



# Managing Cash Flow

For Smarter Financial Decision Making

Presented by:

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# Managing Cash Flow

- **About the NH Community Loan Fund**
- **About Kim Votta Consulting**
- **About the *Business of Child Care Initiative***

# Learning objectives

- **Understand what cash flow is.**
- **Learn about the fundamentals of and best practices in cash flow management.**
- **Learn how to create a cash flow projection.**

You know all or some of this already. You just may not have a system in place for using your knowledge. This will affect your cash flow.

## What you already know

1. Is there a difference between profit and cash flow?
2. What is a cash flow problem?
3. What are some potential causes of cash flow problems in your business?
4. What are some of the ways in which a business could reduce negative cash flow in the short-term?
5. What are two benefits for a business that actively manages its cash flow?
6. Once you have prepared a cash flow projection, which of the following scenarios would be the best course to take, a or b?
  - a) Change (modify) the numbers every twelve months.
  - b) Adjust projections as you go along so the numbers maintain reliability.

# Managing Cash Flow

## Why you should care...

- While a business can survive for a short time without profits, without cash it will die, so **ready (available) cash** is the primary indicator of business health
  - For this reason the inflow and outflow of cash needs careful monitoring and management

# Managing Cash Flow

- **Three primary components of cash flow:**
  - Funds on hand at the beginning of any period
    - **You determine the period**
  - Funds received and spent during an ensuing period
    - **Money coming in and money going out**
  - And the funds remaining at the end of that period

# Managing Cash Flow

*“Cash flow is the lifeblood of any business, and it's imperative that you understand the inflows and outflows accordingly.”*

- Cash inflows (money coming in) from:
  - Sale of your service (or product)
  - Short-term credit (line of credit, personal loan)
  - Current accounts or short-term deposits (Savings, CDs)
  - Asset sales
  - Owner investments (regular interest or dividend income)
  - Grants or fundraised revenue (level of certainty)

# Managing Cash Flow

*“Cash flow is the lifeblood of any business, and it's imperative that you understand the inflows and outflows accordingly.”*

- Cash outflows (money going out) from:
  - Operating expenses
  - Wages and benefits
  - Loan or credit card principal payments
  - Asset purchases
  - Owner withdrawals



# Managing Cash Flow

*“Cash flow is the lifeblood of any business, and it's imperative that you understand the inflows and outflows accordingly.”*

- What is not cash flow:
  - Long-term loans
  - Long-term deposits (6 months, 1 year, etc.)
  - Money owed by customers (receivables)

# Managing Cash Flow

## Why manage cash inflows and outflows:

- Income and expenditure cash flows rarely coincide **BUT** you must always be in a position to meet your scheduled payments.
- This means there can be times when you could simply **NOT** have enough ready cash to meet your commitments.

Cash flow management is basically about speeding up the inflows and slowing down the outflows.

# What is a cash flow cycle?

Step 1: Calculate your cash flow cycle

2 days for parts

+ 10 days to produce your product

+ 5 days to collect cash

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= 17 days for the cash flow cycle





## **What is the cash flow cycle of an ECE center?**

**The amount of time it takes you to provide your service (early childhood education) and receive payment (tuition).**



## What is the cash flow cycle of an ECE center?

### Calculating your cash flow cycle:

- How often are services rendered? Most likely daily.
- Do your families pay weekly, bi-weekly, or monthly?
- Do they pay before services are received or after?
  - If your center delivers ECE services for 5 days and receives payment at the end of those 5 days, the center's cash flow cycle is 5 days.
  - If your center delivers ECE services for 5 days and bills for those services at the end of 5 days, allowing one week for payment, the center's cash flow cycle is 12 days.

*It is important for you to know your cash inflows and outflows in each cycle: ideally, most cycles will generate positive cash flow.*

**Most ECE centers have short cash flow cycles.**

## How much cash flow?

*You can use a number of benchmarks to determine how much money you should keep in your bank account to get through tough times.*

- Calculate how much delivery of your service costs (direct costs)
- Calculate your overhead costs
- Calculate your total costs
- Determine what assets and credit are available to your business

**Make your decision  
and strive to get  
there!**



# ABC Childcare

How much cash flow?



## ABC Childcare

- She decides to project cash flow assuming enrollment drops by 30%.
  - This could happen. It's a small center and two of her families are large each with several children enrolled. What if they both moved at the same!
- Nervous Nellie loves her staff – they are superstars!
  - If the worst happens she would want to keep them while she figured things out.

