



GUIDE FOR CHARTER SCHOOL LEADERS: CONSIDERATIONS FOR EXPANDING SERVICES TO YOUNG CHILDREN

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Introduction

Leaders in the early education field have made significant strides in recent years in making the case for investing in early education, in part because investing in education at the “front end” when children are young yields greater impact on readiness and success in school. For example, 38 states¹ now fund either part time or full year pre-kindergarten programs (although states vary in their ability to serve all children who are eligible for those services). As charter schools seek to better serve their communities and boost the academic success of their students, they may consider expanding early education services to children younger than five (or age of entry to kindergarten).

The Donnell-Kay Foundation is exploring the viability of establishing early education centers at or near charter schools in the Denver-metro region. In early 2010, the foundation contracted with The Finance Project (TFP) to conduct research and develop decision-making tools to address the following key questions:

- What are the key factors that impact the sustainability of effective early education centers?
- What are the key considerations in replicating an early education center (both service delivery and finance structure) in other communities?
- What additional considerations impact replication of an early education center that could be operated by, or connected to, an individual charter school and/or charter management organization?

Overview of Guide

The information presented in this guide is intended to support the decision-making of foundation and charter school leaders. The information and the accompanying tools provide leaders with a process for decision-making that takes into account both the goals and results envisioned for children and families, the assets and resources of the community, and the fiscal and operational infrastructure necessary to be sustainable. The report includes the following sections:

- **Section 1: Overview of Early Education Programs and Charter Schools**, includes information on efforts nationwide to form partnerships between early education centers and charter schools, and highlights federal and state funding sources.
- **Section 2: Summary Findings from Case Studies**, includes a high level summary analysis of the sustainability of two early education centers: the Acorn, a blended public/private funding model and Early Excellence, a primarily subsidized, public funding model.
- **Section 3: Assessing the Sustainability of Early Education Centers in Charter Schools**, includes a Self Assessment Tool to help charter school leaders determine if and when it makes business sense to operate or contract with an early education center.
- **Appendices**
 - Appendix A: Federal Funding Matrix
 - Appendix B: Case Studies of Two Early Education Centers

¹ The State of Preschool 2009, National Institute for Early Education Research, Available at: http://nieer.org/yearbook/pdf/yearbook_executive_summary.pdf

How to use this guide— Begin by familiarizing yourself with the information in the guide and identify the specific topics or tools that best address the current status of your decision-making. The information and tools in this guide do not need to be used sequentially, or in total, and most likely will need customization to local conditions. In undertaking an effort of this complexity, it is best to assemble a team of key leaders with knowledge of education, early education, and finance. It is expected that this guide is just one part of the research and decision making process and not intended to be comprehensive. Think of the information here as a resource in the primarily “uncharted” landscape of early education and charter schools, and it is likely that the decision-making process you undertake will result in new information and tools added to the guide.

1. OVERVIEW OF EARLY EDUCATION PROGRAMS AND CHARTER SCHOOLS

In some states and cities throughout the country, public schools, including charter schools, have begun to incorporate early education programs into their schools. In some states, schools can tap dedicated funding sources that support pre-kindergarten slots, however, for charter schools the opportunity to access federal charter school funding for early education is less clear. In Colorado, while charter schools can technically use funding from the Colorado Preschool Program to support early education services, challenges persist in accessing those funds. This section looks at both program models around the country for incorporating early education into a school, and highlights relevant funding sources available both in Colorado and throughout the country.

Overview of Current Programs and Models

Charter schools across the country are already offering high-quality early education programs. In Los Angeles, Calif., the nationally recognized [Accelerated School](#) and [Camino Nuevo Charter School](#) offer both high-quality early elementary programs and pre-k programs with funding from Los Angeles' Universal Preschool (LAUP) program. Many Florida and Georgia charter schools offer pre-k with funding from their states' universal pre-kindergarten programs. In Washington, D.C., where charter schools receive full per-pupil funding for each 3- and 4-year-old they enroll, dozens of charter schools offer programs for 3- and 4-year-olds. Even in states without significant state pre-k programs, some charter schools are able to offer pre-k programs paid for with a mixture of parent funding, private philanthropy, and federal or state childcare subsidies for low-income students.

The number of public elementary and high schools with early education programs on-site is large. In the case of charter schools, many of the preschool partners are private, non-profit providers, although the charter is itself a public school. Casa Esperanza Montessori School in Raleigh, North Carolina, for example, is a charter elementary school serving bilingual students. In addition to the charter, the school operates a private daycare in its facility. The same is true of the Acorn Montessori charter school in Prescott Valley, Arizona. Other, non-Montessori charter elementary schools employ a similar arrangement.

Federal Funding for Charter Schools

The federal government invests more than \$200 million annually in the federal charter schools program, which provides start-up funding for charter schools. The No Child Left Behind Act currently defines a charter school as a school that “provides a program of elementary or secondary education, or both,” leaving state officials uncertain about whether pre-k charter schools, or multi-grade charter schools that start out with a single cohort of pre-k students, are eligible for federal start up funding. See **Appendix A: Federal Funding Matrix** for further information on federal funding sources.

Colorado Charter School Funding

Colorado is recognized as a state with progressive charter school legislation that includes moderate support for facilities and the recent creation of a state-level authorizer. However, only 4% of charter schools in the state receive state grants for facilities funding. Charter Schools are allowed to provide slots in the Colorado Preschool Program. Colorado’s charter school law, for example, states that, "A charter school shall be authorized to offer any educational program....that may be offered by a school district," which includes pre-k programs. However, pre-k funding flows to school districts that in turn can contract with community-based providers. The primary barrier to accessing pre-k funding is that school districts have little incentive to contract with charter schools.

The state requires a five year budget for charter schools; and authorizers can have their own budgets, but all draw on a state-wide chart of accounts. The Legislature sets some limits on overhead expense ratios, that include capital reserve and liability insurance; and statute indicates how the per-pupil funding can be spent. Charter schools are required to submit a report to the Colorado Department of Education on facility funding annually.

2. SUMMARY FINDINGS FROM CASE STUDIES

The Finance Project conducted case studies of the financial models of two early education centers: the Acorn, a blended public-parent/private funding model and Early Excellence, a primarily subsidized, public funding model. Both centers were chosen based on a review of selected early education centers operating in the Denver metro region by the Donnell Kay Foundation, and were identified as a high quality, fiscally sound early education models.

The case studies analyzed the programmatic, environmental, and fiscal factors that impact the success of the two centers. As charter school and foundation leaders consider how and whether to partner with early education centers, the case studies highlight many important considerations regarding what factors make up a successful and financially stable early education center.

Below we summarize the findings of the case studies and identify the key factors that drive the success of the two centers and the potential of these factors to offer a model for replication in other locations. See **Appendix B: Case Studies of Two Early Education Centers** for the complete case studies.

Research Approach

The Finance Project collected data for this study through a series of staff interviews, and through the review and analysis of internal financial and performance data provided by the two early education centers from January 2010 through March 2010. A research-based framework that identifies the key elements of organizational capacity fundamental to sustainable organizations² was used to examine the programmatic, environmental, and fiscal policies and practices of both early education centers. The four elements of the framework are:

- **Vision and results**—the degree to which each program has identified a clear vision and a concrete set of results, including systems to track results over time
- **Strategic financing orientation**—the degree to which each program has a clear understanding of the available resources, gaps in funding, and utilizes an array of financing strategies to support short and long-term financing needs
- **Broad base of community support**—the degree to which each program has developed strong relationships with the families they serve, related businesses and community organizations, and other key partners; including strategies to respond to changing economic and political conditions impacting the program and community they serve
- **Strong internal systems** – the degree to which each program has established internal fiscal, human resources, and data systems that support effective governance and management operations

Background Information

This section provides some of the key background information on each early education center, including information on their revenues and costs, staffing qualifications, and staffing ratios. **Table I** provides a comparison of key background information for both early education centers.

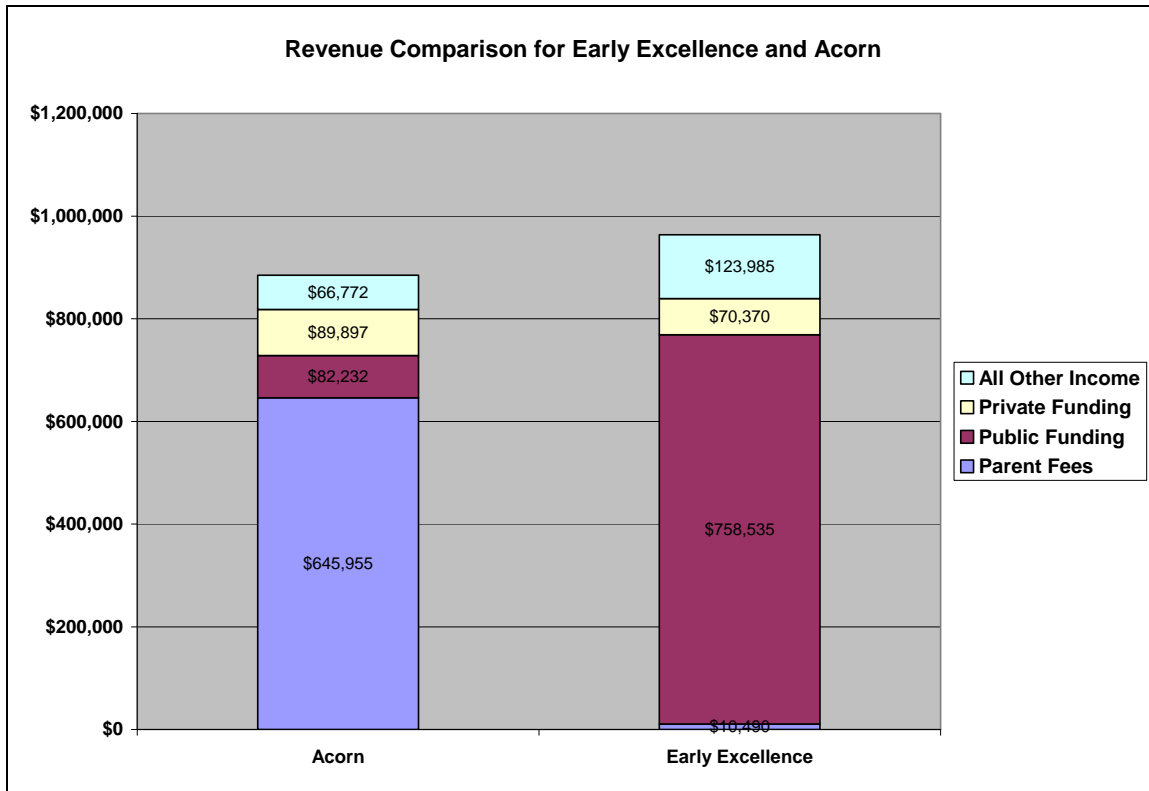
Business Model

- **Revenue Mix:** Acorn uses a combination of public, private-pay, and foundation revenue. This diverse mix contributes to the school's sustainability, helping to offset fluctuations in the other funding sources. Early Excellence is primarily funded with public funding and some foundation funding for staff and operations. The reliance on public revenue sources is impacted by fluctuations in funding due to a poor economy and city, county, state budget shortfalls (see **Figure I- Revenue Comparison**).
- **Funding Strategies:** Acorn and Early Excellence blend public funding sources to maximize benefits for children. This is a beneficial approach, but does result in additional administrative work in tracking and reporting expenditures by source and apportioning funding child-by-child based on eligibility for the funding sources.
- **Cost Structure:** Like most early education centers, the largest expense for both centers is staff salaries and benefits, which account for 74 and 80 percent of total expenses for Early Excellence and Acorn respectively. For The Acorn School, facility related costs, including mortgage

² The Finance Project, Sustainability Planning; <http://www.financeproject.org/index.cfm?page=28>

payments, maintenance, and utilities account for seven percent of total costs, while similar costs accounted for 11 percent of total costs for Early Excellence.

Figure 1: Revenue Comparison



Program Quality

- **Staffing Ratios:** Both centers are committed to high quality programs and have lower staff to child ratios than required by state licensing standards. Both centers have low staff-child ratios and group sizes, and use research-based standards that are connected to quality programs. This however translates into higher staff and operating costs. In the case of Acorn, it translates into even higher costs because infants and toddlers are served, requiring lower staff to child ratios. Early Excellence only serves children between the ages of 2½ and 5.
- **Staff Qualifications:** Both centers are focused on working with staff to increase their education and training and provide funding for professional development. In both centers, the Program Directors work closely with teachers to develop individualized professional development plans. For example, The Acorn School has developed a career ladder to facilitate staff advancement. The career ladder establishes benchmarks for staff to achieve additional learning credits and participate in related training, along with increases in pay tied to the benchmarks.
- **Curriculum:** Both centers use research-based curricula which focus on multiple-level developmentally appropriate learning. Early Excellence has a closely aligned relationship with

the Wyatt-Edison Charter School in preparing children for kindergarten and ensuring school readiness.

