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Children First Society
Business Model Analysis

December 2015

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Notice to User(s)

This document has been prepared for the Children First Society to help the Society better-understand its business model and to provide a platform for discussion about how the Society will approach its future.

It must be noted that the figures outlined in this analysis are affected by the quality of information provided to the consultant and are based on assumptions. While best efforts are made to understand and interpret the Society's financial picture, these figures are approximations only and should be used with caution.

A copy of the financial model has been included with this document. As changes to assumptions are made, this document should be updated accordingly.

Use of this document constitutes acknowledgement that the author accepts no liability for decisions made by the user(s), or for errors or omissions made in this analysis.

List of Acronyms

CFS	Children First Society
ECE	Education, Culture, and Employment
GNWT	Government of the Northwest Territories
GTC	Gwich'in Tribal Council
IRC	Inuvialuit Regional Corporation

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1 Executive Summary

With an average monthly service fee of $1,278 and an estimated average break-even service fee of $1,315, the Children First Society is currently sustaining financial losses. While the society currently has, on average, ~50 children enrolled on a full-time equivalent basis, there is, overall, a large disconnect between what the market is able to afford to pay and what the Children First Society can afford to provide. This has resulted in lower enrolment than the facility can handle, meaning that fewer fee-payers must cover a larger proportion of the Society's fixed and variable expenses.

To achieve break-even and, ideally, increase enrolment to achieve better economies of scale, the Society must quickly find ways to increase revenues and reduce expenses – although the community is now experiencing "fundraising fatigue" and the Society is already operating on a lean budget, making the goal of breaking even an unlikely objective without intervention from the Society's funding partners. This may take the form of increased core funding, assuming responsibility for the Children First Centre entirely, or another options as yet unidentified. Discussions with the Society's partners should commence immediately.

Should the Society be unable to achieve break-even either through fundraising, increases to grants and contributions, or expense reductions, it is recommended that the Society examine voluntary dissolution before it is unable to meet its payroll and accounts payable obligations and/or is forced to declare bankruptcy.

2 Background

The Children First Society (CFS) is a licensed child development centre located in Inuvik, Northwest Territories. According to its Mission Statement:

> *"The Children First Society provides child development services for all children in Inuvik to help them achieve their greatness! The Society does this through the delivery of child development programs, and child, family, and public education."*

Primarily, the Society has been operating as a childcare centre with child development services.

As a result of significant fundraising efforts, as well as the assistance of the GNWT and a loan from the Town of Inuvik, the Society was able to construct a child development facility in the heart of Inuvik. The facility opened in 2013. In March of 2015, the building sustained damage after a pipe burst, resulting in the closure of a large section of the building. The Society sought out alternative locations in which to deliver its programming until repairs could be completed and the necessary approvals received to reopen. While the Society had insurance for the damage to the building, it did not have business interruption coverage. Fronting the expenses for the repairs until the insurance payment was received and renting alternative locations until the building was approved for full operations placed the Society in a difficult position, financially. At its September 2015 Annual General Meeting, the Society reported it had sustained a $200,000 loss. This loss did not include monthly payments owed to the Town of Inuvik, which were suspended during this period.

To address the financial issues and to examine other aspects of the Society's operations, the Board of Directors requested assistance with strategic planning and the development of a business plan.

A strategic planning session was completed in July 2015, during which time information for the development of the business plan was collected. Subsequently, it became apparent that there are fundamental issues with the business model that threaten the continued existence of the Society and cannot be rectified through simple changes in business practices. It was subsequently recommended that a Business Model Analysis be developed for both the Society and its stakeholders, to form the basis for discussions to examine options for the continued delivery of child development services in Inuvik.

3 Child Development in Inuvik and the Northwest Territories

In September 2013, the GNWT issued *Right from the Start: A Framework for Early Childhood Development in the Northwest Territories*, which outlines actions the government plans to undertake until 2023. The accompanying Action Plan, contains the following seven commitments:

1. Expectant mothers will have access to evidence-based services that support improved outcomes for mom and baby
2. Early intervention programming aimed at infants, children and parents will be expanded
3. Early childhood assessment, intervention and responses will be improved
4. Coordination and integration improved across the continuum of ECD programs and services
5. Promotion, awareness and education initiatives related to early childhood development available to all families and communities
6. Access to high quality, affordable early learning programs and child care services are enhanced
7. Monitoring, reporting and ongoing evaluation for continuous quality improvement in early childhood development programs and services

Contained within the details of these commitments are numerous initiatives that align closely with the mandate of the Children First Society, but there are components – particularly the intention to establish Junior Kindergarten across the NWT – that will have serious repercussions on the financial viability of the CFS business model.

In 2015, the GNWT released a *Feasibility Study of Universal Affordable Day Care in the Northwest Territories*, which takes a broad view of "day care" and uses the term "early childhood education and childcare", which "includes all arrangements providing care and education for children prior to compulsory schooling (Grade 1), regardless of setting, funding, auspice, opening hours, or program content." This report acknowledges that early childhood education and childcare spending in the NWT is low, compared to both Canadian and international standards. The report also recognizes that the NWT's child care system is "immature" and that "day care programs lack some of the basic infrastructure supports found elsewhere, such as a common curriculum guide and programming materials, professional associations, public quality assurance systems, and regulatory control over parent fees and staff salaries." It also recognizes that "a weak post-secondary structure…would need considerable attention before it could meet new training demands" to achieve a trained and resourced workforce.

The report identifies the importance of resolving divisions between "education" and "care", with a goal to provide all children with a core program while offering additional hours to accommodate parents' workforce needs. This call to action also aligns well with the CFS mandate, although the feasibility study also suggests that junior kindergarten should be delivered through NWT schools.

4 Business Model Analysis Methodology

This document analyzes the Children First Society business model using a Break-even Analysis approach. Break-even Analysis is a technique used to determine either:

1) How many customers are required before an organization begins to make a profit, or
2) How much an organization needs to charge a set number of customers before an organization begins to make a profit.

While the Children First Society is not a profit-oriented organization, it nevertheless needs to earn enough through its various revenue sources to be financially sustainable.

Break-even analyses also help to determine the sensitivity of a business model; that is, the degree to which small changes in revenues or expenses affect the financial viability of an operation. Assessing the sensitivity of a business model provides decision-makers with a better understanding of the financial risk associated with a business model.

For the purposes of this analysis, we will examine the effect that various registration levels have on the average price that needs to be charged for full-time child development services without any other revenue supplements, with existing levels of government assistance, and with current fundraising revenues.

Break-even is calculated as:

$$Sx - Vx - F = 0$$

Where:

x	=	Number of monthly spots filled
S	=	Avg. monthly fee
V	=	Variable expense/child
F	=	Fixed expenses

To determine the average monthly fee that must be charged, the break-even formula is represented as:

$$S = F/x + V$$

The Children First Society does not receive revenue strictly from service fees alone; it also raises funds through fundraising initiatives and through government grants and contributions. These revenues have been considered in this analysis and, as such, the average monthly fee that must be charged is represented as:

1. Average Break-Even Rate (Service Fees Only)
2. Average Break-Even Rate (Including Historic Government Contributions)
3. Average Break Even Rate (Including Historic Fundraising and Donations)
4. Average Break Even Rate (Including Historic Fundraising, Donations and Government Contributions)

The break-even rates will be assessed using a range of participation levels to see if the financial issues faced by the Society can be solved through reduced rates and/or increases or decreases in participation. Additionally, break-even rates will be assessed looking at increases and decreases in:

1. Variable expenses, such as staff wages or staff to child ratios,
2. Fixed expenses,
3. Government grants, contributions, and subsidies, and
4. Fundraising and donations.

After reviewing the various rates, this document will explore elements of the market in which the Children First Society operates to assess whether there is sufficient market demand for the Children First Society to be financially sustainable.

The calculations for break-even are made using a custom-programmed Excel spreadsheet. For transparency purposes, the financial model has been provided to the Children First Society to share with stakeholders as the Society sees fit.

The financial model is only as strong as the assumptions used in the analysis. As such, all assumptions have been explained in *Section 5.1 – Assumptions*.

5 Break-Even Analysis

5.1 Assumptions

5.1.1 Variable Expenses

Variable expenses are those that fluctuate depending on the "number of units sold". For the purposes of this analysis, it has been assumed that the "number of units sold" is the average number of children using CFS's services every month on a full-time basis. (CFS offers services to clients through a suite of options, including a drop-in service, part-time service, and a full-time, daily service.)