**How much money should ABC Child Care have in the bank to weather out a 30% drop in enrollment for 30 days, 60 days, 90 days?**

**Let's find out!**





# ABC Childcare

Assumes enrollment at 70% of normal and *starting cash at \$0*:

**Projected Monthly Income:**

|                                |  |
|--------------------------------|--|
| Parent Fees:                   | \$11,912.00 (changed to reflect drop in enrollment)          |
| Subsidized Tuition:            | \$2,102.00 (changed to reflect drop in enrollment)           |
| Food Reimbursement:            | \$221.00 (changed to reflect drop in enrollment)             |
| Miscellaneous Income:          | \$120 (monthly parking space rental income - no change made) |
| <b>Total Projected Income:</b> | <b>\$14,355.00</b>   |



# ABC Childcare

## Monthly Direct costs with full staff:

|  |  |
|--|--|
| Wages:                                     | \$7,614.00 (no change made - plan is to keep all teaching staff) |
| Payroll Taxes:                             | \$788.05 (no change made - plan is to keep all teaching staff)   |
| Benefits:                                  | \$623.08 (no change made - plan is to keep teaching staff)       |
| Food:                                      | \$2,205.00 (changed to reflect drop in enrollment)               |
| <b>Total direct costs with full staff:</b> | <b>\$11,230.13</b>   |

## Monthly Indirect costs with full staff:

|  |  |
|--|--|
| Administrative Wages, etc.:                  | \$4,272.60 (no change made - no changes in administrative staff) |
| Insurance, postage, supplies, etc.:\$        | 3,793.00 (no change made - assumes all other expenses fixed)     |
| <b>Total indirect costs with full staff:</b> | <b>\$8,065.60</b>  |
| <b>Total Costs Direct and Indirect:</b>      | <b>\$19,295.73</b>   |
| <b>Cash Available Income less Costs:</b>     | <b>-\$4,940.73 (\$14,355 less \$19,295.73)</b>                   |



# ABC Childcare

If tuition income is at 70% of normal enrollment expectations, how much cash does Nellie need to operate with full staff?

Cash reserves needed for 30 days:

**\$4,940.73**

Cash reserves needed for 60 days:

**\$9,881.46**

Cash reserves needed for 90 days:

**\$14,822.19**

**Know your worst case scenario and plan for it.**

**If this did happen, what other costs might go up?**

- Marketing and promotion

**If this did happen – what could you do to produce or conserve cash?**

- Line of credit
- Savings, short-term deposits
- Stop gap policy – when cash flow reaches a certain point, reduce expenses

## Forecasting cash flow – principals and best practices

### Cash flow should have three characteristics; it should be:

- Positive:
  - Cash Inflows – Cash Outflows = +Net Cash Flow
- Available
  - There must be sufficient cash flow in liquid assets so it can be accessed to meet financial obligations
- Timely
  - Cash Inflows must be timed to come in before Cash Outflows are due



To achieve this requires planning.



## Forecasting cash flow – principals and best practices

*Cash flow forecasting enables you to predict highs and lows in your cash balance and helps you plan borrowing or tells you how much surplus cash you're likely to have at a particular time. Best practice indicates you should have a cash flow forecast in place for at least the next 12 months.*

- **Cash flow forecasting enables you to plan for:**
  - How much cash your business will need to support operations
  - When cash will be needed
  - Applying for financing if there is going to be a shortfall (This process can take time!)
  - Strategically managing excess funds

## **Forecasting cash flow – principals and best practices**

*The cash flow forecast totals the sources and amounts of cash coming into your business and the uses and amounts of cash going out over a given period.*

### **Elements of a cash flow forecast, include:**

- Receipts – fees, bank interest, grants, government payments
- Payments – payroll taxes, insurance premiums, rent or mortgage, wages, etc.
- Excess of receipts over payments (net profit/loss) - with negative figures shown in brackets
- Opening bank balance
- Ending bank balance

Can also include lines of credit, owner investments, and other financing options



## Forecasting cash flow – principals and best practices

### Things to keep in mind as you create a cash flow forecast for your ECE business:

- Create manageable and meaningful categories of receipts and payments; mirror how you currently track income and expense.
- Build the cash flow forecast off of the annual budget so line items match
- Be conservative – lower your anticipated income and increase your anticipated expenses. If you can make the figures work by being conservative, you know you can make them work if you do better than that.
- Always factor in an enrollment vacancy rate (what is average for you then add a few percentage points). Families move, parents lose their jobs.
- Remember that government reimbursements come on their own schedule.