Table I: Comparison of Two High Quality, Early Education Centers

	Acorn School	Early Excellence
Location	Boulder, Colorado	Denver, Colorado
Enrollment	51 full-time equivalent children	80 full time equivalent children
Staff	36 staff, including: <ul style="list-style-type: none"> • 11 full time lead teachers, • 7 part time assistant teachers, • 2 full time assistant teachers, and • 3 full time administrative staff 	14 staff including: <ul style="list-style-type: none"> • 5 full time teachers, • 5 full time teacher assistants • 4 full time administrative positions
Staff Qualifications	<ul style="list-style-type: none"> • 46% of the teaching staff have BA degrees: • 5% of staff have M.A. degrees • 5% have a M.A. in non-ECE and completed at least 24 ECE credits 	<ul style="list-style-type: none"> • A total of 27% of the teaching staff have BA degrees. • 27% of teaching staff have completed at least 24 credit hours in ECE coursework.
Curriculum	<ul style="list-style-type: none"> • Uses the Creative Curriculum, which requires a range of developmentally appropriate materials and activities and includes a child-assessment system and staff training. 	<ul style="list-style-type: none"> • Uses Developmental Learning Materials and Everyday Math curriculum; • Aligns activities with the Denver Public School’s Standards
Revenues	<ul style="list-style-type: none"> • Parent fees = 73% • Public Funds = 9% • Private = 10% • Other Income (Includes In-Kind Funding) = 7% 	<ul style="list-style-type: none"> • Parent Fees = 1% • Public Funds = 79% • Private = 7% • Other Income (includes In-Kind funding) = 13%
Costs	<ul style="list-style-type: none"> • Staff salaries and benefits account for 80 percent of total expenses. • Facility related costs, including mortgage payments, maintenance, and utilities account for seven percent of total costs. 	<ul style="list-style-type: none"> • Salaries and benefits for staff represent the largest single cost, accounting for 74 percent of total costs. • Facility costs, which for Early Excellence include rent, maintenance, and utilities, account for 11 percent of overall costs.

Key Findings

Below is a brief summary of the key findings excerpted from the detailed case studies. Findings address successful efforts by each center to build a sustainable, high quality program, as well as challenges each center faces in financing those efforts.

Successes to Learn From

- **Program Quality-** The Acorn School has clearly had significant success in performing its core mission, to provide high quality early education services to children who attend the

school. The Acorn School's recent Qualistar rating, and accreditation by the National Association for the Education of Young Children (NAEYC), are evidence of the quality of the learning opportunities the Acorn School provides to young children in the community. Early Excellence has clearly had significant success in providing high quality early education services to children from low-income families. Participation in the Qualistar Early Learning program, with the attendant focus on quality improvement is a significant driver (and accomplishment) of continuous improvement efforts. Early Excellence utilizes a number of assessment tools for children to both identify needs and track progress; and the recent utilization of a program administration scale to identify strengths and weaknesses in administrative practices that support quality is a sound, research-based practice, that will support future sustainability of the program.

- **Fiscal Stability-** The Acorn School is financially stable, and accesses a diverse range of funding sources while relying primarily on parent fees. Since 2000, the Acorn School has increased the amount of private funding, which helps to support a number of important purposes, including student tuition scholarships, as well as professional development opportunities for teachers. Early Excellence has been fiscally stable while weathering a number of different organizational transitions in recent years.
- **Building Partnerships and Community Support-** The Executive Director of The Acorn School has made significant efforts to build partnerships with key allies and partners in the community, including local early education associations, business associations, as well as various public and private boards and councils, in an effort to promote the need for more comprehensive early education systems at the state and local level. Early Excellence staff have made significant efforts to build partnerships with key allies and partners in the community. The success of these community partnerships is evidence by the level of in-kind support, which is important in leveraging additional support, and diversifying the revenue base and efforts to recruit a broader range of families to serve.
- **Family Engagement** – Early Excellence staff have implemented a number of strategies to engage families, and most importantly to provide a comprehensive range of family support services. This helps to both strengthen relationships with families and community partners and to support the full range of needs that impact children's learning and success in school. The Acorn School has developed a parent group which helps to conduct monthly meetings between parents and teachers to discuss issues, parent workshops, parent surveys, bi-annual parent-teacher conferences, and a bi-monthly newsletter.
- **Serving Community Needs-** Early Excellence provides high quality early education services to a predominantly low income population and community where such services may otherwise not be available. Nearly all of the families attending the program are eligible for at least one public subsidy program, and some are eligible for more than one. The Acorn School, through its private fundraising efforts, is able to provide partial scholarships for the equivalent of about 26 full time students each year.

Challenges to be Addressed

- **Diversify Revenue Base-** Early Excellence will need to diversify funding sources in order to address shortfalls in public revenue. Increasing both private/corporate funding and full tuition paying parents will help to address the expected fluctuations in funding levels from different revenue sources as the economy rebounds. The Acorn School currently gets about 12 percent

of its revenues through private funding sources, including foundation and corporate grants, and private contributions. This has been fairly consistent over the past 3 years. However, less than one percent of funding comes from corporate donors or contributors. There may be an opportunity to partner with and seek additional resources through local companies.

- **Long Term Planning** – Early Excellence will need to engage in a strategic planning process that defines its mission and goals for the coming years. Given the need to attract new revenue sources, and its new status as a non-profit, the leadership team will want to reexamine community needs, assess capacity, and create a reasonable set of priorities to ensure they can sustain a high quality program. The Acorn School continues efforts to increase the accessibility of services to more diverse families in the coming years. To the extent the school is successful, more families will likely not be able to afford the full tuition, and as a result, the school will continue to need to bring in more private or public funding to make up the difference in cost.

3. Assessing the Sustainability of ECE Centers in Charter Schools

While foundation leaders know that quality early education is good for children, and good for families-- the fundamental question they want answered is—does it support the mission and vision of the school and is it a good business decision, and use of foundation resources, to serve young children?

And the answer is—it depends on a complex set array factors, but chief among these is space. Facilities are a significant cost for any school, and determining if the charter school has space that is available and needs to be renovated is the first decision to be made. While not always possible, of course, planning for early education space is more efficient at the initial facilities planning process, rather than trying to retrofit space to accommodate an early education partner.

One of the key decisions to be made by charter school leaders, once they have determined that they want to explore expansion are related to the facility and the organizational structure. The options are:

- Charter School has the space, and operates the early education center;
- Charter School has the space, and rents space to a community-based partner; or
- Charter School does not have the space, and establishes a cooperative agreement with a near-by community-based organization.

Key Questions for Colorado Charter School Leaders

Below is a selected list of issues specific to charter school law in Colorado and questions that need to be considered in determining whether to pursue expansion to serve preschool children.

- There are 41,000 students on wait lists for charters (as of 2008), with facilities space cited by 71% of schools as the primary reason for not accepting more students. Additionally, 71% of charter school students in Colorado attend school in facilities smaller than new local standards for school room space.
 - Given the low reimbursement rates for child care, would establishing a child care center

- in charter school trade off with additional revenues gained from admitting more K-12 students or magnify space issues?
 - Can state per pupil funds for facilities be used to pay for facilities expansion to open a child care program?
- Only 28 percent of charter schools have kitchen facilities that qualify them to provide federally-subsidized free and reduced-price meals for students from lower-income families, putting many charter schools at a disadvantage when trying to meet the needs of these students (CLCS 2008).
 - Could shared meal preparation facilities be a point of collaboration for charters and ECE providers?
- Colorado is a leader in the use of bond financing to fund charter school facilities (although only 19% of charters receive bond funding through their local school districts).
 - Can these funds be used for dual-purpose construction (i.e. collocation of charters and ECE programs)?
- 28% of Colorado charters have facilities or land provided by local districts.
 - Could those facilities be used to house child care programs?
- Colorado has an independent state-level charter school authorizer, and varying routes of authorization, including the Charter School Institute, or they may apply for exclusive chartering authority (some districts automatically qualify based on certain demographics.)
 - What impact would the inclusion of child care programs have on the authorization process for charter schools (especially if included in the same corporate structure)? Would authorizers have any responsibility for oversight? If so, how might that affect school operations?
- Charter schools are required in Colorado to participate in the state's retirement system.
 - Would staff from an integrated child care program fall under this requirement (potentially driving up costs)?
- Charter schools in Colorado are allowed to get waivers on teacher credentials.
 - Will this apply to pre-k teachers?
 - How will the comparatively lower number of charter teachers with credentials affect their ability to provide pre-k?

The Sustainability Self Assessment Tool (see page 11) was created to help make this decision. They are the second step of a multi-phase process, beginning with determining the need and desire and identifying viable options or partners, and before conducting more thorough due diligence and business planning, including strategic financing. You may also find the information in Appendix A: Federal Funding for Charter Schools and Appendix B: Case Studies of ECE Centers helpful in completing the tool.

The Sustainability Self-Assessment Tool is intended to be conducted by charter leaders, and depending on the options you are considering, by the community-based partners as well. Given that this decision will be locally determined, charter school leaders should do an environmental scan and determine:

1. Does the current or planned charter school have the space?
2. What is the supply and demand in the community for child care?
3. What local community based partners, or early education businesses, are likely partners?

A “Quick Test” of Financial Success

The five major factors that determine financial success for child care businesses are:

- Enrollment is at capacity, with a waiting list in place
- Tuition is based on the full cost of child care
- Fees are paid on time
- The program’s bills and taxes are paid on time
- The program has a cash reserve to cover operating expenses for three months

Stoney, L. Exchange Magazine, 2003

To identify the list of potential early education partners, you could use the above “quick test” of the financial success of child care businesses, as well as your own research and contacts. Once you have narrowed the options, then you are ready to complete the **Sustainability Self-Assessment**. The tool focuses on four key elements of sustainability: (1) vision and results; (2) strategic financing orientation; (3) broad base of community support; and (4) strong internal systems.

Getting Started

Assemble a Leadership Team-- It is recommended that a group of stakeholders representing key agencies and organizations and who have decision-making authority for funding and expertise in young children and charter schools work through the five elements outlined in this toolkit. Identifying a lead, or coordinator, with time built in for managing the project is critical to successful and timely completion of the assessment.

Managing the Process -- As you walk through this assessment tool, this process may raise questions and issues that you may not want to take the time to address. Jot these questions and issues down in the comments section of the tool to return to at a later time. Allow a minimum of one and one-half to two hours to complete this assessment process. If you are using this tool with a group larger than 10, you may need to allow additional time for discussion.

SUSTAINABILITY SELF-ASSESSMENT TOOL

The four elements of sustainability, along with tasks specific to each element, are described below. Rank your progress on each of these tasks according to a five-point scale that assesses whether the initiative's leaders:

- 1 = Have not started this task
- 2 = Have started initial conceptual and planning work
- 3 = Have begun to implement this task
- 4 = Have made solid progress in implementing this task
- 5 = Have made sufficient progress in completing this task

ELEMENT ONE: Vision and Results						
Charter school leaders have identified a clear vision and a concrete set of results, and have systems and processes in place (or plan to) to track results over time.						
	1	2	3	4	5	Comments
A. Charter school leaders have developed a clear vision for the charter school.						
B. Charter school leaders have determined that an early education center supports the mission of the charter school.						
C. The charter school has a “theory of change” logic model that identifies how the early education center aligns with the goals of the school.						
D. Charter school leaders have determined the scope and scale of the EC center, including the age and number of children to be served, the level of quality of the program and the staff.						
E. Charter school leaders have identified indicators ³ and performance measures to track the performance of the early education program.						
Additional Questions If considering an early education program that will be operated <u>at the Charter school by community based organization (CBO)</u> , answer all relevant questions above, in						

³ In this tool, indicators are defined as measures of change in child and family well-being across an entire community. Performance measures track changes in child and family well-being among specific target populations served by an initiative, program, or individual; or the level of activity or quality of a specific service. Most initiatives would use performance measures to track their own work; they would use indicators to see how they contribute to community-wide efforts.

addition to the following questions below:						
F. The CBO's mission aligns with that of the charter school.						
G. The director at the CBO has strong leadership skills.						
Additional Questions If considering an early education program that will be operated <u>at the community based organization (CBO) under a formal partnership with the charter school</u> , answer all relevant questions above, in addition to the questions below:						
H. The CBO has a good licensing track record.						
I. The CBO provides early education services that meet or exceed the level of quality defined by the Charter School. They are rated by Qualistar.						
J. The CBO's director has strong leadership skills.						

ELEMENT TWO: Strategic Financing Orientation

Charter school leaders have a clear understanding of the available resources and gaps in funding. Leaders utilize an array of financing strategies to support short and long-term financing needs.

	1	2	3	4	5	Comments
A. Charter school leaders know how much funding is needed to sustain the early education program.						
B. Charter school leaders have identified the types of financial resources necessary to sustain an early education program, such as: <ul style="list-style-type: none"> • discrete sources of public funds related to early education • discrete sources of private funds 						
C. Charter school leaders have identified and are pursuing ways to support the redirection or reallocation of funds (for example, funding currently dedicated to K-12 that could be reallocated to support early education services).						
D. Charter school leaders have identified and are pursuing ways to increase the flexibility of existing funding streams to support early education (for example, through pooling funds across agency and program lines or improving coordination of existing funding streams).						

ELEMENT TWO: Strategic Financing Orientation (continued)

Charter school leaders have a clear understanding of the available resources, gaps in funding, and utilize an array of financing strategies to support short and long-term financing needs.

