

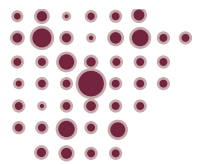


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# THE BUSINESS OF CHILD CARE

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How to Start a Successful  
Child Care Business in Arkansas



ASBTDC

ARKANSAS SMALL BUSINESS AND  
TECHNOLOGY DEVELOPMENT CENTER

**If you are preparing to start  
a business, this e-book is for you!**



Business start



Business purchase



Existing business

 **e book** by ASBTDC

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# The Business of Child Care

Starting and running a child care business in Arkansas can be a challenging but rewarding endeavor. Not only does it offer an opportunity to work with children and contribute to their development, but a child care business can also provide a steady income stream. In addition, providing high-quality child care meets a need for local communities and families.

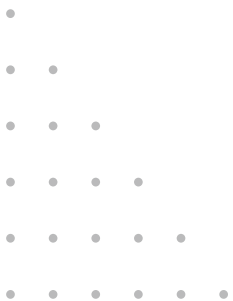
Planning is crucial when deciding to invest time and resources in any business. Preparing to start a daycare business involves significant work and research so your business has the best chance of success!

This e-book is designed to familiarize you with the business side of starting and managing a successful child care business in Arkansas. It covers key topics such as startup costs, zoning, licensing, legal business status, record keeping, finances, insurance, and marketing.

The Arkansas Small Business and Technology Development Center can help you assess if a child care business is a fit for you and connect you with the tools and guidance you need to move forward.

Opening a daycare or preschool may initially seem challenging, but you can turn your passion for child care into a profitable and fulfilling venture with the proper resources and guidance.

Let's dive in and explore the business of child care!



# Types of Child Care Facilities

Arkansas has two basic types of child care facilities: **in-home** and **in a center outside the home**. Child care businesses fall under the authority of the Office of Early Childhood (OEC), which is part of the Arkansas Department of Education.

## CHILD CARE HOMES

In Arkansas, a child care provider can use their own residence to operate a child care business. An in-home daycare still must comply with zoning laws in the operator's area of the state. There are two types of in-home businesses, registered and licensed.

### **Registered Child Care Family Homes**

These programs are home-based and have five or fewer children. Facilities are subject to inspection, and guidelines for caregivers are established by OEC. This type can also include situations where care is provided in the child's home.

### **Licensed Homes**

In-home daycares with six or more children require licensing through the Office of Early Childhood. Licensed homes are subject to more stringent regulations and monitoring.







## CHILD CARE CENTERS

### Licensed Child Care Centers

Licensed child care centers operate outside of a residence. Programs that operate for 10 or more hours per week should be licensed centers. Licensing requirements are extensive.

### Out-of-School-Time Facilities

These facilities provide care for school-age children before or after school. Facilities may also offer care during school holidays and summer day camps. Licensing requirements are extensive.

## Child Care Homes vs. Centers

The decision to run a daycare out of your home versus from a separate commercial space can have significant implications for your business, including differences in costs, regulations, and potential for growth.

Because an in-home daycare operates out of a residence, it typically has a smaller capacity. A child care center may be able to accommodate more children, potentially allowing for business growth.

While revenue potential is greater in a child care center than for an in-home business, startup costs and operating expenses are also much higher for a childcare center.

One option is for a new child care business to start out as in-home and later expand to an outside facility. This model allows new owners to build a customer base and learn lessons about owning a child care business before taking on the higher cost of operating out of a commercial space.



# Setting Up Your Child Care Business the Right Way

As a child care provider, you must comply with various legal requirements. Many requirements are standard for operating a business. Others are specific to owning a daycare or preschool.

## LICENSING

Child care businesses in Arkansas must be licensed by the Arkansas Department of Education Office of Early Childhood. The licensing process includes completing an application, passing an inspection, and meeting certain health and safety requirements.

Licensing is not just a one-time requirement. Centers must renew their licenses on a regular basis and continue to adhere to the regulations and standards set by the state. Compliance with requirements is essential, not just for the well-being of the children in your care but also for the sustainability of your business.

