

Webinar

Cash Flow Planning


Facilitated by

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Nonprofit Finance Fund

June 10, 2021
1 pm ET



Acknowledgment of Indigenous Territories



*“Land acknowledgments are
a stepping stone to honouring
broken treaty relationships.”*

- We invite you to acknowledge the Indigenous Territory you are joining us from:

<https://native-land.ca/>

Nonprofit Finance Fund

We are on a mission to support community-centered organizations led by and serving people of color, helping them access the investment capital and financial knowledge they need to realize their aspirations.



The Rising Together Initiative

NFF is partnering with...



Goal: Position community organizations to sustain and adapt

- **Better understand financial dynamics of the current operations as well as growth and change**
- **Identify, prioritize, and quantify financial needs**
- **Build capacity for strengthened financial management, resilience and data informed decision making**

The Rising Together Initiative is funded by Morgan Stanley

Meeting Agreements

Contribute to a meaningful learning experience

- Every experience is valid; we are here as peers to learn from each other
- Invitation to share freely and candidly, and ask questions
- Take care of your needs first

Learning Goals



Create a cash flow projection tool and **understand** common strategies for managing cash flow

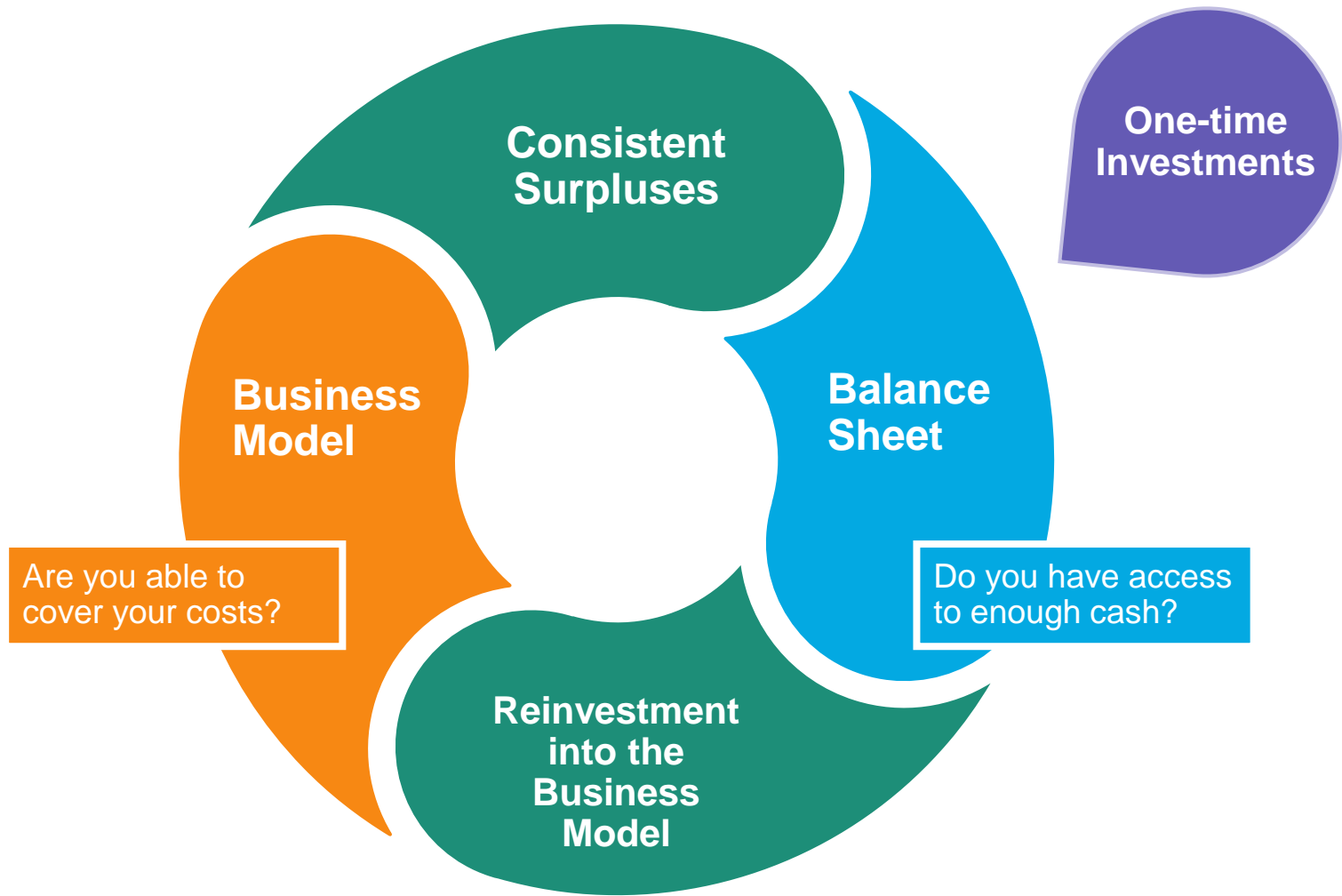