The number of children using CFS's services affects the number of staff required, meal costs, and program delivery expenses. As CFS serves more children, these expenses increase with each additional child. With fewer children, these expenses decrease accordingly.

The ratio of staff to children has a tiered effect on variable staffing expenses. This has been incorporated into the financial model.

Category	Assumption(s)
Variable Expense: General Assumptions	
Number of Days Open/Year	242
Mandatory employment-related costs (EI, CPP, NWT Payroll Tax, Federal income taxes)	10%
Service Delivery Staff Payroll	
Average Staff to Child Ratio (x:1)	GNWT regulations dictate the ratio of staff to children. CFS has a relatively high proportion of infants who require more supervision, but CFS's Average Staff to Child Ratio is consistent with the NWT average number of children (0-3 years) to staff in child care centres as indicated in the *Feasibility Study of Affordable Day Care in the Northwest Territories* tabled in the NWT Legislature on June 4, 2015 (Page 35). Additionally, as a Child Development Centre, CFS has some children with developmental challenges (such as speech pathology needs or issues with social interactions), which also

	require more staff support. As such, but primarily because of the age composition of its current clientele, CFS is currently operating with a Staff to Child Ratio of around 5:1. An assumption has been made that CFS is operating at maximum efficiency, where all cohorts are full (i.e. a staff person that can handle an 8:1 ratio is supervising 8 children and no fewer). CFS has little to no control over the average staff to child ratio unless the Society deliberately limits its intake of infants and toddlers or finds a way to significantly increase the number of older children accessing the service. If junior kindergarten is implemented across the NWT, this will likely drive CFS's average staff to child ratio lower than it currently is. A breakdown of territorial regulations may be found in *Appendix A – Northwest Territories Child Day Care Act –Regulation 57*.
Staffing Allowance to Cover NWT Labour Standards Requirements (i.e. mandatory breaks)	12.5% additional staff time is required to meet room supervision quotas when employees are on break. In other words, CFS has to hire more employees than the ratio implies so the Society can comply with NWT Labour Standards. For example, with 80 children registered at an average 5:1 ratio, supervision quotas require 16 employees. To account for employee lunch and other breaks, CFS must have 18 room supervisors on staff. With 40 children registered, CFS must have 9 supervisors on staff when only 8 are required to meet quota (in other words, numerically, one FTE person covers 1 hour of breaks for each FTE throughout the day). In reality, because of staff scheduling, multiple part-time employees are required to cover staff breaks.
Personal/Sick Day Allowance	12 days annually per employee. Prorated for supplemental staff.
Statutory Holiday Allowance	12 days annually, per employee.
Staff Meetings	1.5 hours/month/childcare employee, paid as overtime
Average Hourly Wage	$23.13, calculated in July 2015 based on existing staff wages and hours.

	This figure is higher than the average of the programs in the Beaufort Delta, based on the following figures provided by Education, Culture, and Employment: Support Staff – $17.75 Primary Staff – $22.00 Executive Director/Program Coordinator/Program Manager - $24.50 According to Statistics Canada's 2011 National Household Survey[1], the Annual Average Income for comparable employment was $25,800/year ($13.33/hour, assuming comparable hours and days of operation). When adjusted for Inuvik's 2013 Living Cost Differential[2], the average national salary would be $19.99. Annual Average Income: $25,800 $0 - $19,999: 35.8% $20,000 - $49,999: 60.4% $50,000 and over: 3.7% This difference between CFS and the Beaufort and national hourly averages are likely attributable to attempts to reduce the recruitment costs associated with high staff turnover and CFS's desire to improve the quality of its staff through professional development. CFS uses a pay grid that calculates payroll based on a combination of education and experience. The experience payments can be considered to be annual cost of living increases, which have not otherwise been incorporated into this analysis. A copy of the pay grid (including a grid for the Northern Allowance) from the *August 2014 Staff Handbook* can be found in *Appendix B – CFS Pay Grid*.

[1] Early Childhood Educators and Assistants, Service Canada Job Futures, Government of Canada, http://www.servicecanada.gc.ca/eng/qc/job_futures/statistics/4214.shtml, Viewed November 12, 2016
[2] NWT Living Cost Differentials, NWT Bureau of Statistics, http://www.statsnwt.ca/prices-expenditures/living_cost_differentials/, Viewed November 12, 2016

Average workday	8 hours
Paid Professional Development Days	CFS supports 1 in-house paid professional development day for all employees.
Nutrition Program	
Daily cost of food/child	$6/child, based on historical average. This figure includes lunch, morning and afternoon snacks, and any freight expenses that may be incurred.
# of nutrition employees	1 for planning, ordering, preparation, cleanup, etc.
Average hourly wage	$24/hour
Average workday	10 hours, with no overtime paid.
Program Delivery Expenses	
Program events	$0.50/day/child ($10/month/child), based on the historical average.
Program supplies	$2.00/day/child ($40/month/child), based on the historical average.

Using these assumptions, the average variable expense per child is as follows:

Total Avg. Variable Expense/Child ($)	Avg. Enrolment											
	20	30	40	50	60	70	80	90	100	110	120	130
Daily	73	68	66	65	64	63	63	62	62	62	62	61
Monthly	1,465	1,376	1,332	1,305	1,288	1,275	1,266	1,258	1,252	1,247	1,243	1,240
Annual	17,582	16,518	15,985	15,666	15,453	15,301	15,187	15,098	15,027	14,969	14,920	14,879

5.1.2 Fixed Expenses

Fixed expenses are those expenses the Society will incur regardless of how many children it has accessing its services.

Category	Assumption(s)
Accounting and Bookkeeping	Bookkeeping has been moved in-house. $8,000 has been budgeted for the audit based on historical costs.
Advertising	$4,000 has been budgeted for marketing. This is a new addition to the CFS budget, but has been deemed as a modest but essential budget increase that will be used to raise awareness and educate potential clients about the benefits of child development programming.
Bad Debts	Historically, bad debts have been non-existent, although roughly $1,100 in bad debt expense was incurred in FY2014. $340 has been estimated for this analysis, based on the FY2013-2015 average.
Bank Charges and Interest	$2,275 annually, based on historical expenses.
Depreciation (Equipment)	Because the building is currently under title of the Town of Inuvik, a depreciation rate on the building has not been calculated into this analysis. Depreciation in FY2014 was $14,148 and $19,636 in FY2015. This figure is expected to increase in FY 2016 because of the addition of the new playground equipment. $20,000 has been estimated.
Equipment	Equipment under $5,000 is immediately expensed. CFS has estimated FY2016's equipment expense at $19,000, based on an in house estimate of equipment that needs to be replaced in 2016. As the organization becomes more established, this figure is expected to normalize between $5,000-$10,000. This expense was $46,360 in FY2014 and $9,906 in FY2015.
Fuel Bill	Fuel has been estimated at $35,000, which represents an increase in Inuvik's fuel costs. ($25,111 in 2015)

Fundraising Costs	Fundraising costs have been included in Revenue Assumptions as a “Cost of Good Sold”.
Insurance	Comprehensive insurance for the next fiscal year has been quoted at $8,000.
Legal and Professional	Legal and professional fees have been estimated at $5,975 based on the historical average from FY2012 to FY2015.
Licenses and Permits	$100 has been included for the Society’s business license. The cost of licenses and permits for fundraising purposes has been included in the revenue assumptions.
Miscellaneous	Although likely to occur, miscellaneous expenses have been excluded from the assumptions. No contingency has been made for miscellaneous expense, as sensitivity in expenses will be analyzed later in this document.
Office Supplies/Expenses	$8,000 based on a reduction in historical office supply costs ($15,702 in FY2014 and $10,968 in FY2015).
Property Taxes	The society currently does not pay property taxes, as the Town of Inuvik owns the building. If CFS were to own this building, this would result in a significant increase in expenses.
Rent	CFS pays $10,000/month to the Town of Inuvik ($120,000/year).
Repair and Maintenance	Because of the limited number of operational years and the impact of water damage on FY2015’s repair and maintenance expenses, Industry Canada’s Financial Performance Data for NWT Child Day-Care Services has been used. CFS fits into the Top Quartile for revenues in this category, which indicates an average of $3,500 annually in repairs and maintenance (27 NWT organizations reporting). This is likely an underestimate of repairs and maintenance as it represents less than 0.06% of the building’s $6M value. Still conservative, 0.1% of the building’s value has been used for the repair and maintenance estimate ($6,000).