When planning and budgeting for your business, be aware that the process of obtaining a license to operate a child care business can take months. Refer to the OEC for the most up-to-date information and requirements.

In addition to specific child care business licensing requirements, you must also comply with general business licensing requirements in your area. While not all cities or counties require a business license, some do.

Check with the city in which your daycare or preschool will be physically located. If your business location is outside of the city limits, contact the county collector or clerk's office.





## ZONING

Local zoning laws dictate what types of businesses are allowed in certain areas. While child care businesses can be operated out of a home or commercial facility in Arkansas, you must still verify with the local zoning office that a daycare business is allowed on your property or planned location.

In order to know what your city or county will allow, contact your local planning and zoning office or your local business licensing office.



## LEGAL STRUCTURE

You also need to consider your business's legal structure (or entity). For-profit legal structure options include sole proprietorship, limited liability company, partnership, or corporation. Alternatively, some centers may choose to organize as a non-profit or 501(c)(3).

The legal structure you choose for your daycare can have significant tax and liability implications. For example, a sole proprietorship may be easier and less expensive to set up, but it also places the owner at a higher risk of personal liability. On the other hand, a limited liability company or corporation provides greater protection but may come with more complex tax and regulatory requirements. In contrast, a non-profit organization has very different structural and reporting requirements.

Remember that if a business files as a corporation or LLC and never does business, the business is still responsible for annual franchise taxes with the state of Arkansas. In addition, there is a cost to dissolve an LLC or corporation.

Seek the guidance of a professional, such as an attorney or accountant, before making a decision, and make sure your financing is in order before filing with the Secretary of State. For more information about options, the filing process, and required documents, refer to the Arkansas Secretary of State's "Doing Business in Arkansas" publication.

[Doing Business in Arkansas](#)



# Child Care Program Requirements

Child care providers face more regulations than many other types of businesses. These requirements exist to ensure the safety and welfare of the children under your care.

As you prepare to open your preschool or daycare, make sure you spend time carefully reviewing the regulations and incorporating them into your business plan as well as your written operating procedures. All employees must be trained to follow procedures at all times.

The minimum licensing requirements cover a wide variety of areas. The following are some examples:

- ▶ Staff-to-child ratios
- ▶ Daily schedules
- ▶ Nutrition and food storage
- ▶ Documentation for parents of infant care
- ▶ Physical activity and outdoor play
- ▶ Tornado and fire drills
- ▶ Sanitation
- ▶ Staff continuing education
- ▶ Staff background checks
- ▶ Space and setup
- ▶ Health and safety



Complying with regulations is not optional, and you must maintain adequate documentation. Failure to do so could result in an injury to a child, or you could lose your license to operate.



# Business Planning

A business plan is crucial for anyone starting a daycare, preschool, or other child care business. It serves as a roadmap, outlining your goals, strategies, and financial projections.

Developing a business plan can help you determine feasibility and identify potential challenges and opportunities. It will also enable you to determine how much money starting your business will require.

The plan should include sections on your business concept, target market, competition, marketing and sales strategies, management structure, and finances. It should also outline your startup costs, operating expenses, and revenue projections. As you build your plan, consider all of the licensing requirements, since those will influence all aspects of your business.

A business plan is useful for securing financing from investors or lenders, but it can also help you stay on track and make informed decisions as you grow your business.

# Startup Costs

Setting up a child care business can be expensive, so carefully research and budget for these costs before starting. Most new business owners find starting a business ends up costing more than they originally expected, so do your homework to minimize unexpected cost overruns.

Startup costs vary greatly, depending on the size and type of childcare facility you plan to open and whether or not you are leasing or purchasing a building.

Upfront costs associated with opening a childcare business include obtaining licenses, securing insurance, establishing an online presence, and outfitting your facility with the necessary equipment. Review the OEC guidelines as you create your startup cost list. Be sure to include everything you need to adhere to all requirements.

To determine startup costs, don't just guesstimate. Get estimates and quotes so you won't be caught by surprise.

Examples of costs often associated with opening a daycare.

