

Are you managing your cash flow?



DECAL
Thriving Child Care
Business Academy

Your business's cash flow describes the amount of money coming into and leaving your business over a certain amount of time. In addition to helping you meet your current financial obligations, understanding and managing your cash flow helps you plan for the future, seize growth opportunities, and make sound business decisions.

Once you have a monthly budget, you may still have questions:

- How much am I making over time?
- Will I have enough cash to pay myself? My bills?
- How much am I really making?

If you have any of these questions, learning about cash flow can help.

Introduction

The cash flow forecast is one of the best tools you can have for understanding how healthy your organization is right now and in the near future. Predicting cash flow is not about budgeting. It's about understanding how much money you are taking in minus how much money is going out.

The challenge with cash flow is that you can have a lot of money that's owed to you, but if you don't have money on hand to pay the bills, then your business can find itself in financial trouble. Knowing how much cash you have in the short term becomes a way of not only knowing what's coming in and going out, but also gives you a heads-up about upcoming challenges with having enough cash available.

The following cash flow exercise will guide you through the process of making an important cash flow prediction for your business over the next six months. We've purposely chosen the six-month time frame because it's a nice snapshot that allows you to make decisions a few months away, but it's not so far away that many things could change.

Once you get the hang of this exercise, you will likely want to make it one of your weekly business habits.

Building Cash Flow in 5 Easy Steps

Step 1: Gather Documentation

Pull 2–4 months of documents that show your income and expenses. Here is a list of documents that can give you the information you need.

Documents Showing Income & Expenses

- Bank statements
- Credit card statements
- Venmo transactions
- Utility bills
- Any other records showing ways that you receive or spend money

Try to use actual amounts when possible for greater accuracy. If you don't have actual amounts for everything, it's okay to use an average. For example, you might need to use your average electric bill because you don't know exactly how much electricity you'll use over the next few months.

Step 2: Pick a Time Frame & Scenarios

This is not a budget. Try to choose a time frame that's long enough to allow you to make decisions past one or two months, but short enough in case challenges or changes happen down the road. We think six months is a good time frame but adjust as needed and choose what works for you. Never use more than a year.

You should also consider scenario planning, which can help your organization generally, but particularly in times of great uncertainty. Through scenario planning, you can articulate changes that may happen over time so you can see and plan for their potential impacts. Though you can use any number of scenarios, typically it is good to develop three:

1. **Best Case** — where revenue and expenses shift to ease the stress on your business.
2. **Base Case** — usually the status quo, if the future plays out as you currently expect it to happen.
3. **Worst Case** — where revenue and expenses will trend in ways that could happen and would result in a more difficult position for your business.

To build the scenarios, identify the most significant factors and how they may trend in each scenario. Make sure you consider factors that are on the revenue and expense sides. Try to keep to just the most important factors — the 3–5 most likely to change in

the future – which could have the most significant impact on your organization. For example, a potential increase in your healthcare costs by 50% would be a likely factor for your worst-case scenario, whereas a 1% increase in office supplies would likely not be included.

Make sure you include a list of the factors — writing them down will make sure you remember how you got to that particular scenario you’ve created. If you can, articulate the cost impact in actual dollars (such as what happens if you get that \$10,000 grant) or a percentage (such as a 10% increase to the cost of supplies).

Use the table below to capture your assumptions for each scenario. As you run through the rest of the steps, do one set of tables for each scenario so you can see the impact.

Table 1: Scenarios

FACTOR	BEST CASE	BASE CASE	WORST CASE
Example: Monthly cost of PPE	Goes to \$0 within two months	Continues to be \$1,000 per month	Doubles to \$2,000 per month

Step 3: List Income

Categorize the money that comes in each month. Be sure to always include an “Other” category.

Income Categories

- Subsidy
- Fees
- Grants
- Other

Step 4: List Expenses

Categorize money that goes out each month. Again, be sure to list an “Other” category.

