New Hampshire
COMMUNITY
LOAN FUND

Managing Cash Flow

New Hampshire Community Loan Fund

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Learning Objectives

Understand what cash flow is.

Learn about the fundamentals of cash flow.

Best practices in cash flow management.

Learn how to create a cash flow.

What you already know

- Is there a difference between profit and cash flow?
- What is a cash flow problem?
- What are some potential causes of cash flow problems in your business?
- What are some of the ways in which a business could reduce negative cash flow in the short term?
- What are two benefits for a business that actively manages its cash flow?
- Once you have prepared a cash flow projection, which of the following scenarios would be the best course to take?
  -Change the numbers every 12 months.
  -Adjust projections as you go along so the numbers maintain reliability.

Note:

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.

Why you should care

While a business can survive for a short time without profits, without cash it will die. So readily 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

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

Funds remaining at the end of that period

Cash Inflows

- Sales of your services or products
- Short-term credit (line of credit or personal loan)
- Current accounts or short-term deposits
- Asset sales
- Owner investments (interest or dividend income)
- Grants or fundraising revenue

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

Cash Outflows

- Operating expenses
- Wages and benefits
- Loans or credit card payments
- Asset purchases
- Owner withdrawals

"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)

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

Managing Cash Flow

Why manage cash inflows and outflows:

- Income and expenditures cash flows rarely coincide but you must always be able to meet your scheduled payments.
- This means there can be times when you could simply not have enough ready cash to meet your commitments.

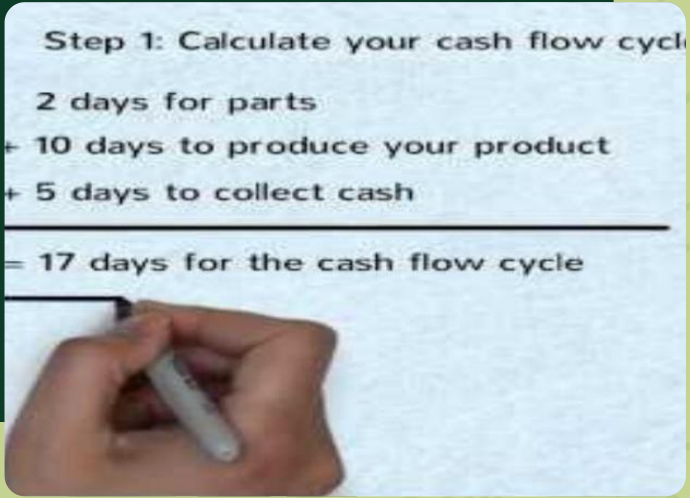
Cash flow management is basically about speeding up the inflows and slowing down the outflows.

Cash Flow Cycle

Cash Flow Cycle

What is the cash flow cycle of an ECE Center?

The amount of time it takes you to provide your service (ECE) and receive payment (tuition).



What is the cash flow of an ECE center?

- How often are services rendered?
- Do families pay weekly, bi-weekly, or monthly?
- Do families pay before or after services are rendered?

- 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 you 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.

Note:

Most ECE centers have short cash flow cycles.

It is important for you to know your cash inflows and outflows in each cycle.

Ideally, most cycles will generate positive cash flows.

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 cost (direct cost)
- Calculate your overhead cost
- Calculate total cost
- Determine what assets and credit are available to your business

ABC Childcare

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 move at the same time?

Nervous Nelly loves her staff – they are superstars!

If the worst happens, she will want to keep them while she figured things out.

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

Let's find out!

ABC Childcare

Assume enrollment of 70% of normal and starting cash at $0

Projected Monthly Income

- Parent Fees: $11,912 (changed to reflect drop in enrollment)
- Subsidized Tuition: $2,102 (changed to reflect drop in enrollment)
- Food Reimbursement: $221 (changed to reflect drop in enrollment)
- Miscellaneous Income: $120 (monthly parking space rental income)

Total Projected Income: $14,355

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

Let's find out!

ABC Childcare

Assume enrollment of 70% of normal and starting cash at $0

Monthly indirect cost with full staff:

- Admin Wages: $4,272.60 (no changes made)
- Insurance, postage, supplies: $3,793 (no changes made)

Total indirect cost with full staff: $8,065.60

Total direct and indirect cost : $19,295.73

Cash available Income less cost $-4,940.73

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

Let's find out!

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 : $14,882.19

Know your worst-case scenario and plan for it.

If this did happen, what other cost might go up?

Marketing and promotions

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

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:

Positive (Inflow – Outflow = 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

Forecasting cash flow

Principals and best practices

Cash flow forecasting enable 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
- Strategically managing excess funds

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 practices indicates you should have a cash flow forecast in place for at least the next 12 months.

Forecasting cash flow

Principals and best practices

Elements of cash flow forecast:

- 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 and ending bank balances

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.

This can also include lines of credit, owner investments and other investment 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/expenses.
- Build a cash flow forecast off of the annual budget so line items match.
- Be conservative: lower anticipated income and increase your anticipated expenses.
- Always factor enrollment vacancy rates

NOTE:

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:

- Owner's draw should be included in your cash flow projections.

- Never borrow against payroll taxes. The IRS can close your business and charge penalties if you fail to pay payroll taxes.

- Always include reserves in your cash flow for potential repairs and equipment needs.

NOTE:

Think ahead : Include the financial impact of upcoming changes (a new program or 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:

- Keep track of all the assumptions that you're making as you create your cash flow projections.
- Evaluate cost : are there any ways you can lower direct and indirect cost?
- Evaluate rates : can you charge more? Are you losing enrollments because your rates aren't competitive?

COMMON ASSUMPTIONS MADE WHEN CREATING CASH FLOW PROJECTIONS:

- Number of enrolled children
- Your schedule of rates
- Number of children receiving subsidies
- Anticipated wage increases

Cash flow problems

Reasons

- Difficulty collecting receivables
- Seasonality of business (school year begins/ends
- Enrollment changes (children age out)
- Unexpected variation in revenue (local businesses close, family moves)

Cash flow problems

Policies

- Do you monitor invoice terms or pay bills upon receipt?
- Have you negotiated terms with vendors (due dates, bulk rates)
- Capital projects and purchases – do you plan ahead for these? (build up reserves, buy on credit, time during peak cash flow period)

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 (KPIs), in ECE it’s enrollment

OTHER INDICATORS COULD BE:

- Food costs
- Fuel costs
- Receivables
- Payables
- Suppliers
- Personnel costs

Improving cash flow

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

- 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 training
  - Outsourced admin functions
  - Office and food supplies

NOTE:

You can also improve cash flow by increase 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.

This shouldn't form the basis form routine cash management.

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.

Presentation Resources

- Banbridge District Enterprises, *Practice 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
- Innovation Business Resource Center, http://www.ibrcenter.org/cash-flow-60818.asp
- Newman, P. *A Basic Lesson in Cash Flow Management, Entrepreneur Magazine*
- Schenkel, M. *Cash Flow Management*
- TES Connect, *Interactive Cash Flow Activity*
- Tutor2U, *Cash Flow Management Basics*

Please visit the resources section of the NH Community Loan Fund website for more materials. www.communityloanfund.org