- » Business licenses and permits
- » Fees to establish a business banking and merchant account
- » Legal fees to establish your business entity (ex. LLC) and develop liability waivers or other legal documents
- » Logo and branding
- » Signage
- » Website and online presence
- » Computer and bookkeeping software
- » Professional fees to set up your accounting system
- » Utility deposits
- » Insurance
- » Furniture and equipment (cribs, high chairs, toys, educational materials, etc.)
- » Supplies (snacks, cleaning products, and office supplies)
- » Employee background checks
- » Construction or building improvements needed to bring the facility into compliance with state regulations
- » Land and facilities
- » Initial marketing costs for launch
- » Rent deposit
- » Miscellaneous

By carefully researching these costs, you can determine the amount of funds needed to establish your child care business.

# Documentation and Accounting

Before opening your childcare business, you must have systems and plans in place to effectively manage operations. This can include establishing policies and procedures, setting achievable goals, developing a system for managing finances, and maintaining compliance with regulatory requirements.

## DOCUMENTATION

Information such as financial transactions, student records, staff details, policies and procedures, handbooks, and more must be documented and well organized. Further, the Office of Early Childhood requires certain records to be available on request.

By creating standard operating procedures (SOPs), you can streamline your daycare's processes, ensuring that it runs smoothly and consistently. These SOPs can provide a roadmap for enrolling children, handling payments, training and managing staff, and completing other critical tasks. With well-established SOPs in place, you can reduce confusion, increase efficiency, and foster an environment prioritizing safety and quality.





## BOOKKEEPING

Keeping accurate records of your daycare or preschool's income and expenses is necessary for managing your finances. By accurately tracking and recording all financial transactions, you will have a better understanding of the financial health of your business and be able to make informed decisions.

Before opening, it is important to have a system in place that allows you to track transactions and generate monthly income statements and balance sheets (your business's report card). This will help you determine whether you are on track to achieve your financial goals or need to make adjustments.

To simplify the bookkeeping process, consider using software such as QuickBooks, Xero, or Wave. Whichever system you use, the goal is to make sure that your financial records are always accurate and up-to-date. This helps to increase profitability and pinpoint exactly where money is spent.

When selecting a system for your child care business, seek guidance from your accountant or bookkeeper. Evaluate each option and decide which one fits your needs best. You should consider functionality, cost, and user-friendliness.



## TAXES

As the owner of a child care business, you must understand your federal, state, and local tax obligations and stay current with payments.

Most businesses benefit from working with an accountant. Your tax professional can help you understand your tax responsibilities, such as calculating and paying payroll, income, sales, and other relevant taxes, and help you avoid any costly penalties or fines. An accountant can also assist you in taking advantage of any tax benefits or allowable deductions.



### Employer Identification Number

If your legal structure is something other than a sole proprietorship or you plan to hire employees, you will likely need an Employer Identification Number (EIN). This is also known as a Federal Tax Identification Number.

Most businesses need an EIN. You can apply for an EIN online through the IRS website.

## PAYROLL

If you have employees, you will need a system in place for managing payroll. This includes calculating and withholding taxes, as well as issuing paychecks and other forms such as W-2s. (This process should be part of your bookkeeping system.)

Note that child care facilities must adhere to strict staffing ratios that vary by age. This means you will be required to have a minimum number of caregivers based on the number of children under your care. When planning for your business, be sure to budget for at least the minimum staff required.



**When managing payroll for a daycare business, you must pay attention to several items. For example:**

➤ **Tax calculation and withholding**

Ensure that you withhold the correct amount of taxes from each employee's paycheck and submit it to the appropriate government agencies.

➤ **Paycheck issuance**

Regularly issue paychecks to your employees and ensure they are accurate and timely.

➤ **Compliance with labor law**

Make sure that you comply with all federal, state, and local labor laws, including minimum wage requirements, overtime pay, and other employment standards.

