>
<tr>
<td>Promotion</td>
<td>500</td>
<td>300</td>
<td>200</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Interest on operating capitalb</td>
<td>0</td>
<td>0</td>
<td>200</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Amortized return cap. invest.c</td>
<td>0</td>
<td>0</td>
<td>23</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Total cash outflows</td>
<td>22,030</td>
<td>19,227</td>
<td>18,593</td>
<td>19,548</td>
<td>79,398</td>
</tr>
<tr>
<td>Net cash from operations</td>
<td>603</td>
<td>1,665</td>
<td>(2,924)</td>
<td>1,344</td>
<td></td>
</tr>
<tr>
<td>Beginning cash balance</td>
<td>500</td>
<td>1,103</td>
<td>12,768</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Net cash available</td>
<td>1,103</td>
<td>2,768</td>
<td>(156)</td>
<td>1,844</td>
<td></td>
</tr>
<tr>
<td>Minimum acceptable cash bal.</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Cash over (short)</td>
<td>603</td>
<td>2,268</td>
<td>(656)</td>
<td>1,344</td>
<td></td>
</tr>
<tr>
<td>Operating loan (payment)</td>
<td>0</td>
<td>0</td>
<td>656</td>
<td>(656)</td>
<td></td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>1,103</td>
<td>2,768</td>
<td>500</td>
<td>1,188</td>
<td></td>
</tr>
</tbody>
</table>

---

**a** A class 1 facility is designed for 30 FTE children per half day (30 per morning session and 30 per afternoon session) -- 90 percent use of capacity. The facility is assumed to be operating 46 weeks per year. Revenue was calculated at $2.15 per child FTE contact hour = $174 per week.

**b** Cash shortages in any quarter are assumed to be covered by a loan at 14 percent annual interest rate.

**c** The original capital investment was assumed to be financed with equity. Thus, the return to equity was not included as a cash flow requirement.

**d** Beginning cash balance assumed to be $500.
Table 12. Break-even cost per child FTE contact hour for a class 1 early childhood education business in Oregon\textsuperscript{a}

<table>
<thead>
<tr>
<th>Other-than-labor costs as a percent of base\textsuperscript{b}</th>
<th>Labor-related costs as a percent of base</th>
<th>Break-even cost per hour ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>125</td>
<td>120</td>
<td>2.78</td>
</tr>
<tr>
<td>120</td>
<td>115</td>
<td>2.69</td>
</tr>
<tr>
<td>115</td>
<td>110</td>
<td>2.60</td>
</tr>
<tr>
<td>110</td>
<td>105</td>
<td>2.51</td>
</tr>
<tr>
<td>105</td>
<td>100</td>
<td>2.42</td>
</tr>
<tr>
<td>100</td>
<td>95</td>
<td>2.32</td>
</tr>
<tr>
<td>95</td>
<td>90</td>
<td>2.23</td>
</tr>
<tr>
<td>90</td>
<td>85</td>
<td>2.14</td>
</tr>
<tr>
<td>85</td>
<td>80</td>
<td>2.05</td>
</tr>
<tr>
<td>80</td>
<td>75</td>
<td>1.96</td>
</tr>
<tr>
<td>75</td>
<td></td>
<td>1.87</td>
</tr>
<tr>
<td>120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a} A class 1 facility is designed for 30 FTE children per half day (30 per morning session and 30 per afternoon session) - 90 percent use of capacity. The facility is assumed to be operating 46 weeks per year.

\textsuperscript{b} Costs as identified in Table 10.

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