

# MEASURING UNREPORTED COSTS IN CHILD CARE AND EARLY EDUCATION PROGRAMS

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One of the challenges in childcare and early education is to properly measure the full costs of providing quality childcare and early education.

**Full costs** include both costs incurred by a program and reported on its statement of income and expense, as well as the value of in-kind contributions such as volunteer labor and donated space.

For programs that are part of a larger organization, costs incurred on behalf of the target program by the larger organization are also counted towards the total costs. It is difficult to identify the resources used by any early education program, and it is necessary to approach each organizational type (free-standing, independent and ones that are part of a larger organization) differently.

## Independently Operated Early Childhood Programs

The first step for this type of program is a careful review of the program's annual statement of income and expense with the program's director, financial officer, or accountant. This will help identify what is and what is not included in each line-item, as well as missing items and items that should be included but are not. The second step is to then identify all volunteer labor and in-kind contributions. The third and most difficult step is to assign the appropriate value to the donations and volunteer labor. These values should be taken as the prevailing market value of the received resources. It is not enough to simply determine the value for these resources: determine whether or not the program would have purchased these resources had they not been donated. If not, the researcher should support an argument for inclusion of these items.

## Early Childhood Programs That Are Part of Larger Organizations

To accurately measure the full costs of programs that are part of larger organizations it is vital to include costs incurred by the larger organization in support of center operations. In some cases, these costs may be captured by an indirect cost rate and included in the costs reported on a center's statement of income and expense. In other cases, centers may be charged a fee for the service they receive from the larger organization, in which case the fee will be reported on the center's statement of income and expense. But in most cases, the larger organizations make no attempt to capture these costs, and thus they are not reported on the center's statement of income.

Another complicating factor in measuring the full cost of programs that are part of the larger organization is that they often use consolidated financial statements.

There are four types of financial statements with which we must deal with: (a) a single consolidated financial statement; (b) separate consolidated financial statements for each line function, including one for the entire early childhood program; (c) separate consolidated financial statements for major units within each line function; and (d) separate financial statements for each individual operating unit. The best case here is (d), but if this is not the case, then it is necessary to use a method of pro-rating the costs of each level's consolidated statements to the operating units below it.

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