➤ **Recordkeeping**

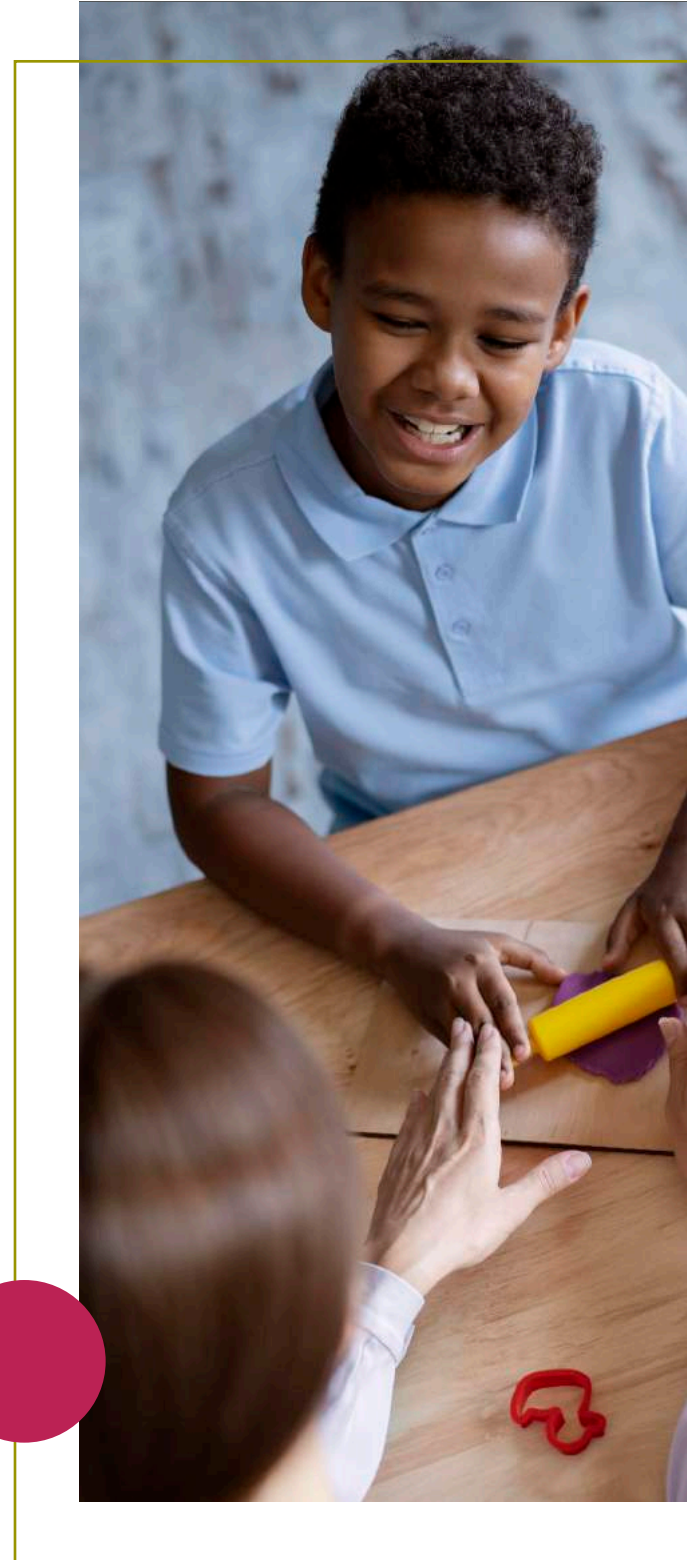
Keep accurate records of all payroll-related transactions, including employee earnings, taxes withheld, and other deductions.

➤ **Benefits administration (if you offer benefits to your employees, such as health insurance)**

Have a system in place for enrolling employees, tracking coverage, and handling premium payments.

➤ **Year-end reporting**

Complete required year-end reporting for your employees, including issuing W-2 forms and filing any necessary forms with the government.





# Insurance

Running a child care business requires proper insurance. Here are some types of insurance to consider:

- Property insurance
- Liability insurance
- Workers' compensation insurance
- Auto insurance
- Business interruption insurance
- Health insurance

Keep in mind that these are general examples. Talk to a qualified business insurance agent to understand coverage needs and options for your business. Be sure to include insurance costs in your monthly operating budget. In addition, familiarize yourself with the OEC liability insurance requirements.