Expense Categories

- Personnel
- Taxes

- Rent
- Utilities
- Vehicle
- Phone
- Food/snacks
- Cleaning
- Loan payments
- Bank fees
- Other

Table 2: Revenue

REVENUE CATEGORIES	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	TOTAL
Subsidy							
Fees							
Grants							
Other							
Total							

Table 3: Expenses

EXPENSES CATEGORIES	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	TOTAL
Personnel							
Taxes							
Rent							
Utilities							
Phone							
Food/snacks							
Cleaning							
Loan Payments							
Bank Fees							
Other							
Total							

Table 4: Monthly & Total Cash Flow

	MONTH 1	MONTH 2	MONTH 3	MONTH 4	MONTH 5	MONTH 6	TOTAL
Total Revenue							
Total Expenses							
Total Cash Flow (Total revenue – Total expenses)							

Step 5: Review the Trends

Your total cash flow over the next six months will be the total amounts of revenue in TABLE 2 minus the total amounts of expenses in TABLE 3. You can also see the cash flow for each month by subtracting your total expenses from your total revenue for each month. (Looking at cash flow month by month can be helpful because some months your revenue might be less than expenses, but other months it might be more. This tells you when you need to save money from one month to another.)

Now that you have your cash flow projection, you should ask yourself a series of questions for each scenario to understand any trends that appear.

Question 1: Are you profitable?

- Yes
- No

Question 2: Are there months that are “feast or famine?”

- Yes
- No

Question 3: Which month(s) has the highest profit?

Question 4: Which month(s) have the lowest profit?

Question 5: Which categories are your highest expenses?

Question 6: Which categories are your lowest expenses?

Question 7: Which categories are your highest revenue?

Question 8: Which categories are your lowest revenue?

Improve Your Cash Flow

If you've completed your analysis and you find that you need to cut some expenses to increase revenue, here are some suggestions on how to do it:

Increase enrollment.

If you have room in your program, this can be the most cost-effective way to build revenue. Start by asking your current families if they know of other families in need of care who they could refer to you. Also, reach out to your local CCR&R or other providers to find out if there are families who need care.

Consider weekly vs. monthly billing.

If you currently charge \$1,000 per month, most people assume that works out to \$250/week — but months have five weeks, which translates to an additional \$1,000 per year, per student. This method can be an effective way to increase cash on hand if you have families who consistently pay on time. If you have families who often miss payments, this can be difficult because it may mean chasing down money. It can also mean more trips to the bank and more data entry on your end.

Speed your billing and collections.

You should bill as soon as possible, and don't let money owed to you wait. It may be a difficult conversation with families, but the cash is critical to keeping your business and the service they rely upon alive. Consider child care management systems that can help speed billing while also cutting other costs, or using Venmo or similar apps for fast payment. Another option is to have parents pay before services are rendered.

Find the best prices for toys, materials, and equipment.

Buying used toys can save you significant amounts of money, and you can use sites that give you access to high-quality, pre-loved items. Check out your local Facebook selling groups. Goodwill and the Salvation Army often have toys available. Try visiting these stores early in the week after items have been dropped off over the weekend. (Always make sure you are following any state or local regulations about purchasing used equipment.) Use a credit card for business expenses that has rewards in the form of cash back or gift cards you can utilize for additional purchases.

In addition, look for ways to get discounts through large purchase programs like the one available to NAEYC members.

Look for recurring subscriptions to cut.

Take a look at the different services and online memberships that you have. Often, they accumulate over time and we don't realize how many we actually have or the impact they have on monthly cash flow. Determine which subscriptions you need and which

you can live without.

Consider federal programs.

Two federal programs can be claimed retroactively for activities from March 13, 2020, to September 30, 2021. Families First Leave (FFCRA) can provide you with payment for staff members who are at home caring for themselves or family members with COVID, or for children who are not in care or school. The Employee Retention Tax Credit (ERTC) is for small businesses that had reductions in revenue or had to follow social distancing orders. Both programs can provide significant funds for child care businesses for past activities.

Automation.

Look for ways to stretch your time and your staff's time through apps and other programs. A child care management system can help with billing, attendance, and other functions. There are also apps and programs to help you manage your waitlist, reducing the time you may have a spot open in your program. Online systems can help you with payroll and bookkeeping, and free programs are available to help you collect attestations and other forms online.

Additional Resources

If you have questions or need help, assistance is available.

[GaPDS Website](#)

[DECAL Thriving Child Care Business Academy Website](#)

To Find Other Study Guides: Click on [Resources](#) on the Academy home page

To Find Training: Click on [Trainings](#) on the Academy home page

To Register for Training: Click on [Schedules & Registration](#) on the Academy home page

To Sign Up for Study Groups: Fill out the [Intake Assessment](#)

For questions about coaching or study groups: Email GAcoaching@civstrat.com

To Find Other ECE Resources: Visit the [DECAL Website](#)

For General Questions about the Academy: Email thriving@dec.al.ga.gov

For More Information:

[Family Child Care Learning Home Rules and Regulations](#)

[Child Care Learning Center Rules and Regulations](#)