	1	2	3	4	5	Comments
E. Charter school leaders have identified federal funding sources relevant to early education and are taking steps to access these sources (for example, Medicaid, tobacco settlement funds, TANF funds, Child and Adult Care Food Program, other federal entitlements, block grants, and discretionary programs).						
F. Charter school leaders have built public-private partnerships to leverage private-sector funding, create leadership, and garner technical expertise relevant to the early education field.						
G. Charter school leaders have investigated ways to generate new revenue to support early education services (for example, local fundraisers, grants from public- and private-sector sources).						
H. Charter school leaders have identified and are pursuing ways to support the creation of new sources of public funds (for example, general revenue, expansion or creation of new taxes, and earmarked fees).						
Additional Questions- If considering an early education program that will be operated <u>at the Charter School by a community based organization (CBO)</u> answer all relevant questions above, in addition to the following questions below:						
J. Charter school leaders have considered what services or facilities would be shared, and have a mutual agreement with the CBO.						
K. Charter school leaders have conducted an assessment of the CBO's financial stability (including reviewing audited financial statements).						

<p>Additional Questions- If considering an early education program that will be <u>operated at the community based organization under a formal partnership with the charter school</u>, answer all relevant questions above, in addition to the following questions below:</p>						
<p>L. Charter school leaders have conducted an assessment of the CBO's financial stability (including reviewing audited financial statements).</p>						

ELEMENT THREE: Broad-Based Community Support

Charter school leaders have developed strong relationships with the families they serve, related businesses and community organizations, and other key partners. Additionally, the charter school leaders identify potential champions they need to approach on an individual level including senior decision makers, local community representatives and peer initiatives, and individuals.

	1	2	3	4	5	Comments
A. Charter school leaders have a plan to establish a desired identity and reputation for the early education center within the community.						
B. Charter school leaders will be developing a plan to involve families in their work to improve service design and delivery and to build ownership and support for the early education center.						
C. In addition to families, the charter school leaders involve a diverse set of stakeholders in the work of an early education center (such as community-based organizations, government agencies, and private businesses) to improve service design and delivery and to build ownership and support of the early education center.						
D. Charter school leaders collect quantitative and qualitative data to show the value of their work for families, and have a plan to do the same for the early education center.						
E. Charter school leaders have identified key senior decision makers at the community and state levels who can influence the sustainability of an early education center.						

ELEMENT THREE (continued)						
	1	2	3	4	5	Comments
F. Charter school leaders use a variety of strategies to encourage parent champions, such as strongly involving parents in its work.						
G. Charter school leaders have identified opportunities to participate in efforts to improve the overall policy and program environment (for example, standing advisory groups, opportunities to develop or comment on state plans for expending federal funds).						
Additional Questions- If considering an early education program that will be operated <u>at the Charter School by a community based organization (CBO)</u> , answer all relevant questions above, in addition to the following questions below:						
H. The CBO has built its own ties with families and key decision makers in the community.						
I. The CBO has numerous parent involvement activities in place.						
Additional Questions- If considering an early education program that will be operated <u>at the community based organization under a formal partnership with the charter school</u> , answer all relevant questions above, in addition to the following questions below:						
J. The CBO has built its own ties with families and key decision makers in the community.						
K. The CBO has numerous parent involvement activities in place.						

ELEMENT FOUR: Strong Internal Systems						
The charter school has strong internal processes that ensure a vibrant, durable, and continuously improving initiative.						
	1	2	3	4	5	Comments
A. The charter school has a well-defined team of staff, advisory or governance group members, volunteers, and others that it needs to accomplish its mission of creating an early education center.						
B. The charter school has strong fiscal processes that allow leaders to stay informed on its current financial status and to be alerted to emerging financing concerns.						
C. Charter school leaders have identified how any fiscal processes might change with the inclusion of the early education center.						
D. The charter school has strong internal systems (for example, accounting, auditing, management information, procurement, personnel) to maintain quality control over its work.						
Additional Questions- If considering an early education program that will be operated <u>at the Charter School by a community based organization (CBO)</u> , answer all relevant questions above, in addition to the following questions below:						
E. The CBO has well established internal controls and procedures.						
F. The CBO has a track record of enrollment levels at capacity, parent fees are paid on time, bills and taxes are paid on time, cash reserve to cover operating expenses for three months.						
G. The CBO has experience with managing public grants (CCAP, CPP, DPP): billing and enrollment processes are timely, and bad debt (unpaid bills) is minimized.						
H. The CBO has strong staff development and compensation plans.						
Additional Questions- If considering an						

<p>early education program that will be <u>operated at the community based organization under a formal partnership with the charter school</u>, answer all relevant questions above, in addition to the following questions below:</p>						
<p>I. The CBO has a track record of enrollment levels at capacity, parent fees are paid on time, bills and taxes are paid on time, cash reserve to cover operating expenses for three months.</p>						
<p>J. The CBO has experience with public assistance programs management (CCAP, CPP, DPP): billing and enrollment processes are timely and billed vs. paid amounts are within close margins.</p>						
<p>K. If the CBO is a child care center, it has strong staff development and compensation plans.</p>						

APPENDIX A: FEDERAL FUNDING MATRIX

The Federal Funding Matrix identifies more than twenty federal programs that charter schools could access to support current operations and/or expand to serve young children. Additional funding sources for serving young children are available at the federal level, although many have restrictions on access or it is unclear whether charter schools would be eligible.

Source of Funds	Grant or Program Name	Description	For More Information
U.S. Department of Agriculture	Child and Adult Care Food Program	The program reimburses eligible institutions, through a state agency, for providing meals and snacks to low income children and adults receiving day care. Eligible facilities include: child care centers, family day care homes, after-school care programs, homeless shelters, and adult day care centers.	http://www.fns.usda.gov/cnd/Care/
	Children, Youth and Families At Risk Initiative (CYFAR)	The program integrates resources of the Land Grant University Cooperative Extension System to develop and deliver educational programs that equip limited resource families and youth who are at-risk of not fulfilling basic human needs to lead positive, productive, contributing lives.	http://www.csrees.usda.gov/nea/family/cyfar/cyfar.html
	Summer Food Service Program	This program provides assistance to conduct nonprofit food service programs for low-income children during the summer months and at other approved times, when schools are out of session or are closed for vacation.	http://www.fns.usda.gov/cnd/summer/
	National School Lunch Program	Assists States, through cash grants and food donations, in making the school lunch program available to school children and to encourage the domestic consumption of nutritious agricultural commodities.	http://www.fns.usda.gov/cnd/Lunch/
US Department of Education	21st Century Community Learning Centers (21st CCLC)	The 21st CCLC program supports the creation of community learning centers that provide academic enrichment opportunities primarily for students attending low-performing schools.	http://www.ed.gov/programs/21stcclc/index.html
	Arts in Education	These grants develop school-community partnership programs that improve the educational performance of at-risk children and youth by providing comprehensive, coordinated arts education services and programs, especially programs incorporating arts education standards.	http://www.ed.gov/programs/artsed/index.html
	Carol M. White Physical Education Grant	Supports innovative approaches to health and physical activity that equip students with the knowledge to be healthy and physically active.	http://www.ed.gov/programs/whitephysed/index.html
	Credit Enhancement for Charter School Facilities	This program provides grants to eligible entities to leverage funds through credit enhancement initiatives in order to assist charter schools in using private sector capital to acquire, construct, renovate, or lease academic facilities	http://www.ed.gov/programs/charterfacilities/index.html
	Enhancing Education	The programs aims to improve student achievement through the use of technology in elementary and	http://www.ed.gov/programs/edtech/in

Source of Funds	Grant or Program Name	Description	For More Information
	through Technology State Program	secondary schools. Additionally, the program aims to incorporate technology with teacher training and curriculum development and establish research-based instructional methods that can be widely implemented.	dex.html
	Full Service Community Schools	This program, which is authorized by the Fund for Improvement of Education, encourages coordination of educational, developmental, family, health, and other services through partnerships between (1) public elementary and secondary schools and (2) community-based organizations and public or private entities. This collaboration will provide comprehensive educational, social, and health services for students, families, and communities	http://www.ed.gov/programs/communityschools/index.html
	Public Charter Schools Program	The program works to increase national understanding of the Charter Schools Model by: (1) providing financial assistance for the design and initial implementation of charter schools; and (2) evaluating the effects of such schools, including the effects on students, student achievement, staff, and parents. Special attention is given to training teachers to better instruct students.	http://www.ed.gov/programs/charter/index.html
	Promise Neighborhoods	Inspired by the Success of Harlem Children’s Zone, the Promise Neighborhoods Program provides funding for non-profit organizations to plan the implementation of cradle-to-career services designed to improve educational outcomes for students in distressed neighborhoods.	http://www2.ed.gov/programs/promiseneighborhoods
	Reading First	The objective of this program is to ensure that every student can read at grade level or above by the end of third grade. The Reading First program will provide assistance to states and districts in establishing research based reading programs for students in kindergarten through third grade. Reading First also provides funds for teacher development to ensure that all teachers, including special education teachers, have the tools they need to effectively help their students learn to read.	http://www.ed.gov/programs/readingfirst/index.html
	Replication and Expansion of High-Quality Charter Schools	This grant competition will provide funding to assist non-profit charter management organizations, and other entities that are not for-profit entities, in replicating or expanding high-quality charter schools with demonstrated records of success.	http://www2.ed.gov/programs/charter/applicant.html
	Safe and Drug-Free Schools and Communities Act: State Grants	The program provides support to State Educational Agencies (SEAs) for drug and violence prevention activities focused on school-age youth.	http://www.ed.gov/about/offices/list/osdfs/index.html
	Safe	Grants are used to promote healthy childhood	http://www.ed.gov/

Source of Funds	Grant or Program Name	Description	For More Information
	Schools/Health y Initiatives	development and prevent violent behaviors through fully-linked education, mental health, law enforcement, juvenile justice, and social services systems.	programs/dvpsafeschools/index.html
	State Charter School Facilities Incentive Grants Program	This program provides grants to eligible states to help them establish or enhance, and administer, per-pupil facilities aid programs for charter schools.	http://www.ed.gov/programs/statecharter/index.html
	Title I Grants to Local Educational Agencies	Title I, Part A grants help local educational agencies (LEAs) and schools improve the teaching and learning of children who are failing, or who are most at risk of failing State academic standards. Grants are targeted to LEAs and schools with high concentrations of children from low-income families.	http://www.ed.gov/programs/titleiparta/index.html
	Title I Supplemental Services	Title I funds can be used to provide supplemental educational services in core academic subjects. Funding may be used for tutoring, after-school services, and summer school programs for children in schools designated as failing by the state educational agency.	http://www.ed.gov/nclb/choice/help/services/index.html
	Child Care and Development Block Grant	The program provides grants to states and tribes to assist low-income families with child care and to: (1) allow each state maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within the state; (2) promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; (3) encourage states to provide consumer education information to help parents make informed choices about child care; (4) assist states to provide child care to parents trying to achieve independence from public assistance; and (5) assist states in implementing the health, safety, licensing, and registration standards established in state regulations.	http://www.ed.gov/nclb/choice/help/services/index.html
US Department of Health and Human Services	Community Services Block Grant	CSBG funds are intended to alleviate the causes and conditions of poverty in communities. Funds can be used for providing services and activities that help low-income individuals secure and retain meaningful employment; attain an adequate education; make better use of available income; obtain and maintain adequate housing; obtain emergency assistance through loans or grants to meet immediate and urgent individual and family needs, including health services, nutritious food, housing, and employment-related assistance; achieve greater participation in the affairs of the community; and make more effective use of other related programs.	http://www.acf.hhs.gov/programs/ocs/csbg/index.html
	Head Start	Funding promotes school readiness by enhancing the social and cognitive development of low-income children, including children on federally recognized reservations and children of migratory farm workers,	http://www.acf.hhs.gov/programs/ohs/

Source of Funds	Grant or Program Name	Description	For More Information
		through the provision of comprehensive health, educational, nutritional, social and other services. Head Start seeks to involve parents in their children's learning and help parents make progress toward their educational, literacy and employment goals.	
	Community Development Block Grant (CDBG): Entitlement Grants	These grants are used to develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities for persons of low and moderate income. Projects and activities must either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight, or meet urgent needs of the community.	http://www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/
US Department of Housing and Urban Development	New Markets Tax Credit Program	This Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. Charter schools are eligible to access these funds for facilities projects.	http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5

APPENDIX B: CASE STUDIES OF TWO EARLY EDUCATION CENTERS

I. CASE STUDY OF THE SUSTAINABILITY OF THE ACORN SCHOOL FOR EARLY EDUCATION DEVELOPMENT

INTRODUCTION

The purpose of this case study is to provide the Donnell-Kay Foundation with an analysis of the programmatic, environmental, and fiscal factors that impact the success of The Acorn School for Early education Development. The Acorn School was chosen based on a review of selected early education centers operating in the Denver metro area, and was identified as a high quality, fiscally sound early education model. The Foundation is interested in understanding the key factors that drive the success of the Acorn School and the potential of these factors to offer a model for replication in other locations. The Foundation is interested in exploring the viability of establishing early education centers at or near charter schools that will be opening in low-income neighborhoods in the upcoming years. A similar analysis has also been conducted on the Early Excellence Program of Denver.