Building Replacement Reserve	The Town of Inuvik currently owns the CFS building. At present, responsibilities for the facility have not been clearly delineated in a lease agreement. While it is understood that CFS is responsible for minor repairs, the responsibility for replacement of major components is not clear. A lease agreement is in development but it is likely that a contingency for a Replacement Reserve Fund will be incorporated into the lease agreement and, therefore, into the price of the lease. Unlike depreciation on the building which expenses the historical value of an asset until it reaches the end of its service life, and unlike building repair and maintenance, which accounts for basic repairs and maintenance, contributions to a Replacement Reserve Fund are an annual amount allocated for the eventual replacement of more major building components (flooring, roofing materials, plumbing and heating systems, windows and doors, insulation, etc.), thereby maintaining the value of the assets and extending the building's useful life. Contributing to a Replacement Reserve Fund is a best practice in commercial building management. While contributions to a Replacement Reserve Fund are technically not an expense, for reasons of financial and operational sustainability, the CFS business model must be able to generate enough revenue to make annual contributions to a Replacement Reserve Fund. For this reason, a replacement reserve amount has been included in the fixed expense assumptions. Typically, Replacement Reserve Fund allocations are based on the expected service life of building components. For the purposes of this analysis, it has been assumed that the total value of the building will be replaced over a period of 65 years (or 1.5% of the historic value every year).
Telephones and Internet	CFS is currently is using a new telephone system, which decreased telephone costs for hardline telephones. However, the territorial government has recently mandated the use of cell phones for field trips, bringing the cost of all phones and Internet to $800/month (or $9,600/year). This figure is roughly $1,300 lower than FY2015.

Training	CFS transfers $2,083/month (just under $25,000/year) into an education fund for staff training. This transfer is made regardless of the number of staff.
Travel	No travel is anticipated.
Utilities	Utilities (electricity) are estimated at $32,000, based on a slight increase from historical expenses in FY2015 ($30,822). Because of Inuvik's power situation, this figure is expected to increase. It is worth noting that, in FY2014, the utilities figure was substantially higher because it included water and heating fuel costs.
Wages and Benefits (Management, administration and custodial)	$183,897, based on July 2015 rates for management, administration, and custodial, including mandatory employment-related costs (EI, CPP, NWT Payroll Tax, Federal Income Tax, etc.). Both the Executive Directors wages and the administrative position's wages are likely below the national average for similar positions when adjusted for the cost of living in Inuvik (using payscale.com for national salary comparisons and the NWT Bureau of Statistics' September 2015 CPI data for Yellowknife.) At present, the high workload for staff management, client registrations and attendance, fundraising, bookkeeping, and contribution reporting necessitate at least two management / administrative positions.
Water	$4,556, based on the FY2015 expense, the first full year that the facility was occupied. This figure is subject to fluctuation depending on usage.

Under these assumptions, CFS will incur $580,764 in fixed expenses annually. This is an increase of $84,546 over FY2015. The increase can largely be attributed to the addition of Replacement Reserve Fund contributions. Without the Replacement Reserve Fund, the fixed expense estimate would represent a $5,454 decrease from FY2015.

5.1.3 Revenues

Children First Society has diversified revenues, including service fees, grants, contributions and subsidies, and fundraising revenues. The break-even analysis accounts for revenues from other sources. With the exception of the Early Childhood Program Funding, which is based on daily attendance (a variable revenue dependent on enrolment), revenues are treated in a fashion similar to fixed expenses – with the assumption that they will be received regardless of how many children access CFS's services.

Category	Assumption(s)
Grants, Contributions, and Subsidies	• The Gwich'in Tribal Council makes an annual Education Subsidy contribution, the amount of which fluctuates depending on the availability of federal dollars. In 2016, the Education Subsidy is expected to be $80,000. • The Inuvialuit Regional Corporation provides a $20,000 Education Subsidy. It is assumed the subsidy will be provided into the future. • Although ASETS subsidies have been received in the past through the IRC, it is assumed that they will not be available in the future because the funds have been diverted to a large-scale infrastructure project. • Education, Culture and Employment has, in the past, provided subsidized wages for work training experience. It is assumed that these funds will not be available in the future because CFS employees will been trained and will no longer be eligible for the subsidy. • Education, Culture and Employment Language Nest funding in the amount of $54,000 has been assumed based on historic funding. This money is provided through IRC. • An average, CFS receives Early Childhood Program Funding in the amount of $200/child/month. • CFS receives a rent subsidy from ECE in the amount of $30,000/year.
Fundraising and Donations	• CFS started a new fundraising campaign using a Mega 50-50 Raffle, which is expected to generate $94,000 in ticket sales. A license fee in the amount of $4,700 is levied. • Bingos have generated $30,000 in revenues based on historical performance, less licensing costs of $1,500/month. • The CFS Gala has generated $20,000 in revenues based on historical performance, less $5,000 in expenses. • The CFS Fishing Derby has generated $3,000 in revenues based on historical performance.

Under these assumptions, CFS expects to receive $119,300 in fundraising and donations, and $335,500 in grants, contributions, and subsidies (excluding the Early Childhood Program Funding, which varies depending on the number of children enrolled and the daily attendance rates) annually.

5.2 Break-even Analysis Results

Children First Society service fees vary according to the age of the children enrolled, the nature of the enrolment (part-time vs. full-time), etc. Similarly, attendance fluctuates over the course of a month or year. For example, enrolment in the summer declines as families go on extended summer vacations. Consequently, all results displayed in the break-even analysis tables use annual averages for enrolment and also express the monthly service fees as an average monthly service fee. Based on seasonal enrolment rates and the current average service fee, the average enrolment is ~49 full-time equivalent children at $1,278/month.

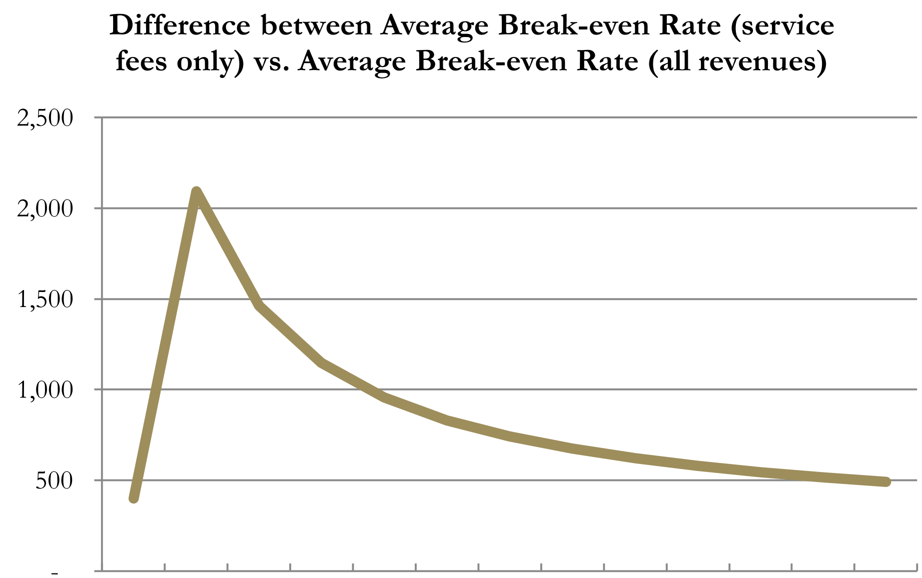
Unless otherwise stated, the following tables use the assumptions stated in *Section 5.1 – Assumptions*.

5.2.1 Monthly Service Fee Requirements by Enrolment

Avg. Breakeven Rate ($)	Avg. Enrolment											
	20	30	40	50	60	70	80	90	100	110	120	130
Service fees only	3,885	2,990	2,542	2,273	2,094	1,966	1,871	1,796	1,736	1,687	1,647	1,612
Service fees and est. grants, contributions, and subsidies	2,287	1,858	1,643	1,514	1,428	1,367	1,321	1,285	1,257	1,233	1,214	1,197
Service fees and fundraising and donations	3,388	2,658	2,293	2,075	1,929	1,824	1,746	1,685	1,637	1,597	1,564	1,536
All revenue sources	1,790	1,526	1,395	1,315	1,263	1,225	1,197	1,175	1,157	1,143	1,131	1,121

At an average enrolment of ~49 children, the average breakeven rate is ~$1,315/month – $37 short of the break-even rate. With an average of 10 more participants at the current rate, CFS could, theoretically, break even. This is because, as enrolment increases, economies of scale help to reduce the average monthly service fee that needs to be charged. This is unsurprising; when there are fewer children enrolled, there are fewer service fee payers covering the Society's fixed costs.