Recognize common missteps and how to avoid them



Understand the differences between cash and accrual accounting, and how cash flow management connects to accessing credit

Cash flow exists in a context



Poll: Which of these statements best describes your feelings when it comes to predicting and talking about cash flow?

1

I know how much we budgeted for the year, but I don't always feel like I know how much money is coming in and going out at different parts of the year (and I wish I did know that).

2

I have a good gut sense for how much money is coming in and going out during different parts of the year, but I feel like it's hard to explain to other people.

3

I feel a mix of the two, depending on the year we're having.

Poll: Do you use a cash flow planning tool at your organization?



Yes



No



I don't know...

Cash Flow Projections

Visibility into the timing of cash

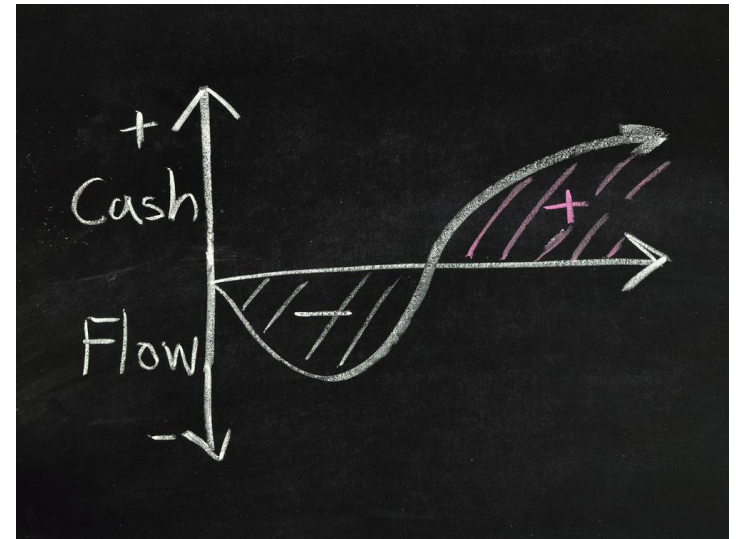
A visual landscape of cash flowing in and out

- This provides better understanding of the organization's ability to tolerate risk
- Less uncertainty about whether cash will be available to meet future operating and balance sheet needs when they arise

Insight into Cash Flow vs. Cash Issues

- Cash Flow issues - a temporary lack of cash due to timing of receipts
- Cash issues - a loss of funding that produces a cash shortage with no predictable end date

Can show monthly, weekly or even daily



How Do Cash Flow Projections Differ from the Budget?