The Acorn School operates within a favorable early education policy context in both the city of Boulder and the state of Colorado. The Children, Youth, and Families Division of the city's Department of Housing and Human Services offers a number of programs focused on children, including child care resource and referral, child care certificate program offering financial assistance for child care, and child care recruitment and training. The Early Education Council of Boulder¹, a collaboration of a number of community agencies, works to "expand and improve the comprehensive system of quality early education services for families in Boulder County". Further, the council participates in the statewide Early Education Colorado² which is working to create a comprehensive early education system for children birth through age eight and their families.

Given the recent downturn in the economy, the fiscal context in Colorado and Boulder is less certain for public and private funding for early education. Recent introduction of legislation entitled "Colorado Quality in Child Care Incentive Grant Program in the Department of Human Services" would provide additional funds to counties to increase quality of early education programs. Passage of this bill, however, is unlikely due to the reliance on the federal Early Learning Challenge Fund³ to support increased costs to the state. However, the FY2010-2011 State Budget bill currently preserves many early education programs and services and two new

¹ For further information see: <http://www.earlychildhoodbouldercounty.org/about.aspx>

² For further information see: <http://www.earlychildhoodcolorado.org/>

³ Note: The Early Learning Challenge Fund was taken out of the Health Care Reform Act and thus not currently part of any proposed legislation.

bills have passed the Senate Education Committee that could impact access and eligibility for early education by children from low-income families⁴. Both Boulder County and the City of Boulder have been impacted by the economy. The Child Care Assistance Program (CCAP) program in Boulder County suspended enrollments in January 2010 and implemented a wait list for the first time in close to 20 years. Eligibility levels were decreased from 225% of the federal poverty level to 185%; a 24-month maximum limit on educational activities has been imposed; and, rates have remained the same since 2008. The City of Boulder's child care certificate program, CLIFF⁵, which serves families in Boulder who are not eligible for CCAP, also implemented a wait list. Child care centers in the city have been impacted as families face the loss of income and are increasingly unable to manage the costs of care, particularly licensed care.

Finally, it is important to note that Colorado is a state-administered, county-operated state, and many federal pass-through funds and state funds flow to county government agencies for distribution. Differing eligibility requirements and regulatory authority impact the availability and accessibility of funds by local organizations. The following case study of the Acorn School and the factors that impact its success, challenges, and sustainability must be considered within this context; which may be different in other counties in Colorado, or elsewhere.

RESEARCH APPROACH

This case study provides information on the programmatic and fiscal policies and practices of the Acorn School for Early education Development, located in Boulder, Colorado. The report examines the key strategies utilized to implement a high quality early education program that is financially sound and sustainable in the long run.

The following research-based framework identifies the key elements of organizational capacity fundamental to sustainable organizations⁶. These are used to examine the programmatic, environmental, and fiscal policies and practices of the Acorn School.

- **Vision and results**—the degree to which the Acorn School has identified a clear vision and a concrete set of results, including systems to track results over time
- **Strategic financing orientation**—the degree to which the Acorn School has a clear understanding of the available resources, gaps in funding, and utilizes an array of financing strategies to support short and long-term financing needs
- **Broad base of community support**—the degree to which the Acorn School has developed strong relationships with the families they serve, related businesses and

⁴ Colorado Children's Campaign (April 2010). KidsFlash. Denver, CO: Author. Retrieved April 9, 2010 at <http://www.coloradokids.org/includes/downloads/4210kidsflashwebversion.pdf?PHPSESSID=ff274c03466396c2f6e0b9a367923bc9>

⁵ See for further information: http://www.bouldercolorado.gov/index.php?option=com_content&task=view&id=3760&Itemid=1398

⁶ The Finance Project, Sustainability Planning; <http://www.financeproject.org/index.cfm?page=28>

community organizations, and other key partners; including strategies to respond to changing economic and political conditions impacting the program and community they serve

- **Strong internal systems** – the degree to which the Acorn School has established internal fiscal, human resources, and data systems that support effective governance and management operations

Data Collection Methods:

The Finance Project collected data for this study through a series of staff interviews, and through the review and analysis of internal financial and performance data provided by The Acorn School. Data was collected during January 2010 through March 2010. Financial data collected for this report, unless otherwise indicated, represents fiscal year 2009. The following types of data were collected:

- **Financial and Programmatic Data-** The Finance Project reviewed audited financial statements where available, annual budget and final expenditure reports, and internal ledgers to better understand the financial aspects of each early education center. Additionally, to better understand the programmatic side of each center, TFP staff reviewed strategic plans, Qualistar⁷ reports, performance data reports, and other available materials describing the staffing levels and credentials, and various aspects of the facility and learning environment.
- **Staff Interviews-** Finance Project staff conducted interviews with key staff members at each early education center to gather additional qualitative and quantitative information. Interviewees included the executive director, CFO or bookkeeper, and program director at each center, as well as selected members of the Board of Directors.

CASE STUDY OF SUSTAINABILITY

The Acorn School for Early education Development, located in Boulder Colorado, was established in 1994 to provide high quality and accessible early education programs to children ages three months through five years, and their families to prepare children to enter kindergarten ready to learn. As part of its mission, the Acorn School also advocates for improving the standards of care in the field of early education education, particularly for children in Boulder County, and throughout the state. The Acorn school is one of 51 licensed early education centers located in Boulder.

Assessment of Sustainability

The following analysis highlights how the Acorn School addresses key elements of a high quality, fiscally sound, sustainable organization.

⁷ Qualistar Early Learning is a non-profit organization that conducts the quality rating and improvement system in Colorado. See <http://www.qualistar.org/>

I. Vision and Results

The Acorn School for Early education Development has a well-articulated vision that includes a primary caregiving philosophy in order to support strong relationships among children, families, and staff. The Center strives to provide early education opportunities to children that are high quality and accessible to the community, while also advocating for higher standards in the field.

The school has also developed a clear set of goals for the organization to achieve over the next several years, based on its 2008 Strategic Plan. The report identifies eight goals, including:

- 1) Increased accessibility of services;
- 2) Increasing capacity to serve additional children;
- 3) Raising awareness through advocacy;
- 4) Partnering with parents;
- 5) Focusing on various ways to become more environmentally sustainable;
- 6) Helping parents and children link to resources to ensure physical and social and emotional health;
- 7) Tapping into additional funding sources; and
- 8) Staff preparation and support.

Acorn has largely focused its efforts over the past year on two goals:

- Staff Preparation and Support- The Acorn School has made significant strides in its efforts to attract and retain high quality staff, those with bachelor's degrees and specialized training in early education development, as well as helping current staff to improve their skills. In revamping their staff compensation package, The Acorn School began aligning their compensation scale closer to Boulder Valley School District's. Examples of policies implemented include revamping the "time off" system to provide more flexibility for using leave, creating a 401(k) retirement plan, and an overall improved benefits package for teachers and staff. In addition, Acorn has developed a career ladder to facilitate staff advancement. The career ladder establishes benchmarks for staff to achieve additional learning credits and participate in related training, along with increases in pay tied to the benchmarks. The impact these changes have had on staff turnover is not yet know. In the past 3 years, out of a total of 23 teachers, teacher aides, and administrative positions, an average of 9 per year have left their positions. Acorn is hoping that these efforts will help to lower the turnover rate, moving forward.
- Building Partnerships with Families- The Acorn school has prioritized reaching out and working closely with families of children who attend the school as strategies for improving accountability, informing quality improvements, and to help market the school. The school has developed a parent group which helps to conduct monthly meetings between parents and teachers to discuss issues, parent workshops, parent surveys, bi-annual parent-teacher conferences, and a bi-monthly newsletter. For new students, the school has an orientation session for families to provide information on the school, to help build relationships among parents. Acorn is working on improving strategies to involve families through volunteer and other opportunities.

The Acorn School has also moved forward in seeking strategies to help families with low-incomes to afford their services and to meet the needs of Spanish speaking parents and their children. Staff is considering approaches to bring in additional scholarship funding to allow for a more flexible sliding fee scale to help families with low incomes pay for early education. The school has translated some of their marketing and educational materials for parents into Spanish, and has hired one bilingual staff member, with plans to hire at least one more.

The Acorn School participates in local, state, and national quality assurance and monitoring efforts through the Qualistar quality rating system, NAEYC⁸ national accreditation, and is state licensed. Acorn has been rated as a four-star program, the highest rating available through Qualistar and is making continuous improvements under their Quality Improvement Plan. The Director is actively involved in a number of organizations in the community including the Boulder Early education Council, the Boulder County Movement for Children; the Boulder county AEYC (Association for the Education of Young Children), and the Human Services Alliance. In 2008, The Acorn School was recognized as the “Best of Boulder Day Care Centers” by the US Local Business Association.

II. Strategic Financing Orientation

In order to have lasting success in providing high quality early education to young children a strong financial plan is critical for the Acorn School. Notably, the Acorn School has an explicit goal “to create a comprehensive, effective, and replicable model of a high quality early education program.

What to Finance? Fundamentally, a strong financing plan begins with knowing what you want to finance, including the level of quality, and scale and scope of programs and services. The Acorn school has designed a high quality early education development center which includes the following:

- **Facility**—The Acorn School consists of 5 classrooms and the use of an outdoor space with a playground. The Acorn school owns the building and has a 10 year mortgage note of \$235,235 which matures in 2019, with monthly payments of approximately \$2,747.
- **Staff**--36 staff, including 11 full time lead teachers, 7 part time assistant teachers, 2 full time assistant teachers, and 3 full time administrative staff (Executive Director, Assistant Director, and Program Director)
- **Enrollment**— Acorn has five separate classrooms, including two classes for pre-school students and one class each for infants, toddlers, and mixed age students. Total enrollment for the Acorn School is 51 full-time equivalent children, including 8 infants, 9 toddlers, 20 preschoolers, and 14 mixed-age students. At any time during the year there may be more children attending the school because of the number of part time children.

⁸ NAEYC (National Association for the Education of Young Children) is a national organization with voluntary accreditation standards for early education programs. See <http://www.naeyc.org/accreditation>

As of January, 2010, of the 68 children enrolled in the school, 31 children attended the school 2-3 days per week, while 37 attended either 4 or 5 days per week.

- **Curriculum/Learning Environment**—Acorn School implements the Creative Curriculum, which requires a range of developmentally appropriate materials and activities and includes a child-assessment system and staff training.

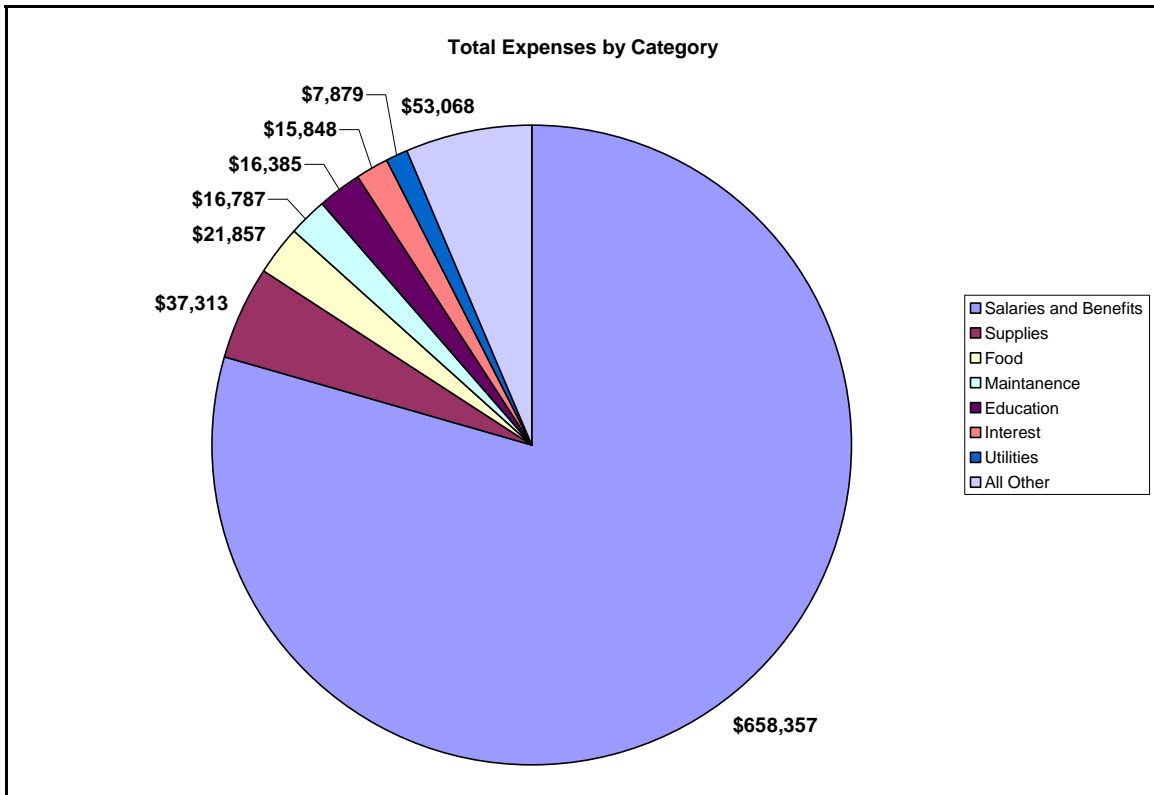
The Acorn School implements a primary caregiving approach in order to support continuity of care for children, and to create a collaborative and collegial environment for staff to foster retention and job satisfaction. It is among only a handful of centers in Colorado that have attained a 4- start rating from Qualistar and is accredited by NAEYC, thus meeting both state and national standards of high quality early education programs.

