

# GOOD PRACTICES

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## Cost-Efficiency As Part of Your Mission

### STONE SOUP CHILD CARE PROGRAMS

Stone Soup Child Care Programs is a nonprofit agency that provides high-quality child care for approximately one-third the cost of average child care. With an annual operating budget of about 3.5 million it is a model of sound fiscal management and a self-sustaining not-for-profit program. Structured as a classic for-profit management corporation, the agency is able to maintain its administrative costs at around 5.5 percent and manage its cash flow year round, despite the fact that 90 percent of their funding is received as a reimbursement payment once a year.





## ORGANIZATION PROFILE

Founded in 1986, Stone Soup Child Care Programs provides high-quality and affordable child care to over 4,000 children a day in 86 schools across 22 communities in Southern and Central California. With an average cost of \$113 a month for one child and just \$192 for a family, which covers all of the family's children in the school, Stone Soup charges approximately one-third of what other child care programs do. Yet, while offering child care at a lower cost, Stone Soup provides far more than just supervision: after-school curriculum includes visual arts, music, animation, storytelling, dance, theater, printmaking, and a food and fitness program as well as tutoring and educational programs.



## THE CHALLENGE

While a volunteer for the United Way in the 1980s, Judith Brandlin co-chaired a committee on child care in an effort to address the growing phenomenon of latchkey kids. She was quickly confronted with the financial challenges of providing affordable child care to low income families. "United Way did a study and found that available child care wasn't affordable in low income communities in Los Angeles. The costs involved in starting a program—just the liability insurance alone—were prohibitive; and then there was also all of this red tape," says Brandlin. "We realized that if we used existing school facilities then we could find substantial cost savings. The schools cover liability insurance and they are also exempt from some of the regulations that apply to child care centers. It became clear that the only way to make child care affordable for low income families was to collaborate with the school districts."

Once Brandlin's United Way committee recognized that partnering with the school districts would be essential, the next step was to bring together all of the key stakeholders, including the mayor, local elected officials, the superintendent of schools, and school board members. Brandlin explains, "While everyone thought it was a great idea no one—neither the school districts nor local city government—wanted to run the program." So Brandlin, who had previously co-founded an after-school program in Los Angeles Catholic schools, started a 501(c)3 nonprofit corporation, Stone Soup Child Care Program, to run the program for the schools.

It is this same resourcefulness, fiscal prudence, and vision that today allows Stone

Soup Child Care Programs—where Judith Brandlin has served as President since she founded the agency in 1986—to provide child care to over 4,000 children for one-third the cost of an average child care program. While financial management, even for large, high-profile nonprofit organizations, can be a stressful balancing act between accounts receivable and accounts payable, Stone Soup is able to manage high-quality child care programs in 86 schools, expand to new sites and launch new programs, and maintain low administrative costs. As well, a comfortable operating reserve allows the child care agency to manage its cash flow year-round.

Yet according to the CEO, it wasn't always smooth sailing for Stone Soup: "It took a year and a half just to put the program together," says Brandlin, "and in the beginning we did have financial problems. We always had the goal of having three months salary in reserve, but we were lucky if we had one month. I remember the exact day when we finally achieved that goal. We celebrated."

## 1 ORGANIZATIONAL STRUCTURE AND PROGRAMS

The organizational structure of Stone Soup is that of a classic for-profit management corporation. The agency oversees the day-to-day operations of the program; interviews, hires and trains the child care providers, who are paid directly by the district as school employees; and collects participant fees on behalf of the school district and then turns these fees over to the district for deposit. "The school deducts the Stone Soup payroll and some direct and indirect expenses. If there is an overage, then that comes to Stone Soup, but if there is a shortfall, then we

guarantee the district against loss. We actually pay them," explains Brandlin. "It happens on occasion because we do all of the fundraising here, so if we are starting a new program or launching a new site or if we have many scholarship recipients, then we'll sometimes have losses." This organizational model requires Stone Soup's management to be fiscally responsible. "It really keeps us on our toes, because if we have poor financial management, then we have to pay the districts."