## Pricing

Determining the appropriate fee for your services is essential for the viability of your business. Setting the right price for your child care services requires careful consideration of several factors.

### **Costs**

Understand all your expenses. These costs will play a significant role in determining what you charge for your services.

### **Target Market**

Know your target market and what they are willing to pay for childcare.

### **Competition**

Research the fees of other providers in your area.

### **Regular Reviews**

The daycare market can change over time, so regularly review your prices and adjust as needed.

### **Flexibility**

Consider flexible pricing options, such as part-time, full-time, and after-school care, depending on the needs of your customers. This can attract a wider range of customers and increase your revenue.

Establishing a pricing structure can seem difficult. But with a clear understanding of your costs, target market, competition, and a willingness to regularly review and adjust your prices, you can develop a pricing model that fits your business.

# Marketing

Creating a marketing plan will enable you to attract new clients and grow your business. The foundation of your marketing plan is identifying your target customers. Who are you trying to serve with your child care business?

Knowing your customers' needs and preferences can help your business create value for them. For instance, consider offering extended hours or weekend care if your target audience includes parents working non-traditional schedules.

Understanding your target audience will enable you to develop effective marketing strategies to attract them to your business.

Whether it's through social media, advertising, or community events, targeting your ideal customers can help you achieve a higher return for your marketing efforts.

Your marketing plan will also influence your budget. In your plan, you should identify specific tactics that you'll use to market your business. New businesses will incur costs to develop promotional materials and establish an online presence. Creating a calendar of planned activities will help you determine monthly marketing expenses.

## Daycare or Preschool: What's the difference?

A daycare usually refers to care for children under the age of 3. Preschool usually serve children ages 3 to 4.







## Creating Your Budget

How much will it cost to open and run your child care business? The only way to answer that question is to develop a business plan (including a marketing plan) and create a budget.

Your budget should include all of the costs associated with starting your business as well as expected monthly operating expenses. You should also develop monthly sales projections for at least the first 12 months of business operations.

Once you have determined startup costs and monthly sales and expense projections, you can look at expected cash flow and determine the amount of working capital needed to get your business off the ground.

Startup costs plus required working capital will be your total project cost. Subtract the amount of cash you have to contribute towards your new business to determine the amount of funding needed.

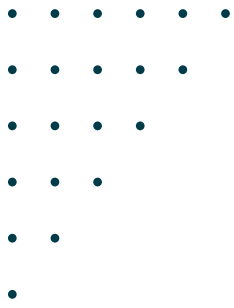


## Funding Considerations

Prospective business owners often have questions about funding. Unfortunately, grants are limited. Most entrepreneurs have to use a combination of personal resources and loans to fund their businesses.

Obtaining a business loan is not like getting a personal loan. Typically, getting a business loan is more challenging. Criteria are more stringent, and the process often takes more time and information. Check out ASBTDC's e-book [Funding Your Small Business](#) to learn more.

From time to time, financial assistance for child care businesses in Arkansas may be available. For more information, check with the Office of Early Childhood.



## Helpful Resources

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Arkansas Department of Education [Office of Early Childhood](#)

Internal Revenue Service [Small Business and Self-Employed Tax Center](#)

Arkansas Secretary of State's [Doing Business in Arkansas](#)

[Funding Your Small Business](#) ASBTDC e-book

[License, Permits, and Tax Requirements](#) ASBTDC e-book

[Business Plan Resources](#) from ASBTDC



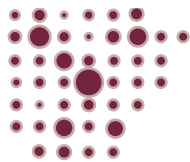
## Call on Us

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Ready to move forward with starting a for-profit child care business? Begin to develop your business plan to organize your thoughts, create a budget, and determine startup costs.

Your local Arkansas Small Business and Technology Development Center can help. If you're unsure how to get started on a business plan, ASBTDC provides a business plan outline and sample, training programs, and guidance to help you put together your plan and financial projections.

Visit [asbtdc.org](http://asbtdc.org) or reach out to us at **800-862-2040**.



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