The school has a low teacher to child ratio ranging from 3:8 for infants, to 2:9 for older pre-school children. Among teachers, 44 percent having at least a bachelor's degree, although 90 percent of those with a BA have a degree in a field other than Early Childhood Education (ECE). Teacher pay is also relatively high compared to the state as a whole, due in part to the high cost of living in Boulder. The Acorn School offers a full benefits package including health and dental insurance, and paid leave. Lead teachers earn \$23,000 per year (or \$13.41 per hour), while teachers with a Masters in ECE earning a slightly higher rate of \$14.50 per hour.

How much does it cost? Understanding the costs of providing early education services is critical, including how costs are driven by key variables. Because the largest costs of an early education center are related to staffing, executive directors and their boards must weigh the costs of adding more qualified staff, improving staff benefits, or lowering staff to child ratios, and the net cost impact of these decisions.

The Acorn School has an annual budget of approximately \$908,000, up just one percent from 2008. Annual expenditures for 2009 were \$827,497, an increase of 13 percent from 2008 (\$737,259). Like most early education centers, The Acorn School's largest expense is staff salaries and benefit, which account for 80 percent of total expenses. Other large categories of expenses include supplies and materials, as well as food costs, a portion of which is covered through the Child and Adult Care Food Program. Maintenance costs for the facility account for just two percent of total costs, while mortgage payments account for four percent of total costs. All told, facility related costs, including mortgage payments, maintenance, and utilities account for seven percent of total costs. Chart I below provides a breakdown of the major expense categories for The Acorn School.

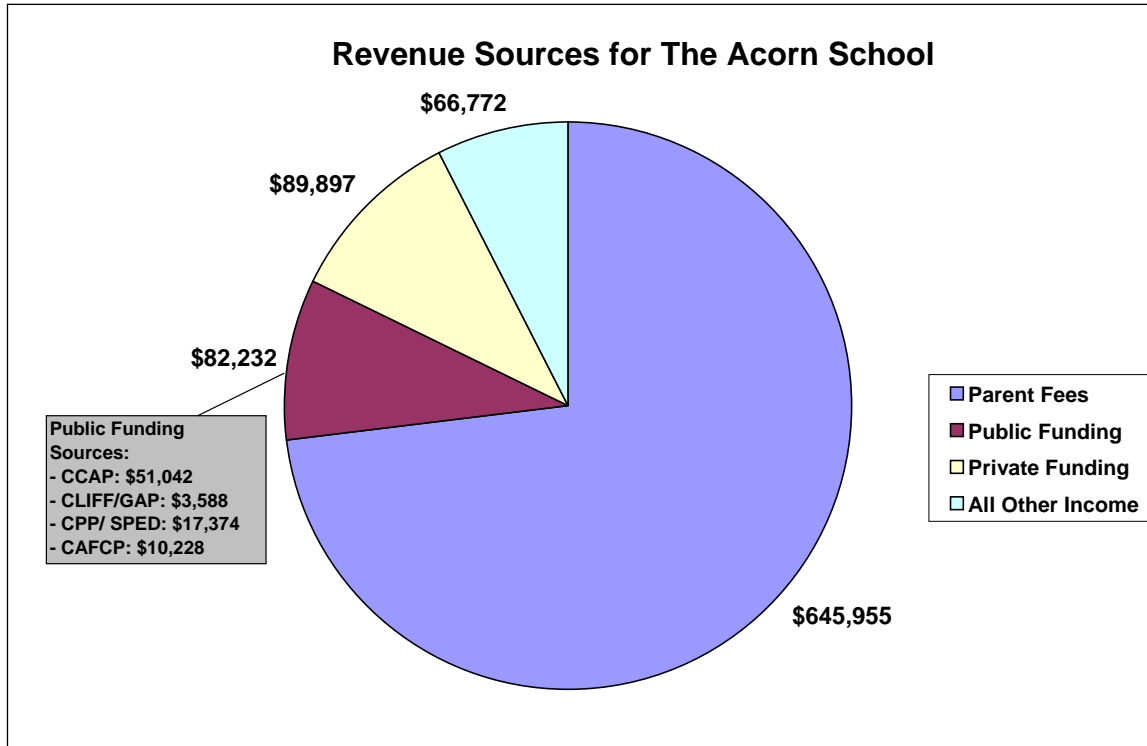
Chart I: Total Expenses for 2009



The Acorn School’s tuition rates are intended to cover the full cost of care for a child and vary depending on the age of the child and whether the child attends full time or part time (two, three, or four days per week). For infants and toddlers, prices range from a \$729 per month for two days per week, to \$1,014 for three days per week, and \$1,443 for full time care. For pre-school children, costs range from \$670 (2 days per week), to \$980 (3 days per week), to \$1334 for full time care. Currently, 46% of the children at the Acorn School pay the full tuition rate, while the remaining 54% pay a portion of the full tuition, subsidized either through public or private funding. Of the 54% who pay a portion of the full tuition, 30% receive scholarship assistance through Acorn, 11% are CCAP; 9% CPP (no parent fee); 3% CLIFF/GAP; 1% receive an employee discount.

What are the resources accessed? Most successful and sustainable organizations utilize a range of resources, including public and private funds, to fill short and long term funding needs. The Acorn School is accessing three primary sources of funding, including **parent fees**, **public funding** including the Child Care Assistance Program (CCAP) and Colorado Preschool Program (CPP), and **private funding**, including grants from foundations and corporations, and private contributions. These three sources of funding account for approximately 92 percent of total revenues. The school is also using a variety of other revenue generating strategies, including fund raising, and event fees, which accounts for the remaining 8 percent of revenues. Chart II below highlights the key sources of revenue for the Acorn School.

Chart II: Sources of Revenue for 2009



CCAP – Colorado Child Care Assistance Program

CLIFF – Subsidy program for city of Boulder families who do not qualify for CCAP assistance

GAP – City of Boulder and Longmont families only - makes up the difference between CCAP rates and the average market rates.

CPP – Colorado Preschool Program / **SPED** – Special Education

CAFCP – Child and Adult Care Food Program

The largest source of revenues for the Acorn School is **parent fees**, which account for 72 percent of total revenues. While 46 percent of parents pay the full costs of care for their children, 30 percent of Acorn’s parents pay a partial amount of the fee, while receiving some type of subsidized funding and /or scholarship funding. In an effort to serve a diverse group of children, the school has focused on increasing the percentage of children from low-income families. These fees are partially subsidized through public and private funding. Over the course of the next several years, the school intends to increase the percentage of children needing subsidies from 30 percent to 50 percent, resulting in the need to bring additional revenue either through public funding sources, or private funding that can support scholarships.

Since 2001, Acorn has accessed \$611,000 in **private funding** through foundation grants to help support a range of services for children, parents, and staff. In 2009, private funding comprised about 12 percent of total revenues for the Acorn School. The school received funding from 12 different grants, primarily from foundations, in addition to a small grant from The City of Boulder. Funding is used primarily for scholarships for children whose parents cannot afford the

full fee, but whose income may be too high to access public funding sources such as CCAP or CPP. Additionally, the Acorn School has used some private funding to help support teacher training opportunities, and has established a Professional Development Fund for future training opportunities.

What are the gaps? Understanding the gaps, both in the short-term and the long-term, including ensuring a reasonable “cushion” is in place for unexpected shortfalls or capital needs is critical for long-term sustainability. The Acorn School has to closely monitor their bottom line to ensure that incoming revenues are covering their costs. Thus, any policy that increases their costs, for example promoting a teacher to a higher pay grade, or accepting a non full-paying student, must have a corresponding strategy to finance that additional cost. While the Acorn School does not have a specific threshold for the number of subsidized students attending the school, the business manager carefully calculates the amount of additional funding needed to cover the pay gap (the difference between the full cost of a slot and the funding received through parent fees plus public funding subsidy). In a typical year, Acorn is able to provide partial scholarships for the equivalent of about 26 full time students, at a cost of approximately \$100,000. Funding comes from private grants, which make up about 50 percent of scholarship funding, and other full tuition paying parents.

What financing strategies are utilized? Sustainable organizations utilize a range of financing strategies - including coordinating with other organizations or entities, blending and braiding funding, and leveraging public and private dollars - to help to build a strong and stable base for success. The Acorn School effectively uses a range of financing strategies to help support their current operations, and to address gaps in services, including:

- **Blending and Braiding Funding-** Providers of early education services often must access separate funding streams to provide services for an individual child. These providers face the challenge of using those funding streams to provide services to the child or family in a manner that is coordinated and seamless. The Acorn School is able to blend public and private funding, along with parent fees to help cover the full cost of care for children whose parents are not otherwise able to afford the school.
- **Building Partnerships-** The Acorn School has built strong partnerships with a number of public agencies and other community based organizations to help extend the reach of their own program, and to help link children and families with services they need. For example, the Acorn School works closely with Imagine⁹ to help link children with developmental disabilities to additional services they are not able to provide at the school, and to help families navigate the transition from pre kindergarten to k-12 schooling.
- **Generating New Revenues-** Acorn raises additional revenue through various events and fundraising, which also helps to support scholarships and other operating expenses.

The Acorn School is interested in accessing additional Community Development Block Grant (CDBG) funding. They currently have a small amount of funding (approximately \$10,000) for

⁹ Imagine! Provides support services to people of all ages with developmental disabilities. See <http://www.imaginecolorado.org/>

playground improvements, and are interested in seeking possible start up funds through CDBG to help with financing a new facility, if they decide to move forward. The Acorn School is also interested in possibly expanding to serve children eligible for the federal Head Start or Early Head Start program; however the Boulder Head Start grantee does not have Early Head Start expansion funding.

A Fiscal Fitness Test for The Acorn School

The Finance Project analyzed documents provided by the Acorn School to help verify the financial stability of the organization. Key measures analyzed include the amount of cash on hand, in case of emergency, the amount of debt the organization holds, and the profitability of the organization (or the difference between total revenues and expenses). Below, we provide the data on each financial measure, and provide a description of what each measure means.

Liquidity Ratios

Current ratio

- Definition: Describes the ability to meet short term obligations with current resources. The general “rule of thumb” is a 2:1 ratio, and the greater the ratio the better.
- Acorn School: 6.0
- Analysis: Total current assets are 6 times greater than total current liabilities.

Days Cash

- Definition: Number of days of cash on hand available to meet current operating expenses. In general, higher is better, and a good rule of thumb for non-profit organizations is to have 3 months minimum.
- Acorn School: 91 days
- Analysis: The Acorn School has approx 3 months worth of cash on hand to weather a downturn.

Leverage Ratio

Total Debt to Net Assets

- Definition: Compares the total indebtedness to total net assets. A lower number is better.
- Acorn School: .71
- Analysis: Approximately 71 percent of Acorn School’s net assets are in the form of liabilities, or debt.

Performance Ratio

Total margin (Profit)

- Definition: Revenue minuses expenses, over revenue. Higher is better for this ratio; the higher the margin, the more profitable. Although, a non-profit organization would not expect a high profit margin, they would expect a positive number.
- Acorn School: .18
- Analysis: Revenues are exceeding costs.

III. Building a Broad Base of Community Support

The Acorn School, particularly through the efforts of the Executive Director and Program Director, work hard at developing and strengthening partnerships throughout the community. These partnerships benefit The Acorn School in a number of ways by helping to build a strong base of community support, expanding their funding base, and creating new learning opportunities for both the children served and for staff. Key efforts include participating on both state and local councils around issues of early education system building and partnering with local United Way agencies and the local business community.

The Executive Director of Acorn sits on several local and state councils, including being the president of the local chapter of NAEYC, the Boulder County Association for the Education of Young Children (BCAEYC). In his role on the Boulder Early education Council, the Executive Director is also helping the county to consider what an early education system would look like, what services are already in place, and what services are needed to fill the gaps.

Other efforts to build partnerships include working with various public and private organizations in Boulder, including the local Chamber of Commerce, Association of United Ways, and the Human Services Alliance (a group of service providers including homeless services and food banks). The Executive Director also works closely with local businesses to help promote the Acorn School's services to their employees. This includes offering incentives for employees to register their children at the school and waiving registration fees.

IV. Developing Strong Internal Systems

Internal systems include policies and practices to track financial procedures (such as monitoring grants, running payroll, and tracking all expenses and billing), implementing human resource policies, and utilizing performance data systems. Internal systems are critical to how well an organization functions and impacts the day-to-day quality of the services parents, children and staff receive.