Conversely, as enrolment increases, fundraising and contributions must be shared amongst more service fee payers (with the exception of the Early Childhood Program funding which is applied to all service fee payers), thus reducing the individual benefit of these revenues. For example, if only twenty children were enrolled at CFS, then contribution and fundraising revenues would contribute just over $2,095/child to each child's monthly service fee, whereas with 110 children enrolled, contribution and fundraising revenues would contribute only $545/child to each child's monthly service fee.



Most importantly, based on the best-available assumptions, at CFS's current enrolment levels (~49 enrolled on a full-time equivalent basis, calculated as a yearly average), the Society should be charging at least $1,315/month to break even. Currently, the Society is charging, on average, $1,278/month. The difference between the required average service fee and the current average service fee suggests the Society is on track to lose between $9,250 and $39,250 over a one-year period, depending on enrolment. This is a considerable improvement over FY2015 when the Society lost ~$200,000 – largely due to the flooding and subsequent relocation of services – but still suggests a high level of risk, particularly with respect to staffing efficiency and unexpected expenses.

The following table outlines the annual losses or profits using the stated assumptions at various average monthly service fees.

Est. Annual Profit/Loss	**Avg. Monthly Enrolment**											
Monthly Service Fee ($)	**20**	**30**	**40**	**50**	**60**	**70**	**80**	**90**	**100**	**110**	**120**	**130**
750	-249,611	-279,490	-309,370	-339,249	-369,129	-399,008	-428,888	-458,767	-488,647	-518,526	-548,406	-578,285
800	-237,611	-261,490	-285,370	-309,249	-333,129	-357,008	-380,888	-404,767	-428,647	-452,526	-476,406	-500,285
850	-225,611	-243,490	-261,370	-279,249	-297,129	-315,008	-332,888	-350,767	-368,647	-386,526	-404,406	-422,285
900	-213,611	-225,490	-237,370	-249,249	-261,129	-273,008	-284,888	-296,767	-308,647	-320,526	-332,406	-344,285
950	-201,611	-207,490	-213,370	-219,249	-225,129	-231,008	-236,888	-242,767	-248,647	-254,526	-260,406	-266,285
1,000	-189,611	-189,490	-189,370	-189,249	-189,129	-189,008	-188,888	-188,767	-188,647	-188,526	-188,406	-188,285
1,050	-177,611	-171,490	-165,370	-159,249	-153,129	-147,008	-140,888	-134,767	-128,647	-122,526	-116,406	-110,285
1,100	-165,611	-153,490	-141,370	-129,249	-117,129	-105,008	-92,888	-80,767	-68,647	-56,526	-44,406	-32,285
1,150	-153,611	-135,490	-117,370	-99,249	-81,129	-63,008	-44,888	-26,767	-8,647	9,474	27,594	45,715
1,200	-141,611	-117,490	-93,370	-69,249	-45,129	-21,008	3,112	27,233	51,353	75,474	99,594	123,715
1,250	-129,611	-99,490	-69,370	-39,249	-9,129	20,992	51,112	81,233	111,353	141,474	171,594	201,715
1,300	-117,611	-81,490	-45,370	-9,249	26,871	62,992	99,112	135,233	171,353	207,474	243,594	279,715
1,350	-105,611	-63,490	-21,370	20,751	62,871	104,992	147,112	189,233	231,353	273,474	315,594	357,715
1,400	-93,611	-45,490	2,630	50,751	98,871	146,992	195,112	243,233	291,353	339,474	387,594	435,715
1,450	-81,611	-27,490	26,630	80,751	134,871	188,992	243,112	297,233	351,353	405,474	459,594	513,715
1,500	-69,611	-9,490	50,630	110,751	170,871	230,992	291,112	351,233	411,353	471,474	531,594	591,715

The receptiveness of the market to pay the necessary price (and, ideally, more) is examined in *Section 6.2 – Market Price*.

5.2.2 Sensitivity Analysis

An examination of the sensitivity of CFS's financial model helps to illustrate the implications of changes to the Society's finances and how those changes affect the monthly service fee requirements.

The following sensitivity analysis calculations are based on the same assumptions used to calculate the monthly break-even service fee requirements and include all grants, contributions, subsidies, donations, and fundraising.

5.2.2.1 Effect of % Increase/Decrease in Variable Expenses on Monthly Service Fee Requirements

Changes to variable expenses, such as changes to the average staff wage, increased expenses due to inefficient staffing, or changes in nutrition program expenses will have an effect on the monthly service fee requirement. At the current average level of enrolment, CFS would need to reduce its variable expenses by ~5% (~$39,500/year) to achieve the break-even service level.

Increase/Decrease in Variable Expenses ($)	Avg. Enrolment											
	20	30	40	50	60	70	80	90	100	110	120	130
-25%	1,424	1,182	1,061	989	941	906	880	860	844	831	820	811
-20%	1,497	1,251	1,128	1,054	1,005	970	944	923	907	893	882	873
-15%	1,570	1,320	1,195	1,120	1,070	1,034	1,007	986	969	956	944	935
-10%	1,644	1,389	1,261	1,185	1,134	1,098	1,070	1,049	1,032	1,018	1,007	997
-5%	1,717	1,458	1,328	1,250	1,198	1,161	1,133	1,112	1,095	1,080	1,069	1,059
0%	1,790	1,526	1,395	1,315	1,263	1,225	1,197	1,175	1,157	1,143	1,131	1,121
5%	1,863	1,595	1,461	1,381	1,327	1,289	1,260	1,238	1,220	1,205	1,193	1,183
10%	1,937	1,664	1,528	1,446	1,391	1,353	1,323	1,301	1,282	1,268	1,255	1,245
15%	2,010	1,733	1,594	1,511	1,456	1,416	1,387	1,364	1,345	1,330	1,317	1,307
20%	2,083	1,802	1,661	1,577	1,520	1,480	1,450	1,426	1,408	1,392	1,380	1,369
25%	2,156	1,870	1,728	1,642	1,585	1,544	1,513	1,489	1,470	1,455	1,442	1,431

A 25% increase or decrease in variable expenses results in a corresponding 23-28% increase or decrease in the required monthly service fee – depending on the average enrolment – indicating a fairly close correlation between increased variable expenses and the need to increase service fees by a similar percentage variable expense increase. (For example, if labour costs go up 25%, and enrolment is at 100 children, then service fees should go up by 27%.)

Increase/Decrease in Variable Expenses (%)	Avg. Enrolment											
	20	30	40	50	60	70	80	90	100	110	120	130
-25%	-20%	-23%	-24%	-25%	-25%	-26%	-26%	-27%	-27%	-27%	-27%	-28%
-20%	-16%	-18%	-19%	-20%	-20%	-21%	-21%	-21%	-22%	-22%	-22%	-22%
-15%	-12%	-14%	-14%	-15%	-15%	-16%	-16%	-16%	-16%	-16%	-16%	-17%
-10%	-8%	-9%	-10%	-10%	-10%	-10%	-11%	-11%	-11%	-11%	-11%	-11%
-5%	-4%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-6%
0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
5%	4%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	6%
10%	8%	9%	10%	10%	10%	10%	11%	11%	11%	11%	11%	11%
15%	12%	14%	14%	15%	15%	16%	16%	16%	16%	16%	16%	17%
20%	16%	18%	19%	20%	20%	21%	21%	21%	22%	22%	22%	22%
25%	20%	23%	24%	25%	25%	26%	26%	27%	27%	27%	27%	28%

Because the most most-significant variable cost is staff wages, the staffing levels of which are dictated by territorial regulation, CFS would need to reduce wages by slightly more than 5% to break even. Naturally, a 5% reduction in wages (reducing the average wage rate from $23.13 to $21.97) might seem minor, but it could just as easily result in increased staff turnover and higher recruitment costs – offsetting the benefit attained by the wage reduction in the first place.

It would appear that CFS already makes a concerted effort to minimize staffing and nutrition-related costs, suggesting it is unlikely that variable expenses will be able to be reduced in a meaningful way. Certainly, the Society cannot afford to be inefficient with its staffing. Realistically, however, CFS will be faced with inflationary pressures (the rising cost of food and energy in Inuvik, employee experience and education-related salary increases, etc.) that will drive variable expenses – and by necessity, service fees – upward.