While Stone Soup is able to offer child care for a fraction of the cost of the average program, the organization provides far more than just supervision. The agency's visiting artist "cultural enrichment" project teaches students visual arts, music, animation, storytelling, Shakespeare, tap dance, theater, printmaking, even Korean brush painting. Artists teach 8-10 week courses to students that end in a culmination featuring an art show or a performance for parents, the school, and the community. Four years ago, the agency instituted a "Food and Fitness Program" at 37 sites, which has found remarkable success: 92% of the participating students demonstrated increased knowledge of healthy eating habits and 68% of parents reported better eating habits and more physical activity in the home. High school student volunteers and Catholic Big Brothers and Sisters augment the 14:1 paid staff and provide homework assistance and tutoring. In addition, most sites have a computer loaded with learning software such as phonics and math games.

## 2 REVENUE

In its initial years of operation, Stone Soup relied strictly on tuition fees for its revenue and did not raise any funds from outside sources.

However, as the program grew and needed start-up funds to expand to new sites, the agency sought supplementary funding. Today, while tuition fees cover all of Stone Soup's staff salaries, they continue to supplement this revenue with foundation grants, which support site expansion and refurbishment, enrichment programs, staff development, and tuition assistance. "Most of our tuition assistance is twenty-five percent off, sometimes we give fifty percent, and sometimes we'll reduce fees by seventy-five percent. We believe that buy-in from the parents is important, which is why we are fee-based," explains the CEO. For this reason, the agency awards very few full scholarships. She adds, "While we strongly believe in that philosophy, we have never turned away a family because they cannot afford to pay."

"In order to apply for a scholarship, a child's parents need to fill out an application and provide us with pay stubs and tax returns. We also require families to reapply every four months, because scholarships aren't intended to be welfare, but to be used in times of extreme financial hardship." The policy has worked, and Brandlin reports that, on average, families only stay on tuition assistance an average of four months. "At the same time, we don't want to lose a family because of financial trouble. Our supervisors get to know the families and if a child drops out, then the supervisor will call the parents and ask them if there is a financial problem. Sometimes the parents are just too proud to ask for financial assistance, so we'll encourage them to apply. We do our best to keep kids from falling through the cracks."

The annual per child cost of Stone Soup Child Care is \$869.00. "We're approximately one-third to one-half of what most other child care programs charge, and probably closer

to one-third due to our family discounts," says Brandlin. The CEO acknowledges that enrichment programs and tuition assistance, expenses that are subsidized through foundation funding, have made the program more expensive to operate than it once was. Still she says that if the foundation funding should evaporate tomorrow, "We could continue to provide high-quality and affordable child care, without the enrichment programs, as a self-sustaining program, supported through fee revenue. The most important thing to us is running a quality program—fundraising is secondary—so knowing that we can always become self-sustaining again is essential for us."

This philosophy about self-sustainability and fundraising is why the agency no longer seeks public funding. In order to deal with the extensive applications, monitoring and reporting requirements of state and federal grants, the agency would have to bring on additional administrative staff, according to Brandlin, which would increase her overhead costs. For this same reason, the nonprofit organization does not do labor intensive and time consuming fundraising events.

### **3** FINANCIAL MANAGEMENT

With an overall program budget of approximately \$3.5 to \$4 million a year, the budget of Stone Soup, the nonprofit management corporation, ranges from \$1.25 to \$1.5 million a year. Of this, the agency estimates that nearly 95 percent of these funds go to direct services benefiting program participants. Fees make up nearly 88 percent of the agency's revenue, with 11 percent coming from grants and donations, and one percent from other sources, primarily interest from the conservative investment of Stone Soup's reserve.

While on-paper, Stone Soup's operating reserve of approximately \$850,000 may seem large to some, the agency is paid just once a year—reimbursed—by the school districts, which accounts for 88 percent of the agency's revenue. As such, the agency depends upon a sizeable reserve for cash flow throughout the year. The Board's reserve policy says Brandlin is to put as much money back into the programs as possible, while trying to maintain self-sustaining programs.