## Forecasting cash flow – principals and best practices

### Things to keep in mind as you create a cash flow forecast for your ECE business, continued...:

- Owner's draw should be included in your cash flow projections.
- Never borrow against payroll taxes. The IRS can close down your business and charge high penalties if you fail to pay your payroll taxes.
- Always include reserves in your cash flow (What is your target! Do the best you can to get there.). You never know when your child care van may break down or your playground equipment will have to be replaced.
- Think ahead. Include the financial impact of upcoming changes (a new program, a new marketing campaign).





## Forecasting cash flow – principals and best practices

### Things to keep in mind as you create a cash flow forecast for your ECE business, continued...:

- Keep track of all the assumptions that you are making as you create your cash flow projections. Here are some commonly made assumptions:
  - The number of children who will enroll in your center
  - Your schedule of rates
  - The number of children receiving subsidy
  - Anticipated wage increases
- **This is a good time to evaluate costs.** Are there any ways you can lower your direct and indirect costs?
- **This is a good time to evaluate rates.** Can you charge more? Are you losing enrollments because your rates are not competitive?



## Reasons for Cash Flow Problems

- Difficulty in collecting receivables
  - Collecting fees is the most important cash flow management task for the ECE center
- Seasonality of business
  - Enrollment changes as school year begins and ends, children age out (can plan for these changes)
- Unexpected variation in revenue
  - Local businesses shut down, families move away (can prepare for these changes)



## Reasons for Cash Flow Problems

- Policies on how payments are made to suppliers
  - Do you monitor invoice terms or pay bills upon receipt, have you negotiated terms with vendors (due dates, bulk rates, etc.)
- Capital projects and purchases
  - Do you plan ahead for these – build up reserves, buy on credit, time during peak cash flow period



## Methods for Improving Cash Flow

*To improve everyday cash flow you need to work with the things in your business that directly affect it.*

- Determine what needs to be monitored in your business
  - Know your key performance indicators – in ECE the most important is enrollment. What else?
    - Personnel costs
    - Food costs
    - Fuel costs
    - Receivables
    - Payables
    - Suppliers

## Methods for Improving Cash Flow

- Input actuals and compare them to your plan, monthly is ideal (Weekly if in a worrisome cash position)
  - Identify the variances
  - Take corrective action as needed
- Consider shared resources
  - Collaborative trainings
  - Outsourced admin functions
  - Office or food supplies

**You can also improve cash flow by increasing borrowing, or putting more money into the business.**

This is acceptable for coping with short term downturns or to fund growth in line with your business plan, but shouldn't form the basis of routine cash management.

## **Everyone should forecast cash flow**

Resources provided by email after the workshop:

1. [BoCC Cash Flow Template FCF Modified](#)
2. [BoCC Cash Flow Template.FCF.Modified.Weekly](#)
3. [Interactive Cash Flow Activity – Scenarios with Microsoft Excel Workbook, “Interactive Cash Flow Activity.MASTER.no scenarios”](#)
4. PDF of PowerPoint Presentation



## Key takeaways

- Cash flow should be planned and managed.
- More businesses fail because of poor cash flow than because of poor profit.
- Comparing your actual financial results against your cash flow projections every month and noting the variances is extremely important.
- Monitoring cash flow will help you make effective financial management decisions.
- Forecasting cash flow will keep your business on track when you encounter unforeseen business problems that impact cash.

## Cash Flow Resources

- First Children's Finance  
[www.firstchildrensfinance.org/businessresourcecenter/centers-2/finance/finance-tools/](http://www.firstchildrensfinance.org/businessresourcecenter/centers-2/finance/finance-tools/)
  - Modified template is being sent via email
- *The Bottom Line for Children's Programs* by Gwen W. Morgan and Bess R. Emanuel
  - Pages 73-77, simplified template that separates out fixed costs





# Questions?

Please fill out the webinar evaluation, which will be emailed along with the cash flow resources and your attendance certificate.



## Presentation Sources

- Banbridge District Enterprises, *Practicing Working Capital Management and Managing Your Cash Flow*
- Corell, J. *Cash Flow Projections for Small Business*, Independence Community College, <http://www.ibrcenter.org/cash-flow-60818.asp>
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