5.2.2.2 Effect of Child to Staff Ratio on Monthly Service Fee Requirements

CFS's largest expense is payroll, particularly the payroll for frontline child development staff. The number of staff (and, consequently, the cost of payroll) is determined by territorial regulation. While the maximum allowable number of children per caregiver in home childcare in the NWT is 8:1, the average number of children (0-3 years) to staff in NWT childcare centres is 5:1[3] – which corresponds to CFS's current child to staff ratio.

As illustrated below, changes to the ratio have a considerable effect on the affordability of daycare at CFS. This comment is made without consideration to the quality of childcare provided under the various ratios and without regard to the degree of safety that each ratio provides.

Operating at a 6:1 ratio would allow CFS to make a small profit at the current enrolment level, although this would require a sizeable increase in the number of older children and, potentially, the refusal of infants.

Increase/Decrease in Child to Staff Ratio	Avg. Enrolment											
	20	30	40	50	60	70	80	90	100	110	120	130
9:1	2,124	1,333	1,070	938	859	806	768	740	718	701	686	674
8:1	2,196	1,405	1,141	1,009	930	877	840	811	789	772	757	745
7:1	2,287	1,496	1,233	1,101	1,022	969	931	903	881	864	849	837
6:1	2,410	1,619	1,355	1,223	1,144	1,091	1,054	1,025	1,004	986	972	960
5:1	2,581	1,790	1,526	1,395	1,315	1,263	1,225	1,197	1,175	1,157	1,143	1,131
4:1	2,838	2,047	1,783	1,651	1,572	1,520	1,482	1,454	1,432	1,414	1,400	1,388
3:1	3,266	2,475	2,211	2,080	2,000	1,948	1,910	1,882	1,860	1,842	1,828	1,816
2:1	4,122	3,331	3,068	2,936	2,857	2,804	2,766	2,738	2,716	2,699	2,684	2,672

5.2.2.3 Effect of % Increase/Decrease in Fixed Expenses on Monthly Service Fee Requirements

The control of fixed expenses is a standard business practice. At the current average enrolment level and $1,278 average service fee, under the assumptions stated in *Section 5.1 – Assumptions*, CFS is sustaining a loss. At the current enrolment level, the Society would need to reduce fixed expenses by ~10% ($58,076) to offer services at the break-even rate. The Society is already operating on a lean budget for a facility of this nature and significant reductions in fixed expenses would prove to be a great challenge, financially and operationally.

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[3] *Feasibility Study of Universal Affordable Day Care in the Northwest Territories*, Kerry McCuaig, et.al, June 4, 2015, Page 35.

Increase/Decrease in Fixed Expenses (%)	Avg. Enrolment											
	20	30	40	50	60	70	80	90	100	110	120	130
-25%	1,371	1,185	1,123	1,092	1,073	1,061	1,052	1,046	1,040	1,036	1,033	1,030
-20%	1,613	1,306	1,204	1,153	1,122	1,101	1,087	1,076	1,067	1,060	1,055	1,050
-15%	1,855	1,427	1,284	1,213	1,170	1,142	1,121	1,106	1,094	1,085	1,077	1,070
-10%	2,097	1,548	1,365	1,274	1,219	1,182	1,156	1,136	1,121	1,109	1,099	1,091
-5%	2,339	1,669	1,446	1,334	1,267	1,222	1,190	1,167	1,148	1,133	1,121	1,111
0%	2,581	1,790	1,526	1,395	1,315	1,263	1,225	1,197	1,175	1,157	1,143	1,131
5%	2,823	1,911	1,607	1,455	1,364	1,303	1,260	1,227	1,202	1,181	1,165	1,151
10%	3,065	2,032	1,688	1,516	1,412	1,343	1,294	1,257	1,229	1,206	1,187	1,171
15%	3,307	2,153	1,768	1,576	1,461	1,384	1,329	1,288	1,255	1,230	1,209	1,191
20%	3,549	2,274	1,849	1,637	1,509	1,424	1,363	1,318	1,282	1,254	1,231	1,211
25%	3,791	2,395	1,930	1,697	1,557	1,464	1,398	1,348	1,309	1,278	1,253	1,232

A 100% reduction in fixed expenses (through core funding in the amount of $580,764, including current subsidies) would allow the Society to offer services for $347/month at the current enrolment level and for $748/month at full occupancy.

Interestingly, a comparison of increases and decreases between variable expenses and fixed expenses indicates that – if one had to choose between reducing fixed expenses vs. reducing variable expenses – care should be taken to minimize fixed expenses to minimize service fees when enrolment is low, whereas if enrolment is very high, greater benefit can be found in trying to control variable expenses because with higher enrolment variable expenses take up a greater proportion of the overall expenses.

5.2.2.4 Effect of % Increase/Decrease in Grants, Contributions, and Subsidies on Monthly Service Fee Requirements

At current enrolment levels, grants, contributions, and subsidy revenues account for roughly 33% of total revenues and contribute significantly to the financial viability of CFS.

	Avg. Enrolment											
Sources of Revenue as a %	**20**	**30**	**40**	**50**	**60**	**70**	**80**	**90**	**100**	**110**	**120**	**130**
Service Fees (break-even)	46%	51%	55%	58%	60%	62%	64%	65%	67%	68%	69%	70%
Grant, Contribution, and Subsidy Revenues	41%	38%	35%	33%	32%	30%	29%	28%	28%	27%	26%	26%
Fundraising and Donation Revenues	13%	11%	10%	9%	8%	7%	7%	6%	6%	5%	5%	5%

Furthermore, grants, contributions, and subsidies contribute to the reduction of service fees. At the break-even level, on average, they reduce the average monthly service fee by $759.

Contribution of grants, contributions, and subsidies to service fee reduction ($)	Avg. Enrolment											
	20	**30**	**40**	**50**	**60**	**70**	**80**	**90**	**100**	**110**	**120**	**130**
Service fees only	3,885	2,990	2,542	2,273	2,094	1,966	1,871	1,796	1,736	1,687	1,647	1,612
Service fees and est. grants, contributions, and subsidies	2,287	1,858	1,643	1,514	1,428	1,367	1,321	1,285	1,257	1,233	1,214	1,197
Contribution to Service Fee Reduction	1,598	1,132	899	759	666	599	549	511	480	454	433	415

Because a contribution agreement approach is used for a portion of the funds and this amount does not change as enrolment levels rise, it takes a fairly substantial increase or decrease in funding to have a significant effect on service fees at the medium to high enrolment levels. For example, increasing total contributions and subsidies by 25% (an additional $86,375/year, including Early Childhood Development funding) for the current enrolment level decreases the average monthly service fee by $190/child. At an enrolment of 100 children, a 25% increase in current grants, contributions, and subsidies (an additional $88,875/year including Early Childhood Development Funding) would reduce the average monthly service fee by only $120/child.

At the current level of enrolment, CFS would need a more than 5% increase in current grants, contributions, and subsidies to break-even at the current average monthly enrolment rate.

Increase / Decrease in Grants, Contributions and Subsidies (%)	Avg. Enrolment											
	20	30	40	50	60	70	80	90	100	110	120	130
-25%	2,190	1,809	1,619	1,505	1,429	1,375	1,334	1,302	1,277	1,256	1,239	1,224
-20%	2,110	1,753	1,574	1,467	1,396	1,345	1,307	1,277	1,253	1,234	1,217	1,204
-15%	2,030	1,696	1,529	1,429	1,363	1,315	1,279	1,251	1,229	1,211	1,196	1,183
-10%	1,950	1,640	1,484	1,391	1,329	1,285	1,252	1,226	1,205	1,188	1,174	1,162
-5%	1,870	1,583	1,439	1,353	1,296	1,255	1,224	1,200	1,181	1,166	1,152	1,141
0%	1,790	1,526	1,395	1,315	1,263	1,225	1,197	1,175	1,157	1,143	1,131	1,121
5%	1,710	1,470	1,350	1,277	1,229	1,195	1,169	1,149	1,133	1,120	1,109	1,100
10%	1,630	1,413	1,305	1,239	1,196	1,165	1,142	1,124	1,109	1,097	1,088	1,079
15%	1,550	1,357	1,260	1,202	1,163	1,135	1,114	1,098	1,085	1,075	1,066	1,058
20%	1,470	1,300	1,215	1,164	1,129	1,105	1,087	1,073	1,061	1,052	1,044	1,038
25%	1,391	1,243	1,170	1,126	1,096	1,075	1,059	1,047	1,037	1,029	1,023	1,017

5.2.2.5 Effect of % Increase/Decrease in Fundraising and Donations on Monthly Service Fee Requirements

Accounting for 9% of revenues at current enrolment levels, fundraising and donations also play an important role in CFS's revenue mix. Even more than with grants, contributions, and subsidies, it takes a considerable increase in fundraising revenues to result in a significant decrease in the monthly average service fee. A 25% increase in fundraising revenues results in a 4% decrease in monthly service fees at the current average enrolment level. CFS would need to increase its annual fundraising dollars by 20% (~$24,000) more than the current projected fundraising amount to break even.