The Acorn School has the following internal systems in place:

- Fiscal / Accounting System- The Acorn School, due to its small size, operates with a part-time bookkeeper who is in charge of billing and maintaining the chart of accounts for the school, as well as preparing regular statements. The primary software accounting package used at The Acorn School is QuickBooks.
- Data Systems- The Acorn School uses data to track child enrollment and attendance, as well as to document results of children on assessments that help determine level of functioning on cognitive, gross motor, social emotional, and logic and reasoning.
- Human Resources / Professional Development- The Acorn School has developed a competitive package of benefits and flexible policies to support staff satisfaction and retention. The school has established a professional development fund, and encourages staff participation in professional development and training.
- Board of Directors- Clearly defined processes have been established with the Board of Directors in reviewing and monitoring the strategic plan, fiscal oversight and management, and overall planning and implementation of programs.

The Acorn School primarily uses performance data to track enrollment levels in each of the six programs. The School is successful in ensuring they are at or near capacity throughout the year. The Acorn School currently does not track individual child progress, although they are piloting an on-line tracking program through the Colorado Preschool Program (CPP). The Results Matter on-line tracking component is required by CPP for children in the program but the pilot allows Acorn to apply it to children in an entire classroom, regardless of CPP status. This tool provides resources and activities for teachers to use as part of the Creative Curriculum. The Acorn School places a significant emphasis on its professional development opportunities for teachers. A special account was created to support professional development opportunities, which is supported through private grants from foundations. Also, teachers have individual professional development plans with targeted goals, and are encouraged to take additional training. The Program Director works closely with the teachers to enhance the learning environment and engage in professional development planning and goal setting. The Acorn school uses a part-time book-keeper to manage its accounting system, and participates in a certified audit each year. The Board of Directors also has a role in reviewing financial reports and data, and in weighing major financial decisions of the Acorn School.

CONCLUSION: CONSIDERATIONS FOR SUSTAINABILITY

The Acorn School has developed a sustainable, quality early education program over the past decade, but still faces challenges in the short and long term. Current challenges facing the Acorn School include increasing the diversity of children served, including those from families with low incomes, and varied racial and ethnic groups. Long term challenges primarily center on the long-term goal of replicating The Acorn School in a new facility in the Boulder area.

Short-term Challenges. As the school seeks to increase the percentage of children served from diverse neighborhoods and income backgrounds, they will be challenged to access additional public funding for those families who are eligible, or will need to raise additional private funding. Currently, private funding supports partial scholarships for about 50 percent of the full amount needed, with private pay families covering the pay gap otherwise. The Acorn school has been successful in accessing private funds to support both scholarships, as well as training opportunities for teachers. However, after four years of consecutive increases in private fund raising, funding dipped by 17 percent in 2009, resulting in an overall 1 percent decline in revenues. Given that private foundations have cut back funding in many cases due to declining endowments, the Acorn School may need to seek other sources of private funding support, including through additional corporate partnerships.

For those children who are eligible for state or local child care subsidies, current payment rates do not cover the full tuition at the Acorn School. For children who are eligible for the Child Care Assistance Program (CCAP) only, the rate typically covers between 25 and 50 percent of the full cost of service. Even for children who are eligible for CCAP and the Colorado Preschool Program (CPP), there is still a funding gap that must be made up with scholarship funding. Consequently, the Acorn School must balance their goal of increasing accessibility to the school, while also meeting their financial goals of maintaining positive cash flow.

Long-Term Challenges. The Acorn School's greatest challenge to meeting their long term goal to replicate the current program is finding new space, given that the current facility is limited to 55 students. The school has been at full capacity for several years and as a result, the school typically has a waiting list throughout the year. While still very early in the process, The Acorn School has begun to search for potential locations, and is considering financing options for leasing or purchasing space. It should be noted that when The Acorn School initially opened in their current space, they were able to access Community Development Block Grant funding through the city of Boulder, which provided start up funds as well as dollars for site improvements. The Acorn School recently applied for this funding again, but was denied and told to reapply once they are farther along in their planning process to open up a new center.

In conclusion, TFP staff offer the following considerations for ensuring long-term sustainability, including plans for expansion:

What's Working Well at The Acorn School?

- **Program Quality-** The Acorn School has clearly had significant success in performing its core mission, to provide high quality early education services to children who attend the school. The Acorn School's recent Qualistar rating, and accreditation by the National Association for the Education of Young Children (NAEYC), are evidence of the quality of the learning opportunities the Acorn School provides to young children in the community.
- **Fiscal Stability-** The Acorn School is financially stable, and accesses a diverse range of funding sources while relying primarily on parent fees. Since 2000, the Acorn School has increased the amount of private funding, which helps to support a number of important purposes, including student tuition scholarships, as well as professional development opportunities for teachers.
- **Building Partnerships and Community Support-** The Executive Director of The Acorn School has made significant efforts to build partnerships with key allies and partners in the community, including local early education associations, business associations, as well as various public and private boards and councils, in an effort to promote the need for more comprehensive early education systems at the state and local level.

What are Areas for Improvement?

- **Increasing Private Funding-** The Acorn School currently gets about 12 percent of its revenues through private funding sources, including foundation and corporate grants, and private contributions. This has been fairly consistent over the past 3 years. However, less than one percent of funding comes from corporate donors or contributors. There may be an opportunity to partner with and seek additional resources through local companies.
- **Increasing Accessibility -** The Acorn School continues efforts to increase the accessibility of the services they offer to a greater diversity of families in the coming years. To the extent

the school is successful, more families will likely not be able to afford the full tuition, and as a result, the school will continue to need to bring in more private or public funding to make up the difference in cost. One challenge for the school is that some families are unable to pay the full tuition, but at the same time, do not meet the criteria to receive either CPP or CCAP funding.

The Acorn School will also need to continue to respond to the challenges of the downturn in the economy, and the impact on both raising revenue and serving diverse socio-economic families. Since the school's Executive Director plays a strong role in providing leadership, building community partnerships, and ensuring the school stays focused on its mission, succession planning would help the school both build leadership capacity among other staff and weather any transitions in leadership. The quality of teaching staff plays the strongest role in delivering quality early education, so a continuous focus on staff qualifications and professional development and training is essential. In other words, Acorn School needs to continue to do what it is doing well, address areas of weaknesses, and develop sound strategies to guide future expansion.

II. CASE STUDY OF THE SUSTAINABILITY OF THE EARLY EXCELLENCE PROGRAM OF DENVER

INTRODUCTION

The purpose of this case study is to provide the Donnell-Kay Foundation with an analysis of the programmatic, environmental, and fiscal factors that impact the success of The Early Excellence Program of Denver. The Early Excellence Program was chosen based on a review of selected early education centers operating in the Denver metro area, and was identified as a high quality, fiscally sound early education model. The Foundation is interested in understanding the key factors that drive the success of the Early Excellence Program and the potential of these factors to offer a model for replication in other locations. The Foundation is interested in exploring the viability of establishing early education centers at or near charter schools that will be opening in low-income neighborhoods in the upcoming years. A similar analysis has also been conducted on the Acorn School for Early education Development in Boulder.

The Early Excellence Program operates within a favorable early education policy context in Denver and in the state of Colorado. Early Excellence's mission to operate both a family-focused and child-centered program for low-income families is supported by multiple resources available on the city, county, and state levels. The Mayor's Office for Education and Children¹⁰ plays a strong leadership role in efforts to support access to quality early education, particularly for low-income families. For example, the Mayor's office houses the Denver Preschool Program (DPP) and the Invest in Success Initiative, including *The 5 BY 5 Project*, which provides children with eleven cultural experiences before they reach the age of five.

Given the recent down-turn in the economy, the fiscal context in Colorado and Denver is less certain for public and private funding for early education. Recent introduction of legislation entitled "Colorado Quality in Child Care Incentive Grant Program in the Department of Human Services" would provide additional funds to counties to increase quality of early education programs. Passage of this bill, however, is unlikely due to the reliance on the federal Early Learning Challenge Fund¹¹ to support increased costs to the state. However, the FY2010-2011 State Budget bill currently preserves many early education programs and services and two new bills have passed the Senate Education Committee that could impact access and eligibility for early education by children from low-income families¹².

¹⁰ For further information see--
<http://www.denvergov.org/Education/HomePage/tabid/385866/Default.aspx>

¹¹ Note: The Early Learning Challenge Fund was taken out of the Health Care Reform Act and thus not currently part of any proposed legislation.

¹² Colorado Children's Campaign (April 2010). KidsFlash. Denver, CO: Author. Retrieved April 9, 2010 at <http://www.coloradokids.org/includes/downloads/4210kidsflashwebversion.pdf?PHPSESSID=ff274c03466396c2f6e0b9a367923bc9>

Both the city and county of Denver have been impacted by the economy. For example, the Denver Preschool Program relies on sales tax revenues to fund the program, and given that city revenues have decreased, the reimbursement rates for the Denver Preschool Program will be reduced. This will have a significant impact on the early education programs accessing public funding. Denver-metro counties have also been impacted by the economic down-turn and have instituted cost-containment policies that vary from county to county, including eligibility level reductions, waiting lists, freezing reimbursement rates, or any combination of cost-reducing measures.

Finally, it is important to note that Colorado is a state-administered, county-operated state, and many federal-pass through funds and state funds flow to county government agencies for distribution. Differing eligibility requirements and regulatory authority impact the availability and accessibility of funds by local organizations. The following case study of the Early Excellence Program of Denver and the factors that impact its success, challenges, and sustainability must be considered within this context; which may be different in other counties in Colorado, or elsewhere.

RESEARCH APPROACH

This case study provides information on the programmatic and fiscal policies and practices of the Early Excellence Program of Denver, located in Denver, Colorado. The report examines the key strategies utilized to implement a high quality early education program that is financially sound and sustainable in the long run.

The following research-based framework identifies the key elements of organizational capacity fundamental to sustainable organizations¹³. These are used to examine the programmatic, environmental, and fiscal policies and practices of Early Excellence.

- **Vision and results**—the degree to which Early Excellence has identified a clear vision and a concrete set of results, including systems to track results over time
- **Strategic financing orientation**—the degree to which Early Excellence has a clear understanding of the available resources, gaps in funding, and utilizes an array of financing strategies to support short and long-term financing needs
- **Broad base of community support**—the degree to which Early Excellence has developed strong relationships with the families they serve, related businesses and community organizations, and other key partners; including strategies to respond to changing economic and political conditions impacting the program and community they serve
- **Strong internal systems** – the degree to which Early Excellence has established internal fiscal, human resources, and data systems that support effective governance and management operations

¹³ The Finance Project, Sustainability Planning; <http://www.financeproject.org/index.cfm?page=28>

Data Collection Methods:

The Finance Project collected data for this study through a series of staff interviews, and through the review and analysis of internal financial and performance data provided by Early Excellence staff. Data was collected during January 2010 through March 2010. Financial data collected for this report, unless otherwise indicated, represents fiscal year 2009. The following types of data were collected:

- **Financial and Programmatic Data-** The Finance Project reviewed audited financial statements where available, annual budget and final expenditure reports, and internal ledgers to better understand the financial aspects of each early education center. Additionally, to better understand the programmatic side of each center, TFP staff reviewed strategic plans. Qualistar¹⁴ reports performance data reports, and other available materials describing the staffing levels and credentials, and various aspects of the facility and learning environment.
- **Staff Interviews-** Finance Project staff conducted interviews with key staff members at each early education center to gather additional qualitative and quantitative information. Staff interviewed included the executive director, CFO or bookkeeper, and program director of each center, as well as a selected member of the Board of Directors.

CASE STUDY OF SUSTAINABILITY

The Early Excellence Program is located in Denver Colorado and provides high quality full-day, year-round early education services to children, ages two to five, and their families. In 2003 Early Excellence began as a school readiness early education program for children from low-income families and was funded by the Piton Foundation for five years, as part of the Wyatt-Edison Charter School. In 2007, it became its own entity, now officially known as Early Excellence Program of Denver, Inc. Early Excellence seeks to provide an array of developmentally appropriate services to prepare children for kindergarten and lay the foundation for academic success in future years.

Assessment of Sustainability

The following analysis highlights how Early Excellence addresses key elements of a high quality, fiscally sound, sustainable organization.

I. Vision and Results

Early Excellence's mission is "to promote and offer high-quality educational services to children ages 2-5 years old and their families". Although Early Excellence has been in operation since 2003, recent organizational changes have resulted in the need to review its long-term vision and goals for children. The Early Excellence Program and

¹⁴Qualistar Early Learning is a non-profit organization that conducts the quality rating and improvement system in Colorado. See <http://www.qualistar.org/>

the newly formed Board of Directors is currently planning a retreat to be held in mid- 2010 for Board members and management staff to develop a long-term strategic plan.

In interviews with management staff and board members, the following key goals and short term objectives for the school were identified:

- 1) Increase awareness of the services offered by Early Excellence to the community through increased advertising and other means;
- 2) Continue to maximize enrollment capacity, including possibly adding additional space for two new classrooms;
- 3) Improve staff skills through staff development;
- 4) Continue to diversify funding; and
- 5) Address facility improvements, including developing an enhanced outdoor playground area and a family resource center.

