Learn how to keep your cash flow positive.

Virginia's ARPA Child Care Stabilization Grant Program

Are you managing your cash flow?

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Virginia Early Childhood Foundation®

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.

Building Cash Flow in 5 Easy Steps

- **STEP 1** — Gather Information
- **STEP 2** — Pick a Time Frame & Scenarios
- **STEP 3** — List Income
- **STEP 4** — List the Expenses
- **STEP 5** — Review the Trends

Introduction

The cash flow forecast is one of the best tools you can have for understanding how healthy your organization is in the near term. 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 near 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 long 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 of 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 OK 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 memorialize your assumptions. 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 impacts.

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
- PPP
- 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
- PPE (Personal Protective Equipment)
- 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							
PPP							
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							
PPE							
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.

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 the CCR&R and 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 which can help speed billing while also cutting other costs, or using **Venmo** or similar apps for fast payment.

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

Look for reoccurring subscriptions to cut.

Take a look at the different services and online memberships that you have. Often, they accumulate over time — 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.

Look for grants and other opportunities from your local child care resource and referral agency (CCR&R).

This is a great way to connect with resources, grants, and opportunities for additional funding. Also, your CCR&R will often offer one-on-one help and expertise if you have questions and concerns about your business.

Consider federal programs.

A new stimulus package is still emerging. In the meantime, programs like **Families First Leave** can provide you with payment for staff who are at home caring for themselves or family members with COVID, or for children who are not in care or school. It can be done intermittently — you can have a person who uses it five days a week or even just one day a week. The **Employee Retention Tax Credit (ERTC)** is open to small businesses that did not receive a Paycheck Protection Program Loan. The ERTC provides up to $5,000 for each employee you kept employed through the pandemic. The **Main Street Lending Program** can provide very low interest loans for for-profits and nonprofits with at least 10 employees.

Defer or reduce payments for rent, utilities, and mortgage.

Many landlords, banks, and utility companies are allowing you to hold off making payments or make partial payments. The money is still owed, but can provide vital cash to keep you going. Also, consider renegotiating your lease or moving to a new space (even hiring a broker to do so) — commercial real estate is willing to make deals as more people work from home.

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. Online systems like **Gusto** and **FreshBooks** can help you with payroll and bookkeeping. Even a free program like **Google Docs** can be used to collect attestations and other forms online.

Reduce staff.

It is never an easy decision, but if needed, you can reduce staff quickly to conserve cash. Keep in mind that you should ensure reductions will neither impact state and federal requirements nor overall quality and safety.

Assistance is Available

Please visit the **Virginia Early Childhood Foundation's ARPA webpage** with resources to help strengthen your business. Resources include easy-to-read written guides, webinars, recorded tutorials, and more.

Through business coaching, providers can receive tailored feedback on topics as they are scheduled. While coaching will not provide you with specific details pertaining to your tax situation nor financial advice, you may find that the strategies may empower you to be a better informed business owner.

If you would like a deeper look into the strategies discussed in this guide or other business topics, please view the **coaching calendar** and register to join a coaching session.

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