Increase/Decrease in Fundraising and Donations ($)	Avg. Enrolment												
	10	20	30	40	50	60	70	80	90	100	110	120	130
-25%	2,830	1,914	1,609	1,457	1,365	1,304	1,261	1,228	1,202	1,182	1,165	1,152	1,140
-20%	2,780	1,889	1,593	1,444	1,355	1,296	1,253	1,222	1,197	1,177	1,161	1,147	1,136
-15%	2,730	1,865	1,576	1,432	1,345	1,288	1,246	1,215	1,191	1,172	1,156	1,143	1,132
-10%	2,681	1,840	1,560	1,419	1,335	1,279	1,239	1,209	1,186	1,167	1,152	1,139	1,128
-5%	2,631	1,815	1,543	1,407	1,325	1,271	1,232	1,203	1,180	1,162	1,147	1,135	1,125
0%	2,581	1,790	1,526	1,395	1,315	1,263	1,225	1,197	1,175	1,157	1,143	1,131	1,121
5%	2,531	1,765	1,510	1,382	1,305	1,254	1,218	1,191	1,169	1,152	1,138	1,127	1,117
10%	2,482	1,740	1,493	1,370	1,296	1,246	1,211	1,184	1,164	1,147	1,134	1,123	1,113
15%	2,432	1,715	1,477	1,357	1,286	1,238	1,204	1,178	1,158	1,142	1,129	1,118	1,109
20%	2,382	1,691	1,460	1,345	1,276	1,230	1,197	1,172	1,153	1,137	1,125	1,114	1,105
25%	2,333	1,666	1,444	1,332	1,266	1,221	1,190	1,166	1,147	1,132	1,120	1,110	1,102

While researching this project, many of the Society's directors felt that fundraising was becoming increasingly difficult and that this was attributable to the significant amount of community support that went into raising funds for the building. Now, with the building complete, community members aren't as interested in or questioning why they would support ongoing operational expenses and are suggesting it's "someone else's turn".

5.3 Break-Even and Sensitivity Analysis Summary

At low enrolment levels, CFS is highly sensitive to variations in both fixed and variable expenses. As enrolment increases, the Society benefits from economies of scale and becomes less sensitive to increases/decreases in expenses – but this is a double-edged sword. With increased enrolment, variable expenses increase but grant, contribution, subsidy, fundraising and donation revenues do not go as far. If CFS cannot charge the monthly service fees required to break-even at the various service levels, or find alternative sources of funding, CFS will continue to lose money and, ultimately, need to close its doors or declare bankruptcy.

The ability of the market to pay the required average break-even fee is discussed in *Section 6 – Market Research Analysis*.

6 Market Research Analysis

6.1 Market Size and Market Share

Assessing the total market potential for childcare in Inuvik is a difficult proposition as there are a variety of factors that determine whether or not parents will use a paid childcare or child development service, including:

- Relatives providing free childcare
- Lifestyle choices (stay-at-home parents, for example)
- Employment or lack thereof
- Income and affordability, etc.

As of 2014, there were roughly 318 children aged 4 and under living in Inuvik, with another 296 between the ages of 5 and 9, and a further 194 under the age of 14. There are roughly 70 births per year (although this figure may be skewed by the presence of a regional hospital and doesn't take into account families with infants relocating to Inuvik)[4].

The childcare market contains a spectrum of childcare/child development services, ranging from stay-at-home parents, to childcare provided by family members, to babysitters, to unlicensed and licensed day homes, and daycares, to child development services. Each option provides a different type of service ranging from basic child maintenance, to structured learning and development. Adding to this mix is an assortment of child-oriented services and programming, such as the Youth Centre and the Aboriginal Head Start Program. Prices for these services range from free, to over $1,000/month, and all of them "compete" in some fashion or another with the Children First Society.

In addition to these sources of competition, the prospect of junior kindergarten in the NWT is imminent. In an undated document entitled "Junior Kindergarten Facts[5]" published by ECE, it is explained that:

> *"In* Right from the Start: A Framework for Early Childhood Development in the Northwest Territories*, the GNWT expressed its vision for a future where children have the necessary supports in life to allow them to develop to their full potential. The*

[4] NWT Bureau of Statistics, Inuvik – Statistical Profile, 2014)

[5] *Junior Kindergarten Facts*, Education, Culture, and Employment, GNWT, https://www.ece.gov.nt.ca/files/Early-Childhood/jk_facts_sheet.pdf, Last viewed, November 12, 2015

government committed to enhance access to high-quality, affordable early learning programs and childcare services. Junior Kindergarten is an exciting step in that direction – it will provide quality, free and optional care to 4 year old children across the NWT."

The fact sheet goes on to explain that:

- *"Daycare centres now serving 4 year olds will be helped to convert 4 year old spaces to serve younger children*
- *By opening up Junior Kindergarten for 4 year olds, spaces for children aged 0-3 will increase in licensed daycare centres. There are currently waiting lists in many licensed daycare programs for this age group*
- *ECE is not proposing to change the amount of funding per child per day for ECD programs"*

Schools were asked to provide junior kindergarten within existing spaces and budgets. Child to staff ratios would be 16:1. In Inuvik, there is reported to be enough capacity within school buildings to house junior kindergarten, although it is also reported that schools have raised concern about their ability to deliver junior kindergarten within existing budgets. Regardless, should the GNWT pursue junior kindergarten outside of CFS, it will drive enrolment down and the Society will, once again, be forced to raise its average monthly rate.

Using only the children aged 4 and under as the basis for calculating market share, CFS has less than 16% of the total market share (assuming all children in that age bracket are in childcare). This number is even lower if other age cohorts are considered. At full capacity, using the same 4-and-under cohort, CFS would need to capture 40% of the total market.

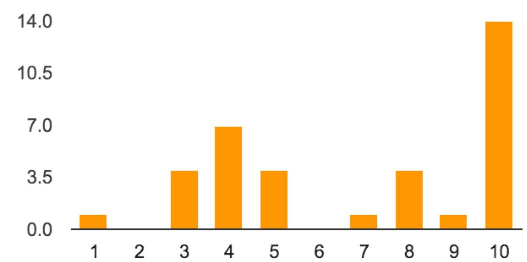
In an attempt to better-understand the market, a market research survey was conducted, targeted at parents who live in Inuvik *and* who have one or more children aged 12 or younger. Geographically targeted Facebook advertisements were the sole means of attracting respondents. 39 responses were received over the two-week survey period. While the sample size was too small to assert any degree of statistical confidence, the responses were nonetheless illuminating.

The survey indicated that parents choose their desired service based on a variety of factors, including, in no particular order:

- Trust
- Reliability
- Affordability
- Access to family members

- Availability
- Level of desire to provide their child with a developmental advantage, etc.

When asked to gauge on a scale of one to ten how important it is to have their "children participating in learning and child development activities while they're in childcare" (with 1 being not important at all and 10 being extremely important), an interesting clustering emerged. 40% of parents feel it's extremely important to have their children participating in learning and child development activities while they're in childcare, but an even larger grouping of parents do not feel it is very important.



This may indicate that there is a lack of understanding about the difference between basic childcare and child development, or that parents do simply do not see value in child development.

According to respondents, at 36%, relatives are the most commonly-used form of childcare, with licensed and unlicensed day homes taking up another 23% of responses. When asked why they use this form of childcare, the responses indicated almost unanimously that the cost of childcare was the determining factor (and some specified that that CFS is either cost-prohibitive or that they see greater value in other options). Unlicensed day homes, in particular, were singled out as being reasonably priced with a good service. Unlicensed day homes are likely able to achieve this price advantage due to lower overall overhead (building, administration, etc.).

