Understanding and managing your child care business's cash flow.

Introduction

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, seize growth opportunities, and make sound business decisions. If you are the recipient of Smart Start Workforce Grants, the funding you receive will be recorded in your cash flow, as will your increases in payroll expenses. As we walk through the process of managing your cash flow, this guide will address how you will record your funding and your increased payroll expenses.

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.

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. Being aware that the funding received from Smart Start Workforce Grants must be allocated to your payroll expenses will allow you plan to use the funding as required.

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 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.

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

- Smart Start Workforce Grants Documentation
- Any other records showing ways that you receive or spend money

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. However, exact amounts will help with achieving greater accuracy.

Step 2: Pick a Time Frame & Scenarios

When creating your cash flow be mindful that Smart Start Workforce Grants will be awarded quarterly, so you should be able to identify the months when you will receive funding and include the funds in the appropriate months. For building your cash flow, 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. While this exercise will focus on a six-month period, feel free to adjust as needed. Never use a period of 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. **The Smart Start Workforce Grants funding you will receive will not be a deciding factor in your scenarios, as the funds are already allocated to your payroll increases.**

Make sure you include a list of the factors — writing them down will make sure you remember how you got to that scenario you've created. If you can, articulate the cost impact in actual dollars 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.

Scenarios (Table 1)

FACTOR	BEST CASE	BASE CASE	WORST CASE
Example: Monthly cost of Food	With smart shopping reduces to $750 within 2 months	Continues to be$1,000 per month	Increases to $1,500 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
- Smart Start Workforce Grants
- Other Grants
- Other

Income/Revenue (Table 2)

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

Step 4: List Expenses

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

Expense Categories

- Personnel (remember that these expenses will increase as you meet the Smart Start Workforce Grants requirement of spending funds on meeting the required wage floor)
- Taxes
- Rent

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

When taking your personnel expenses into account, remember that with the increase in wages funded by Smart Start Workforce Grants will also come an increase in payroll taxes, so you will want to have calculated these payroll tax increases and have added them to your personnel expenses. You can find more information on calculating payroll tax increases **here**.

Expenses (Table 3)

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							

Step 5: Review the Trends

Your total cash flow over the next six months will be the total amount of revenue in TABLE 2 minus the total amount 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.) This will be reflected in TABLE 4.

Keep in mind that the month you receive your Smart Start Workforce Grants funding may not be the month in which the funds are spent, as your funding may cover a quarter's worth of wage increases. Smart Start Workforce Grants will be issued in 3 application rounds:
Application Round 1 will cover qualifying wage expenses from October 2024 through December 2024.

Application Round 2 will cover wage qualifying wage expenses from January 2025 through March 2025.
Application Round 3 will cover qualifying wage expenses from April 2025 through June 2025.

Receiving this funding will often result in an influx of money, and you may be tempted to consider this money increased revenue, however, remember that you will need to be aware that these funds are only to be allocated towards the wage increases. While your cash flow is not a budget, being diligent to allocate the funds appropriately can help you from spending the funding prior to your payroll increases. You do not want to end up with circumstances where you do not have the funds available to pay for the wage increases. If you were to have a decrease in expected revenue, such as shown in your worst-case scenario, you do not want to have spent the grant funding prior to meeting your obligation to implementing the required wage increases.

Monthly & Total Cash Flow Trends (Table 4)

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

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: Which month(s) has the highest profit?

____

Question 3: Which month(s) have the lowest profit?

____

Question 4: Which categories are your highest expenses?

____

Question 5: Which categories are your lowest expenses?

____

Question 6: Which categories are your highest revenue?

____

Question 7: Which categories are your lowest revenue?

____

Tips to 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 the Illinois Network of Child Care Resource and Referral Agencies (INCCRRA) or other programs in your area 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 some months have five weeks, which translates to an additional $1,000 per year, per student. This method can be an effective way to increase revenue, 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. It may be a difficult conversation with families, but this revenue 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. 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.

Look for reoccurring subscriptions to cut.

Look at the different services and online memberships that you have. Often, they accumulate over time, and we don't realize how many we have or the impact they have on monthly cash flow. Determine which subscriptions you need and which you can live without.

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.

HAVE QUESTIONS?

The Illinois Network of Child Care Resource and Referral Agencies (INCCRRA) will administer the Smart Start Workforce Grants. INCCRRA will provide technical assistance answering technical questions and helping with the application process through its website and via email. Email grants@inccrra.org with questions.

New to Smart Start Workforce Grants is local technical assistance through the local Child Care Resource and Referral (CCR&R) System. This will provide local grant experts to provide technical assistance, and answer questions. Find your local expert here.

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