Notable progress on these goals includes:

- Staff Development- Early Excellence provides weekly staff development opportunities, either through in-house trainings or outside coursework or trainings. Staff are required to complete 24 hours of professional development each year. One long term goal is that every teacher would achieve a bachelor's degree, either entering the program with a bachelor's degree, or by earning the degree while working at Early Excellence. Currently, 27 percent of teaching staff have at least a bachelor's degree.
- Diversifying Revenues- Early Excellence has implemented several strategies to bring in new revenues. To attract more children, they launched a website in 2009 and have begun marketing the program through website advertisement. To help access additional private funding, the Board of Directors is establishing fundraising committees that will help identify and gain access to additional private funding sources. Early Excellence has plans to hire a part-time grant-writer by mid 2010.

Early Excellence participates in quality assurance and monitoring efforts through the Qualistar quality rating system, and is state licensed but not nationally accredited. Early Excellence recently received a 4-star rating through Qualistar, providing the most concrete evidence of the quality of services being offered. Early Excellence uses several strategies to access data on parental satisfaction of its programs and services through surveys, comment boxes in classrooms, parent involvement meetings, and website, email and telephone feedback. Early Excellence also seeks input from staff through regular staff satisfaction surveys.

In addition to participating in an external quality assurance program, and tracking important outputs, such as staff retention, and parent satisfaction, Early Excellence is also using a variety of assessments and screening tools to assess children's needs and to measure progress towards school readiness. Early Excellence staff use a number of tools to assess children, to both identify needs, and to track progress in literacy and math, and school readiness. Recently, the management team utilized the Program Administrative Scale (PAS)¹⁵ to measure the quality of

¹⁵ For further information see-- <http://cecl.nl.edu/evaluation/pas.htm>

administrative practices and identify areas for improvement. Two areas were identified, including hiring a grant writer to help bring in new private revenues and the need to extend advertising to private paying parents.

II. Strategic Financing Orientation

In order to have lasting success in providing high quality early education to young children, a strong financial plan is critical for Early Excellence. While still adjusting to significant organizational change, Early Excellence staff are taking the first steps to diversify their funding base and the families they serve.

What to Finance? Fundamentally, a strong financing plan begins with knowing what you want to finance, including the level of quality, and scale and scope of programs and services. Early Excellence has designed a high quality early education development center which includes the following:

- **Facility**—Early Excellence consists of 5 classrooms, which encompass 6,850 feet of space. They share 800 feet of outdoor space with Wyatt-Edison. Early Excellence leases space at a reduced monthly rate provided by the Urban Land Conservancy at a cost of \$5,245 per month. The Piton Foundation and the Boettcher Foundation funded all the remodeling and associated facility costs from 2003 to 2008.
- **Staff**—5 full time teachers, 5 full time teacher assistants, and 4 full time administrative positions including an Executive Director, Academic Director, registered nurse, technology support, family liaison, and 1 part time business manager.
- **Enrollment**—The total enrollment is 80 full time children, with 5 classrooms, including 1 classroom for children ages 36-47 months (capacity is 15 children), and four classrooms for children ages 48-71 months (capacity is 15 children for each class). All children attend the school year round and are full time.
- **Curriculum/Learning Environment**—Early Excellence uses the Developmental Learning Materials and Everyday Math curriculum, and aligns activities with the Denver Public School's Standards and the Colorado Building Blocks to K-12 Standards (the Early Learning Guidelines).

Early Excellence offers year-round, full-day early education services to children in the Cole community of Denver. The program has five classrooms, four of which serve pre-school ages (48-71 months) and one classroom serves younger children, ages 36-47 months.

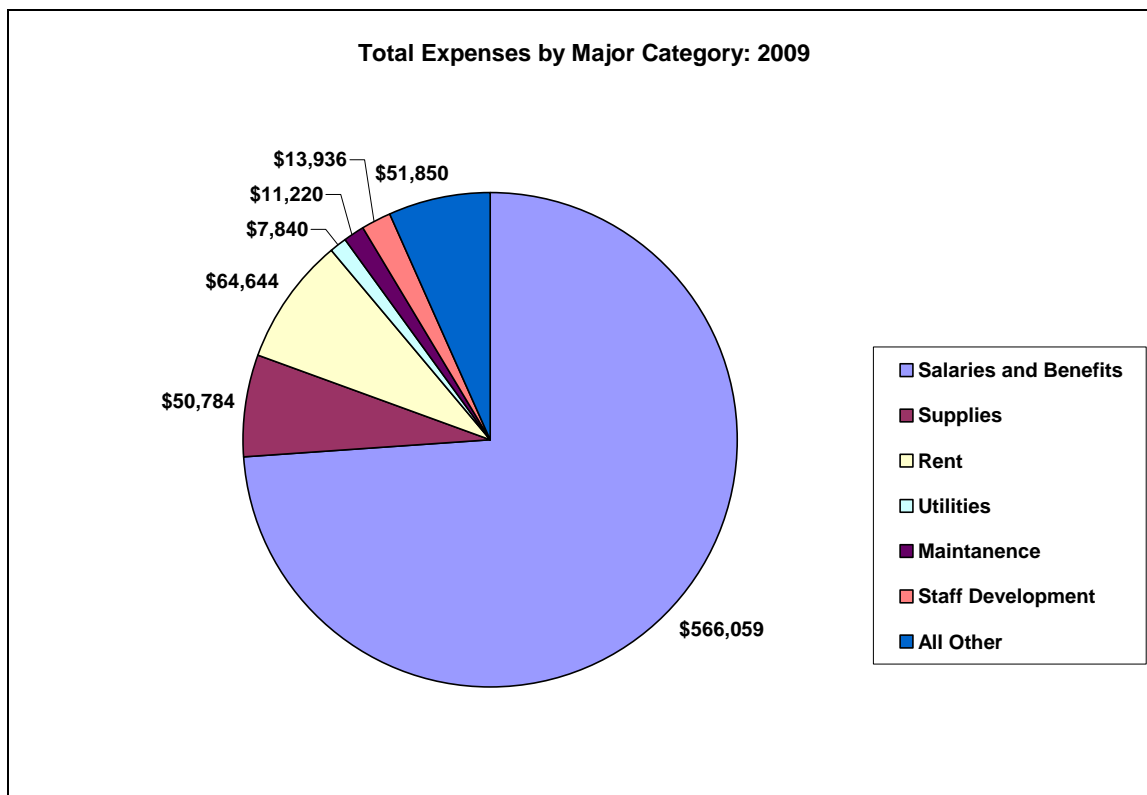
The teacher to child ratio for younger children ranges from 2:7 (early in the morning) to 2:13 (in the afternoon), while for older children the teacher to child ratio ranges from 2:15 (early morning) to 4:15 (early afternoon), both of which meet or exceed state standards. Just over one quarter of the teachers have a bachelor's degree, and the Executive Director and the Director of Education both have a Master's Degree in Education. Teachers earn between \$25,350 – \$35,000 with a bachelor's degree, and \$22,000 - \$25,300 without a degree.

How much does it cost? Understanding the costs of providing early education services is critical, including how costs are driven by key variables. Because the largest costs of an early

education center are related to staffing, executive directors and their boards must weigh the costs of adding more qualified staff, improving staff benefits, or lowering staff to child ratios, and the net cost impact of those decisions.

Early Excellence has an annual budget of approximately \$963,000, up 21 percent from 2008 due in large part to an increase in children served through the Denver Preschool Program (DPP). Annual expenditures for 2009 were \$766,000, which represents a 31 percent increase from the prior years. Salaries and benefits for staff represent the largest single cost for Early Excellence, accounting for 74 percent of total costs. Facility costs, which for Early Excellence include rent, maintenance, and utilities, account for 11 percent of overall costs. **Chart I** below provides a breakdown of the major expense categories for the Early Excellence Program.

Chart I: Total Expenses for 2009

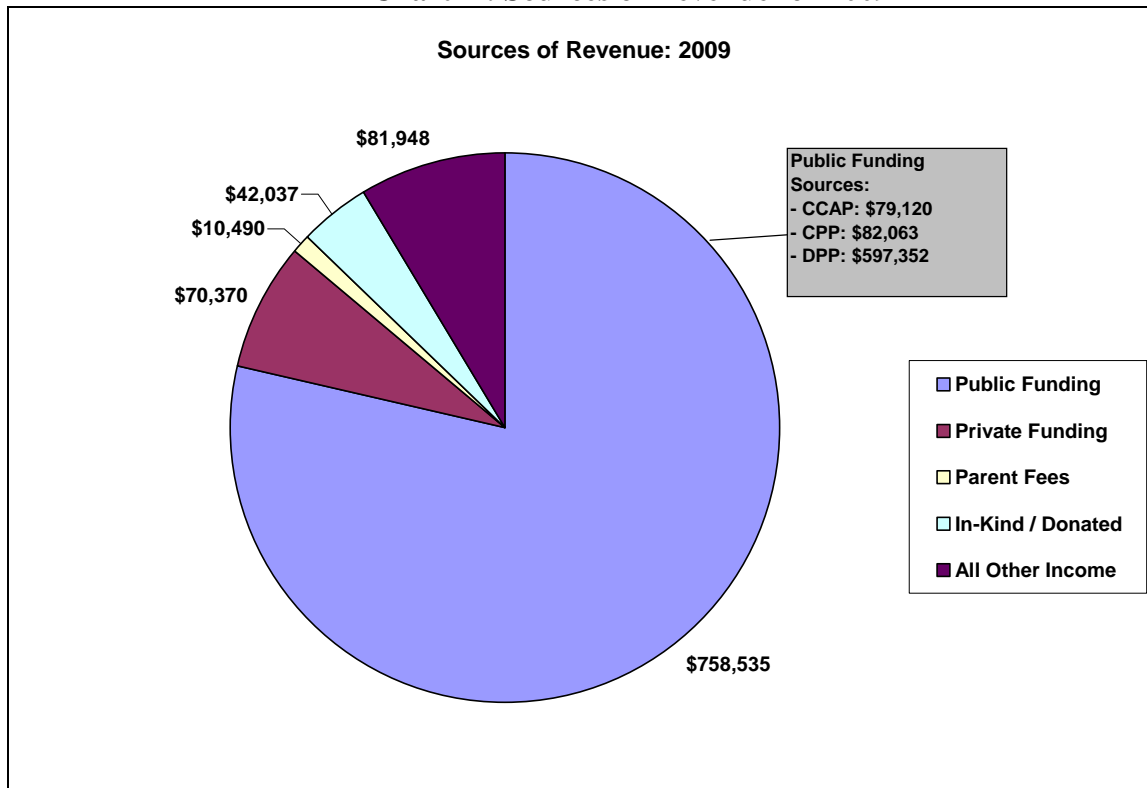


What are the resources accessed? Most successful and sustainable organizations utilize a range of resources, including public and private funds, to fill short and long term funding needs. In early 2007, Early Excellence moved from a business model where operating costs were fully supported through a single grant from the Piton Foundation, to a publicly subsidized model. This necessitated a significant new focus on leveraging public and private funding to cover the cost of tuition for the families served, nearly all of whom are low income and qualify for state or county child care subsidies. Currently, all of the children served at Early Excellence are eligible

for at least one, and in some cases, more than one, public subsidy program. While some of the families pay co-payments, dependent on family income, currently no families pay the full tuition rate at the school.

Early Excellence is accessing three primary sources of funding. **Public funding** is the largest source of funding, funding from the Child Care Assistance Program (CCAP), Colorado Preschool Program (CPP), and the Denver Preschool Program (DPP) accounts for 79 percent of total revenues. The second largest source of revenues, **private funding**, comprises 7 percent of total revenues for Early Excellence. Early Excellence uses private funding to support general operating costs, specific staff positions, including a family liaison, and in the past, has used funds for facility renovation costs. Early Excellence also raises revenue from **in-kind sources**, including donated professional services and materials; in 2009 in-kind resources were valued at \$42,000, accounting for 4 percent of total revenues **Parent fees** represent just 1 percent of total revenues. Since most children served by Early Excellence are eligible for public funding, parents whose children are eligible for certain programs that require a co-payment, including the Colorado Child Care Program and the Denver Preschool Program, pay a portion of the total cost. Finally, the program collects some additional revenue, including interest earned from investments, which account for the remaining 8 percent of revenues. **Chart II** below highlights the key sources of revenue for the Early Excellence Program.

Chart II: Sources of Revenue for 2009



What are the gaps? Understanding the gaps, both in the short-term and the long-term, including ensuring a reasonable “cushion” is in place for unexpected shortfalls or capital needs is critical for long term sustainability. The Early Excellence Program has to closely monitor their bottom line to ensure that incoming revenues are covering their costs. Thus, any policy that increases their costs, for example promoting a teacher to a higher pay grade, or accepting a new student, must have a corresponding strategy to finance that additional cost.

For example, recent changes to the DPP program have resulted in a significant reduction in the level of subsidy provided per child, which has reduced their ability to fully cover the costs for serving children enrolled in the program. DPP’s current payments are \$50/day or \$1,000/month, plus \$250/month for children in extended days (before and after school). The reduced rates will result in payments of \$23/day up to 8 hours and \$27/day for extended days. Also, for children who were previously eligible for both CPP and DPP, the amount of the DPP subsidy will now be reduced by \$243 a month due to the significant budget pressures in Denver. This DPP reduction will be applied monthly to the already reduced rates of \$23/day or \$27/day. Additionally, funding from grants dropped from \$96,000 in 2008 to just over \$70,000 in 2009, due to the loss of a one-time funding from the Piton Foundation for renovation costs.