20% of respondents indicated that they don't use childcare. When asked why, the primary reason indicated was that they stay home with their child(ren) – although two-thirds of these respondents would *like* to have their children in childcare. Again, price was indicated as a factor. Extrapolated to the Inuvik population aged 9 and under (a tenuous proposition given the small sample size), the distribution of service use is as follows:

Most Commonly-Used Childcare Service	% of Respondents (n=39)	# in Population
Relatives	35.90%	220
I don't use childcare	20.50%	126
Unlicensed day home	12.80%	79
Licensed day home	10.30%	63
Licensed daycare centre	7.70%	47
Programs like Aboriginal Head Start or the Library's after-school program	7.70%	47
Regular babysitter(s)	5.10%	31
Friends	0%	0
Nanny	0%	0
Unlicensed daycare centre	0%	0
The Youth Centre	0%	0
Total	**100.00%**	**614**

While an extrapolation of this nature is risky, statistically, the extrapolation indicates the use of licensed daycare centres is comparable to the average enrolment at CFS.

Using this extrapolation of children under the age of nine in paid childcare (relatives have been excluded since it is not possible to determine what percentage of relatives are being paid to provide childcare), the market contains 269 children (134 of which are under the age of 4). Assuming that the two-thirds of parents who don't use childcare but would like their children to be in childcare if the price issue was addressed, an additional 84 children under the age of nine could be added to this market (43 of which are under the age of 4).

With roughly 70 children born each year in Inuvik and # infants in the program, CFS is achieving roughly # of the infant market share. With ## participants enrolled in the program overall, CFS is achieving ## of the aged ## and under market. Interestingly, even though 40% of respondents indicating that child development is extremely important to them, CFS only commands ~16% of the market share, indicating that either these parents do not believe CFS provides a high caliber service compared to other childcare options, are unaware of how CFS is different from other childcare options, or simply cannot afford CFS for their children. Based on the near unanimity of the survey responses, this cost issue is the most-likely reason.

6.2 Market Price

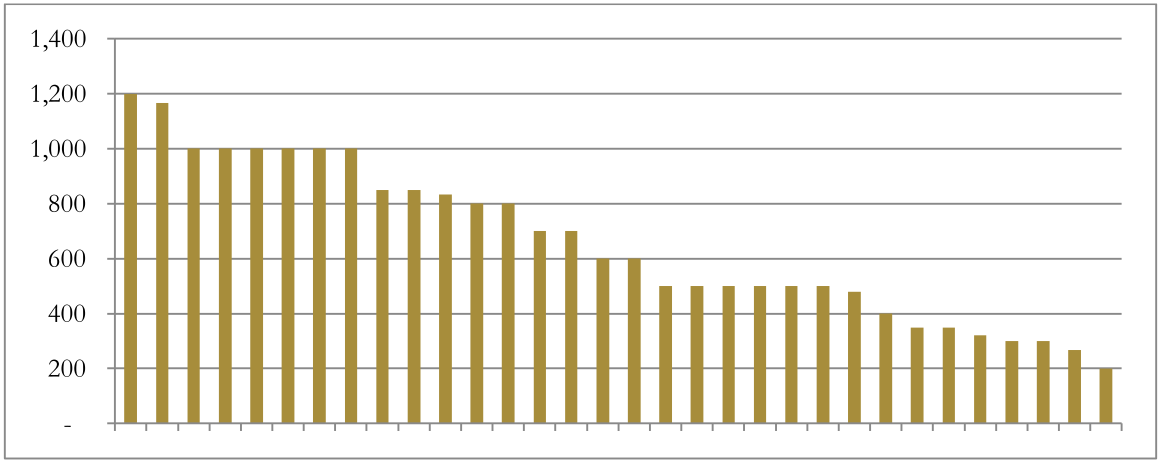
The average family income in Inuvik in 2012 was $107,191, with 21.3% of those families making less than $30,000, 22.5% making between $30,000 and $75,000, and 56.2% making more than $75,000[6]. Unfortunately, these figures do not indicate where the parents of childcare-aged children fall, statistically. Using the average break-even rates calculated earlier in this document, however, we can determine what percentage of annual household income would go toward childcare. In Brampton, Ontario, which is recognized as a high-priced location for daycare services, 36% of a woman's income can go toward childcare[7]. If we assume that this is the maximum that a family can afford for childcare and apply the same standard to Inuvik, the 21.3% of families making less than $30,000 will not have access to CFS's services, and neither will a portion of the 22.5% earning between $30,000 to $75,000.

% of Annual Income	**Avg. Enrolment**											
Annual Income ($)	**20**	**30**	**40**	**50**	**60**	**70**	**80**	**90**	**100**	**110**	**120**	**130**
25,000	86%	73%	67%	63%	61%	59%	57%	56%	56%	55%	54%	54%
30,000	72%	61%	56%	53%	51%	49%	48%	47%	46%	46%	45%	45%
35,000	61%	52%	48%	45%	43%	42%	41%	40%	40%	39%	39%	38%
40,000	54%	46%	42%	39%	38%	37%	36%	35%	35%	34%	34%	34%
45,000	48%	41%	37%	35%	34%	33%	32%	31%	31%	30%	30%	30%
50,000	43%	37%	33%	32%	30%	29%	29%	28%	28%	27%	27%	27%
55,000	39%	33%	30%	29%	28%	27%	26%	26%	25%	25%	25%	24%
60,000	36%	31%	28%	26%	25%	25%	24%	23%	23%	23%	23%	22%
65,000	33%	28%	26%	24%	23%	23%	22%	22%	21%	21%	21%	21%
70,000	31%	26%	24%	23%	22%	21%	21%	20%	20%	20%	19%	19%
75,000	29%	24%	22%	21%	20%	20%	19%	19%	19%	18%	18%	18%
80,000	27%	23%	21%	20%	19%	18%	18%	18%	17%	17%	17%	17%
85,000	25%	22%	20%	19%	18%	17%	17%	17%	16%	16%	16%	16%
90,000	24%	20%	19%	18%	17%	16%	16%	16%	15%	15%	15%	15%
95,000	23%	19%	18%	17%	16%	15%	15%	15%	15%	14%	14%	14%
100,000	21%	18%	17%	16%	15%	15%	14%	14%	14%	14%	14%	13%

[6] *Community Data Profile: Inuvik*, NWT Bureau of Statistics, http://www.statsnwt.ca/community-data/Profile-PDF/Inuvik.pdf, Last viewed, November 12, 2015
[7] *The Parent Trap: Childcare Fees in Canada's Big Cities*, David Macdonald and Martha Friendly, November 2014, Canadian Centre for Policy Alternatives. https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2014/11/Parent_Trap.pdf

With this much of the market excluded from accessing the Children First Centre because of affordability issues, it is unsurprising that the Society is accused of being "for rich people only".

When respondents in the market research survey were asked what is the *most* they'd be willing to pay for childcare, the adjusted average[8] was \$726/month for full-time daycare, with the most-commonly cited amount being \$1,000. Those interested in part-time daycare are willing to pay, on average, \$367/month. The distribution for all responses (part-time and full-time) is as follows:



In light of these responses, it is likely that a large percentage of Inuvik's population is either unable to afford CFS's services or unwilling to pay for CFS's services purely from a price/value perspective. It is telling that not a single respondent is willing or able to pay CFS's current average program fee of \$1,278 per month. To reach even 50% of the respondents (specifically those looking for full-time childcare), CFS would need to offer its services at a rate of \$750/month.

[8] Some respondents indicated monthly amounts based on the total for all of their children, while others indicated they're only interested in a part-time service. Part-time amounts were excluded from this figure.

7 Business Case Implications

There is a significant mismatch between what the Children First Society must charge and what the market is willing to bear. While cost-saving and fundraising measures are important, even with a tremendous marketing effort, it is unlikely the Society will be able to increase its enrolment while still charging the necessary service fees needed to break even.

Without significant intervention, the Children First Society will likely be forced to close its doors or, possibly, into bankruptcy.

Four options for going forward and the implications of each are outlined as follows:

1. Close the Children First Centre
2. Engage in concerted cost-cutting, fundraising, and marketing efforts
3. Seek increased operational grants, contributions, and subsidies from government partners
4. Turn over control of the Children First Centre to the GNWT

7.1 Close the Children First Centre

Closure of the Children First Centre is a financially prudent option, considering the losses the Society is expected to continue to sustain. While financially prudent for the directors, closure of the centre will have negative effects on the families currently using the centre, and, likely, on the Town of Inuvik – which technically owns the building, but has used a not-insignificant amount of Town funds to finance the construction of the facility and would be left with a sizeable, custom-build asset that it may or may not have trouble selling.

7.2 Engage in concerted cost-cutting, fundraising, and marketing efforts

The Society can engage in concerted cost-cutting, fundraising, and marketing efforts which may include (alone or in combination):

a) Wage cuts (greater than 5% to break even)
b) Increasing fundraising by 20% (to break even)

While ambitious, ideally, a combination of increased fundraising and expense reduction will allow the Society to reduce its monthly service fee to a level that will increase enrolment. A reduction in service fees cannot occur until the expense reduction and fundraising targets have been achieved.

