Nonprofit Financial Management

CASH FLOW PLANNING

Name:____

Organization:____________________________________

Nonprofit Financial Management

Cash Flow Planning

In times of uncertainty, it's especially critical to understand how cash flows in and out of organizations. Unlike a budget – which summarizes revenue and expenses for a block of time – cash flow projections plot total cash received and spent month-by-month or week-by-week. In this session, you will learn how to create a cash flow projection, manage cash flow, avoid common missteps in cash flow planning, differentiate between cash and accrual accounting, and connect cash flow management to credit assessment.

Learning Goals

- Create a cash flow projection tool and understand common strategies for management cash flow
- Recognize common missteps and how to avoid them
- Understand the differences between cash and accrual accounting, and how cash flow management connects to accessing credit

Where Are You Starting?

Cash flow planning is a powerful tool that offers a visual representation of how cash flows into and out of your organization. This provides a better understanding of your organization's ability to tolerate risk and reduces uncertainty around the availability of cash to meet future needs.

Different organizations and leaders have a different orientation towards cash flow. **Which most accurately describes yours?**

- "I know how much we budgeted for the year, but I don't always know how much cash is coming in and going out at certain points during the year."
- "I have a good gut feeling about how much cash is coming in and out of the organization at any given point, but I have trouble articulating that gut feeling to others."
- "I feel a mix of the two depending on the year we're having."

Wherever you're starting, take a moment to reflect on this question:

How might a more robust cash flow planning tool and practice support our organization's core mission and strategic goals?

Cash vs. Accrual Accounting

In cash accounting, we recognize income when __________.

Accrual accounting is more comprehensive and measures revenue when _________ and expenses when ________. Because of this, revenue does not always equal _______ and expenses does not always equal ________.

Which type of accounting does your organization use? _____________________________________.

Practicing with Cash Flow Projections

At the most elemental level, a Cash Flow Projection tool gives you a sense of how much cash your organization has at the beginning and end of each month.

Complete the yellow squares in the basic template on the next page, calculating end-of-month and beginning-of-month cash using the information given:

in thousands	January	February
Beginning Cash Balance	250	
Cash in		
Ticket Sales	120	
Donations	50	
Total Cash In		
Cash Out		
Payroll	85	
Space Rental	35	
Total Cash Out		
Net cash in / out		
Ending cash balance		

Now let's add a layer of complexity and integrate tracking of both unrestricted and restricted cash into our projections. Again, fill out the yellow squares using the information provided:

in thousands	January	February
Beginning Cash Balance	250	
Beginning Cash Balance without restrictions	190	
Cash in w/ out restrictions		
Ticket Sales	120	
Donations	50	
Total Cash In w/ out restrictions		
Cash Out w/ out restrictions		
Payroll	85	
Space Rental	35	
Total Cash Out w/ out restrictions		
Net cash in / out (w/ out restrictions)		
Ending cash balance (w/ out restrictions)		
Cash with restrictions		
Total cash in with restrictions	180	
Total cash released from restrictions	50	
Net cash with restrictions in/out		
Total net cash		
Ending cash balance		

Cash Management Strategies

When it comes to managing cash flow, it's important to know which strategies and approaches are available to us. Broadly speaking, the four cash management strategies are:

- **Accessing existing cash** such as a reserve fund or by asking a funder to relax restrictions on a gift
- **Slowing the rate of spending** by delaying payment to vendors or lenders and/or reducing expenses
- **Increasing the amount of cash available** by asking funders to accelerate payment on already committed gifts or changing the timing of appeals or events
- **Borrowing cash** by accessing an external line of credit or bridge loan

Which of these strategies has your organization used and what was the impact?

Reflection Questions

What are our greatest cash flow challenges?

What activities are core to our mission and how do they impact cash flow throughout the year?

What are my non-negotiable cash needs?

How might cash flow be impacted by the current (and emerging) economy? How might changes in the tax code impact cash flow?

If necessary, can payments to vendors be delayed? If so, for how long?

How will operating changes – expansion or contraction – impact our reserves and ability to manage cash flow?

Key Takeaways

- Cash flow projections give us a visual landscape of how and when cash flows in and out of our organization
- Depending on the type of accounting used, a profit and loss statement may not accurately reflect cash flow
- Consistent use of a cash flow projection tool can help you and your team understand when your organization may experience a cash flow crunch and plan for it accordingly
- Accessing credit or strategic use of debt can be an important part of managing cash flow challenges.

Additional Resources: NFF Cash Flow Projection Template

Notes