What financing strategies are utilized? Sustainable organizations utilize a range of financing strategies - including coordinating with other organizations or entities, blending and braiding funding, and leveraging public and private dollars - to help to build a strong and stable base for the success. The Early Excellence Program effectively uses a range of financing strategies to help support their current operations, and to address gaps in services, including:

- **Blending and Braiding Funding**- The school blends public and private funding, along with parent fees to help cover the full cost of care for children.
- **Building Partnerships**- Early Excellence has built partnerships with many public agencies and community based organizations to provide a fuller range of services to the children and families they serve. For example, Early Excellence works with organizations to provide parenting skills training, adult education and literacy, and computer training for parents of children. For children, Early Excellence works with mental health and physical health providers, special education experts, and other professionals to supplement the services they offer in house.
- **Generating New Revenues**- Early Excellence raises additional revenue through fundraising, and through accessing in kind support for services and materials, which help pay for operating costs, staff salaries, facility renovations.

A Fiscal Fitness Test for Early Excellence Program

As part of this Case Study, The Finance Project analyzed financial documents provided by the Early Excellence Program to help verify the financial stability of the organization. Key measures analyzed include the amount of cash on hand, in case of emergency, the amount of debt the organization holds, and the profitability of the organization (or the difference between total revenues and expenses). Below, we provide the data on each financial measure, and provide a description of what each measure means.

Liquidity Ratios

Current ratio

- Definition: Describes the ability to meet short term obligations with current resources. The general “rule of thumb” is a 2:1 ratio, and the greater the ratio the better.
- Early Excellence Program: 6.3
- Analysis: Total current assets are approximately 6 times greater than total current liabilities.

Days Cash

- Definition: Number of days of cash on hand available to meet current operating expenses. In general, higher is better, and a good rule of thumb for non-profit organizations is to have 3 months minimum.
- Early Excellence: 123 days
- Analysis: The Early Excellence Program has approximately 4 months worth of cash on hand to weather a downturn.

Leverage Ratio

Total Debt to Net Assets

- Definition: Compares the total indebtedness to total net assets. A lower number is better.
- Early Excellence: .14
- Analysis: Approximately 14 percent of the Early Excellence Program’s net assets are in the form of liabilities, or debt.

Performance Ratio

Total margin (Profit)

- Definition: Revenue minuses expenses, over revenue. Higher is better for this ratio; the higher the margin, the more profitable. Although, a non-profit organization would not expect a high profit margin, they would expect a positive number.
- Early Excellence: .20
- Analysis: Revenues are exceeding costs.

III. Building a Broad Base of Community Support

The Early Excellence Program has made significant efforts to build partnerships in the local community, which has helped to improve the quality and the array of services they are able to provide to children and families they serve. Partnerships have focused both on helping to support parents of children attending the school, as well as to support a more comprehensive set of services for children. Some of the key partnerships include:

- **Colorado Workforce Center**, which helps to link parents of students with potential job and workforce training opportunities
- **Focus Points**- Located on site, this program helps English language learners through GED, ESL, home visiting programs, and computer literacy.
- **Integrated Nutrition Program**- funded through the USDA Food Stamp Education Program, Early Excellence is able to use this curriculum, as well as donated supplies such as food and utensils to support classroom activities related to health, science and nutrition education for both children and their families.
- **Invest in Kids- Incredible Years** - focuses on parenting skills and positive discipline strategies for parents and children.
- **Urban Land Conservancy**- provides space for the Early Excellence program at below market rates.
- **Wyatt-Edison Charter School**- offers the use of their outdoor playground at no cost to Early Excellence. Also all children completing preschool at Early Excellence transition into Wyatt-Edison Charter School kindergarten classrooms.
- **Denver Public Schools**- provides Child Find Program services for children with special needs and the Free and Reduced Lunch Program.

Partnering with Parents:

Based on the number of partnerships involving the parents of children attending the school, The Early Excellence Program is clearly committed to working with parents to help reinforce the learning that goes on inside of the classroom. For example, connected to and operated by the Early Excellence Program, is a Family Welcome Center, which provides donated clothing and other supplies that families can access. Early Excellence works closely with Focus Points, another community based organization also located in the building, which helps to provide adult education, GED, ESL and computer literacy programs, primarily to non-English speaking parents. Early Excellence has also provided on-site employment and employment training opportunities to many of its TANF-eligible parents.

Partnerships that Support Comprehensive Services for Children:

The management staff at Early Excellence and its Board of Directors understands that the program, by itself, cannot provide all of the comprehensive set of services that children and their families, especially those that may be at-risk, need to support their early education success. Services such as expertise in various learning disabilities, mental health services, and physical health services, are often best provided through close partnerships with community and public agency providers who specialize in a particular area. Early Excellence has built important partnerships with The Denver Public Schools' Child Find Program to provide special needs

supports for students, including working with students with language delays and gross motor skills issues. Additionally, Early Excellence and Wyatt-Edison Charter School staff work together to implement strategies for ensuring children are ready to enter kindergarten, and work to align their lessons with Denver Public Schools curriculum.

IV. Developing Strong Internal Systems

Internal systems include policies and practices to track financial procedures (such as monitoring grants, running payroll, and tracking all expenses and billing), implement human resource policies, and utilize performance data systems. Internal systems are critical to how well an organization functions, and impacts the day-to-day quality of the services parents, children and staff receive.

The Early Excellence Program has the following internal systems in place:

- Fiscal / Accounting System- The Early Excellence Program operates with a part time bookkeeper who is in charge of reconciling and closing the books, issuing payroll, and developing budgets. The Executive Director is required to sign on any bills over a set dollar amount to ensure fiscal accountability. Currently, the program is included in the fiscal audit of the Wyatt-Edison Charter School, and does not have a separate audit.
- Data Systems- Early Excellence uses data to track child enrollment and attendance; uses screening/assessment tools to screen children for learning disabilities or other risk factors, and to help measure progress towards learning goals.
- Human Resources / Professional Development- The program allocates significant resources for professional development, requires 24 credit hours per year, and encourages teachers to work towards a bachelor's or next highest degree.
- Board of Directors- Early Excellence, as a result of its new status as a separate non-profit organization, has recently created a new Board of Directors, who are still in the process of defining clear roles and responsibilities. Currently, the Board of Directors is responsible for several functions, including issues concerning staff salaries and benefits, reviewing final budget documents, developing a new strategic plan, and issues concerning any investments of funds.

Early Excellence uses **enrollment data** to track enrollment levels in each of the five classrooms. The program has been successful in ensuring they are at or near their capacity of 80 children throughout the year. Early Excellence uses a variety of **screening tools and assessments** to identify family risk factors, or learning disabilities, and uses several assessment tools to help track individual child progress. For identifying family risk factors, Early Excellence uses the Early Screening Inventory. Early Excellence uses E-Start to help determine school readiness and the Everyday Math Curriculum Assessment for math proficiency.

The Early Excellence program places a significant emphasis on its **professional development** opportunities for teachers. Funding is set aside to support professional development opportunities for teachers, which is supported through a variety of funding sources including private grants from foundations, as well as public funding sources. Early Excellence has identified the need to continue to increase the knowledge and skills of its staff as a top priority, based on the recommendations in the Qualistar report.

The Early Excellence program uses a part-time book-keeper to manage its **accounting system**, and until recently has participated in a certified audit as part of the Wyatt Edison Charter Schools. The **Board of Directors**, while still defining their role, provides oversight through reviewing financial reports and data, and in weighing major financial decisions of the Early Excellence Program.

CONCLUSION: CONSIDERATIONS FOR SUSTAINABILITY

Early Excellence has developed a sustainable, quality early education program in recent years, but faces challenges in both short term and long term to maintain a stable funding base while meeting the goals of their core mission. In the short term, budget shortfalls at the city and state level have resulted in declining public funds for serving children from low-income families. In the long term, Early Excellence is seeking ways to expand the size of the program to accommodate greater community need for the type of high quality early education services they provide to this population.

Short Term Challenges:

The Early Excellence Program strives to provide high quality services to serve the needs of the local community. As a reflection of the community they serve, all of the children who currently attend the school are from low income families, as defined by the eligibility requirements of local, state, and/or federal child care subsidy programs. Until 2010, Early Excellence relied primarily on public revenues sources to cover the full cost of the program, which is approximately \$650 per child, per month. However, recent reductions to the Denver Preschool Program (DPP), resulting in a reduced per child subsidy amount, has caused Early Excellence to re-evaluate the current strategy for recruiting families, and to recalibrate its portfolio of revenue sources to ensure long term sustainability.

As a result of these fiscal challenges, Early Excellence currently faces a shortfall of revenue, estimated at \$80,000, for the current fiscal year. Early Excellence is using a combination of strategies to make up the deficit, and believes these strategies will allow them to preserve the funding currently in their rainy day fund. Strategies include:

- Trimming costs where possible, including cutting the hours of the business manger;
- Hiring a grant writer to apply for additional private funding;
- Recruiting more families who are eligible for CCAP/TANF funding, which means more 2 and 3 year old children, and fewer 4 year old children served through DPP;
- Recruiting private pay families who can pay the full cost or nearly the full cost of tuition.

Perhaps the most significant challenge in the short term for Early Excellence will be implementing their strategy to recruit and retain a broader range of families. This will likely include not only more children eligible for CCAP (of which they have a very successful track record and close connections through various partner agencies and organizations), but also to recruit more full-paying families. However, by attracting more full paying families, Early

Excellence may be able to strike a balance going forward that will help to cushion the impact from any additional changes to the various public subsidy programs.

Long-Term Challenges:

Early Excellence is considering options to find new space to accommodate more children, as well as the potential to access its own outdoor space. Early Excellence will begin to address these challenges in the coming year, as the Board sets out to create a new strategic plan for the organization.

In conclusion, TFP staff offer the following considerations for ensuring long-term sustainability:

What's Working Well at Early Excellence?

- **Program Quality-** Early Excellence has clearly had significant success in providing high quality early education services to children from low-income families. Participation in the Qualistar Early Learning program, with the attendant focus on quality improvement is a significant driver (and accomplishment) of continuous improvement efforts. Early Excellence utilizes a number of assessment tools for children to both identify needs and track progress; and the recent utilization of a program administration scale to identify strengths and weaknesses in administrative practices that support quality is a sound, research-based practice, that will support future sustainability of the program.
- **Building Partnerships and Community Support-** Early Excellence staff have made significant efforts to build partnerships with key allies and partners in the community. The success of these community partnerships is evidence by the level of in-kind support, which is important in leveraging additional support, and diversifying the revenue base and efforts to recruit a broader range of families to serve.
- **Family Engagement** – Early Excellence staff have implemented a number of strategies to engage families, and most importantly to provide a comprehensive range of family support services. This helps to both strengthen relationships with families and community partners and to support the full range of needs that impact children's learning and success in school.
- **Serving Community Needs-** Early Excellence provides high quality early education services to a predominantly low income population and community where such services may otherwise not be available.

What are Areas for Improvement?

- **Diversify Revenue Base-** Early Excellence will need to diversify funding sources in order to address shortfalls in public revenue. Increasing both private/corporate funding and full tuition paying parents will help to address the expected fluctuations in funding levels from different revenue sources as the economy rebounds. Increasing the revenue sources will likely impact administrative practices, for example, developing sliding fee scale and internal systems to monitor grant and other funding source accountability requirements.

- **Clarify Mission and Strategic Plan** – Early Excellence has weathered a number of organizational changes since its inception, and it will be important for management, staff and the newly appointed Board to engage in a strategic planning process that defines its mission and goals, and sets clear short term and long term objectives for the coming years. Given both the economy, and the need to attract new revenue sources, and its new status as a non-profit, the leadership team will want to reexamine community needs, assess capacity, and create a reasonable set of priorities to ensure they can sustain a high quality program.

Early Excellence will also need to continue to respond to the challenges of the downturn in the economy, and the impact on both raising revenue and serving a diverse range of families. The quality of teaching staff plays the strongest role in delivering quality early education, so a continuous focus on staff qualifications, including helping more teachers to earn bachelor's degrees and providing sufficient professional development and training, especially given the number of measurement tools utilized, is essential. Further, Early Excellence may want to weigh the costs and benefits of becoming NAEYC accredited, which can be both a support to continuous quality improvement and a recruitment strategy for private pay families. The role of the new Board and the results of the strategic planning process will be critical to ensuring a stable transition to the new organizational structure, and in providing strong leadership to Early Excellence management and staff to continue to do what it is doing well, address areas of weaknesses, and develop sound strategies to guide future sustainability.

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About The Finance Project

Helping leaders finance and sustain initiatives that lead to better futures for children, families, and communities.

The Finance Project is an independent nonprofit research, consulting, technical assistance, and training firm for public- and private-sector leaders nationwide. It specializes in helping leaders plan and implement financing and sustainability strategies for initiatives that benefit children, families, and communities. Through a broad array of tools, products, and services, The Finance Project helps leaders make smart investment decisions, develop sound financing strategies, and build solid partnerships. To learn more, visit www.financeproject.org.