7.3 Seek increased operational grants, contributions, and subsidies from government partners

A 100% reduction in fixed expenses would allow the Society to offer services for $347/month at the current enrolment level and for $748/month at full occupancy. Based on the market research, $750/month would be affordable to 50% of the survey respondents. Extrapolated to Inuvik's population aged 4 and under, CFS should be able to fill or come close to filling the facility.

This reduction could be achieved through sustained core funding in the amount of $580,764, including current subsidies. It is unknown if the territorial or federal governments would support an increase to core funding, so further research and discussion is required.

7.4 Turn over control of the Children First Centre to territorial or local governments

As an alternative to closing the Children First Centre, the Society could propose to the GNWT, Gwich'in Tribal Council, Inuvialuit Regional Corporation, and/or the Town of Inuvik that one or all of these governments assume control of the Children First Centre. It is unknown if these governments would be interested in this approach and further research and discussion is required.

8 Recommendations

It is recommended that the Children First Society:

1. Engage in immediate cost-cutting measures (both fixed and variable)
2. Seek additional avenues for fundraising
3. Immediately convene a meeting of the GNWT and local governments to examine either increases to operational grants or a transfer of responsibility for operations

If the Children First Society cannot achieve break-even through increased revenues and reduced expenses in the very short term, it is recommended that the Society examine voluntary dissolution before it is unable to meet its payroll and accounts payable obligations and/or is forced to declare bankruptcy.

Appendix A – *NWT Child Day Care Act* – Regulation 57

REGULATION 57: Every operator shall provide for the appropriate minimums and maximums when considering adult/child ratios.

Age of Child	Minimum Staff to Child Ratio	Maximum Group Size	Maximum Children in Room
1-12 months	1:3	6	9
13-24 months	1:4	8	12
25-35 months	1:6	12	18
3 years	1:8	16	25
4 years	1:9	18	27
5-11 years	1:10	20	30

Guidelines:

- Where children are cared for in mixed age groupings for the majority of the facility's operating hours, the following ratios and groupings apply:

Age of Child	Ratio	Group Size
12 weeks – 2 years	1:4	8
2-5 years	1:8	16
5-12 years	1:10	30

- The Ratio will be calculated on a prorated basis, i.e.:

Age of Child	Number of Children Enrolled	Ratio	Number of Staff Required
6-24 months	3	1:4	0.75
2-5 years	14	1:8	1.75

Guidelines:

- During mealtimes, nap times, or special activities, the ratio of staff to children may be reduced to one adult per group. The total number of adults required by this standard must be in close proximity to the children to assist with emergency situations.
- The maximum number of groups of children per room is two. In facilities with more than one room, the maximum enrolment allowed per room will be enforced if children are required by staff to be in a specific room. However, if children move freely from room to room within the day care centre, a maximum room enrolment will not be enforced.
- For nap purposes, there may be no more than two groups of children in the room and the groups must be separated in some way.
- The maximum enrolment per room will be waived during the lunch period.

Appendix B – CFS Pay Grid

Category

C Casual
1 No Training
2 3 or more workshops
3 3 ECD Courses
4 7 ECD Courses
5 ECD Certificate
6 ECD Certificate + 5 Courses
7 Other Bachelor Degree
8 ECD Diploma
9 Bachelor Degree ECD/Education

Base Wage	**Category**									
Yrs. Experience	C	1	2	3	4	5	6	7	8	9
0	$ 16.00	$ 16.10	$ 16.30	$ 17.30	$ 18.30	$ 19.30	$ 20.30	$ 21.30	$ 22.30	$ 23.30
1	$ 16.10	$ 16.20	$ 16.40	$ 17.60	$ 18.60	$ 19.60	$ 20.90	$ 21.90	$ 22.90	$ 23.90
2	$ 16.20	$ 16.30	$ 16.50	$ 17.90	$ 18.90	$ 19.90	$ 21.50	$ 22.50	$ 23.50	$ 24.50
3	$ 16.30	$ 16.40	$ 16.60	$ 18.20	$ 19.20	$ 20.20	$ 22.10	$ 23.10	$ 24.10	$ 25.10
4	$ 16.40	$ 16.50	$ 16.70	$ 18.50	$ 19.50	$ 20.50	$ 22.70	$ 23.70	$ 24.70	$ 25.70
5	$ 16.50	$ 16.60	$ 16.80	$ 18.80	$ 19.80	$ 20.80	$ 23.30	$ 24.30	$ 25.30	$ 26.30
6	$ 16.60	$ 16.70	$ 16.90	$ 19.10	$ 20.10	$ 21.10	$ 23.90	$ 24.90	$ 25.90	$ 26.90
7	$ 16.70	$ 16.80	$ 17.00	$ 19.40	$ 20.40	$ 21.40	$ 24.50	$ 25.50	$ 26.50	$ 27.50
8	$ 16.80	$ 16.90	$ 17.10	$ 19.70	$ 20.70	$ 21.70	$ 25.10	$ 26.10	$ 27.10	$ 28.10
9	$ 16.90	$ 17.00	$ 17.20	$ 20.00	$ 21.00	$ 22.00	$ 25.70	$ 26.70	$ 27.70	$ 28.70
10	$ 17.00	$ 17.10	$ 17.30	$ 20.30	$ 21.30	$ 22.30	$ 26.30	$ 27.30	$ 28.30	$ 29.30
11	$ 17.10	$ 17.20	$ 17.40	$ 20.60	$ 21.60	$ 22.60	$ 26.90	$ 27.90	$ 28.90	$ 29.90

Northern Allowance	**Category**									
Yrs. Employed	C	1	2	3	4	5	6	7	8	9
0	0	3	3.3	3.9	4.5	5.1	6.1	7.1	8.1	9
1	0	3.3	3.6	4.2	4.8	5.4	6.4	7.4	8.4	9
2	0	3.6	3.9	4.5	5.1	5.7	6.7	7.7	8.7	9
3	0	3.9	4.2	4.8	5.4	6	7	8	9	9
4	0	4.2	4.5	5.1	5.7	6.3	7.3	8.3	9	9
5	0	4.5	4.8	5.4	6	6.6	7.6	8.6	9	9
6	0	4.8	5.1	5.7	6.3	6.9	7.9	8.9	9	9
7	0	5.1	5.4	6	6.6	7.2	8.2	9	9	9
8	0	5.4	5.7	6.3	6.9	7.5	8.5	9	9	9
9	0	5.7	6	6.6	7.2	7.8	8.8	9	9	9
10	0	6	6.3	6.9	7.5	8.1	9	9	9	9
11	0	6.3	6.6	7.2	7.8	8.4	9	9	9	9

Combined	**Category**									
Yrs. Employed	**C**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
0	$16.00	$19.10	$19.60	$21.20	$22.80	$24.40	$26.40	$28.40	$30.40	$32.30
1	$16.10	$19.50	$20.00	$21.80	$23.40	$25.00	$27.30	$29.30	$31.30	$32.90
2	$16.20	$19.90	$20.40	$22.40	$24.00	$25.60	$28.20	$30.20	$32.20	$33.50
3	$16.30	$20.30	$20.80	$23.00	$24.60	$26.20	$29.10	$31.10	$33.10	$34.10
4	$16.40	$20.70	$21.20	$23.60	$25.20	$26.80	$30.00	$32.00	$33.70	$34.70
5	$16.50	$21.10	$21.60	$24.20	$25.80	$27.40	$30.90	$32.90	$34.30	$35.30
6	$16.60	$21.50	$22.00	$24.80	$26.40	$28.00	$31.80	$33.80	$34.90	$35.90
7	$16.70	$21.90	$22.40	$25.40	$27.00	$28.60	$32.70	$34.50	$35.50	$36.50
8	$16.80	$22.30	$22.80	$26.00	$27.60	$29.20	$33.60	$35.10	$36.10	$37.10
9	$16.90	$22.70	$23.20	$26.60	$28.20	$29.80	$34.50	$35.70	$36.70	$37.70
10	$17.00	$23.10	$23.60	$27.20	$28.80	$30.40	$35.30	$36.30	$37.30	$38.30
11	$17.10	$23.50	$24.00	$27.80	$29.40	$31.00	$35.90	$36.90	$37.90	$38.90

Note: All wages within a $1 variation of the July 2015 CFS average hourly wage of $23.13 have been highlighted.