The notes of the agency's financial statements explain, "...Stone Soup has approximately ten months of unrestricted operating cash reserves...Amounts of cash and investments are higher at year end due to the timing of payments from the various school districts...cash reserves are used for operating needs continually over the following eleven months." Brandlin adds, "It's a nice feeling to have the \$150,000 for supplies that we just ordered and to know the payroll for 360 Stone Soup employees in the school districts will be met if the parent fees fall short.

The CEO attributes Stone Soup's key cost efficiencies to their partnerships with the schools. "We don't have to build a million dollar facility. We don't have to hire a custodian. Without the schools, we would have significantly more indirect costs. Our partnerships with the districts are wonderful. We run the whole program with an administrative staff of ten of us, four of whom are part time college students."

#### **4 FINDING THE RIGHT CFO**

Brandlin credits the agency's financial well-being in significant part to Stone Soup's CFO, Cindy Pham-Le. "I'm conservative and Cindy's probably even more conservative than I am," says Brandlin, who hired Pham-Le fifteen years

ago based on a gut feeling. "At the very start, I had a professional CFO who botched up the books. The program was still in its infancy stage, and I placed an ad, which Cindy answered. All of the other candidates were much more qualified but she looked me in the eye and asked me for a chance and said she knew she could do it. She was only starting her senior year of college, but she just had this air of efficiency. We've been fortunate to have a great CFO, and the consistency—15 years with Stone Soup—has probably helped more than anything."

While there was a learning curve with their accounts receivable – the agency no longer accepts checks or cash from parents, only money orders – the school districts have been good about making timely payments. Brandlin explains the procedure: "Cindy reconciles with all of the 14 school districts on a monthly basis and does a P&L for every district every month as well as all of the financials. The school districts are audited in late August and then reconcile with us for the end of our fiscal year. We are usually paid for the entire year in October or November." When it comes to accounts payable, the agency has a straightforward pay-as-you-go policy. "Our main indirect cost is the office, which we use for all of our management meetings as well as for storage," says Brandlin. "We buy our supplies in huge quantities and we get wonderful in-kind donations, and the office doubles as temporary storage until everything is inventoried and disbursed to the various sites."

## **CONCLUSION**

It's All in the Name. Brandlin attributes the success of the organization in large part to her staff. "We have been very fortunate to have a lack of turnover of key staff. Twenty-eight percent of our staff, including those out in the field, have been with us five years or more. But as for the core staff, our Executive Director has been with us for almost 15 years. Our CFO has been here for 15 years. Our office administrator has been with us for 15 years. They stay because of a love of the program. That continuity has been vital to Stone Soup's success." While the modest Brandlin hasn't figured her own role into the organization's formula for success and financial well-being, there is no doubt that the CEO's leadership, dedication, and vision have been instrumental in the agency's success.

It is this same leadership and vision that was the inspiration for the name of the organization, "Stone Soup" back in 1986 when she founded the agency. Taken from a Napoleonic children's story about three hungry soldiers who convince a village to pool their scarce resources to make soup for all, the name reflects the organization's approach. The Stone Soup founder believed that if parents, schools, and communities pooled their limited resources, then together they could create a low-cost and high-quality program. By bringing this core value of resourcefulness not just to the programs it administers, but also to its own management, Stone Soup Child Care Programs has done just that.

The Center for Civil Society is the focal point for the UCLA School of Public Affairs' programs and activities in nonprofit leadership and management. "Cost-Efficiency As Part of Your Mission" is one in a series of "good practices" of Southern California nonprofits developed by the Center for nonprofit practitioners and community leaders. These vignettes, covering a range of topics from governance to innovation to volunteer management, are available for download, free of charge, on the Center for Civil Society's Web. Visit us online to read other Good Practices or to sign up for the next session of the Nonprofit Leadership Program. <http://www.spa.ucla.edu/ccs>