- Budget ≠ Cash Flow Projection
 - *The budget cannot identify cash flow challenges that may occur during the year*
 - A **cash flow projection** is a separate document that forecasts the timing of cash in and cash out of the organization
 - If your organization uses cash basis of accounting, the budget will present *total* cash in and out for the entire fiscal year – not monthly ebbs and flows

Source: <http://clipartoons.com/wp-content/uploads/2016/01/musical-instruments-clip-art.jpg>

Cash vs. Accrual Accounting

Cash Accounting

- Similar to balancing a checkbook
- Measures cash coming in and cash going out
- Common for small or more straightforward organizations

Accrual Accounting

- More comprehensive
- Measures revenue when earned and expenses when incurred
- Revenue & Expense \neq Cash
- “**Cash in**” is not always the same as revenue, and
- “**Cash out**” is not always the same as expense



Use Current Budget and Examine Last Year's Checkbook for Historical Flows

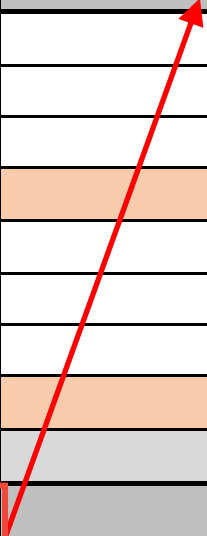


Anatomy of the Cash Flow Projection Tool

| Organization ABC | Jan-2022 | Feb-2022 | Mar-2022 | Apr-2022 | May-2022 | Jun-2022 |
|--|-------------|-------------|------------|------------|-------------|-------------|
| Beginning TOTAL Cash balance | 100 | 120 | 110 | 105 | 115 | 100 |
| Beginning Operating Cash balance w/OUT restrictions | 80 | 70 | 60 | 55 | 65 | 50 |
| Operating Cash In w/OUT restrictions | | | | | | |
| Ticket sales | 20 | 20 | 35 | 20 | 15 | - |
| Foundation grant | 10 | 20 | 10 | 40 | - | - |
| Special event(s) | - | - | - | - | 20 | - |
| Individuals | - | - | - | - | - | - |
| Net assets released from restrictions | 10 | - | - | - | - | 10 |
| Total Operating Cash In w/OUT restrictions | 40 | 40 | 45 | 60 | 35 | 10 |
| Operating Cash Spent | | | | | | |
| Payroll | 40 | 40 | 40 | 40 | 40 | 40 |
| Rent | 10 | 10 | 10 | 10 | 10 | 10 |
| Total operating cash spent | 50 | 50 | 50 | 50 | 50 | 50 |
| Net Cash from Operations | (10) | (10) | (5) | 10 | (15) | (40) |
| Ending Operating Cash Balance w/OUT restrictions | 70 | 60 | 55 | 65 | 50 | 10 |
| Cash w/restrictions | | | | | | |
| Cash in with restrictions | 30 | - | - | - | - | 30 |
| Cash released from restrictions | 10 | - | - | - | - | 10 |
| Net Cash w/restrictions | 20 | 0 | 0 | 0 | 0 | 20 |
| Non-Operating Cash Received | | | | | | |
| Capital grant | 50 | - | - | - | - | - |
| Non-Operating Cash Spent | | | | | | |
| Capital expenditures | 40 | - | - | - | - | - |
| Net Non-Operating Cash | 10 | 0 | 0 | 0 | 0 | 0 |
| Ending Operating Cash Balance w/OUT restrictions | 70 | 60 | 55 | 65 | 50 | 10 |
| Ending Cash Balance | 120 | 110 | 105 | 115 | 100 | 80 |

Basic Example: Cash Flow Projection

| <i>In thousands</i> | Jan-22 | Feb-22 |
|-------------------------------|------------|------------|
| Beginning cash balance | 120 | 140 |
| Cash in | | |
| Admission/ticket sales | 40 | |
| Foundation grant | 110 | |
| Total cash in | 150 | |
| Cash spent | | |
| Payroll | 90 | |
| Rent | 40 | |
| Total cash spent | 130 | |
| Net cash in/(out) | 20 | |
| Ending cash balance | 140 | |



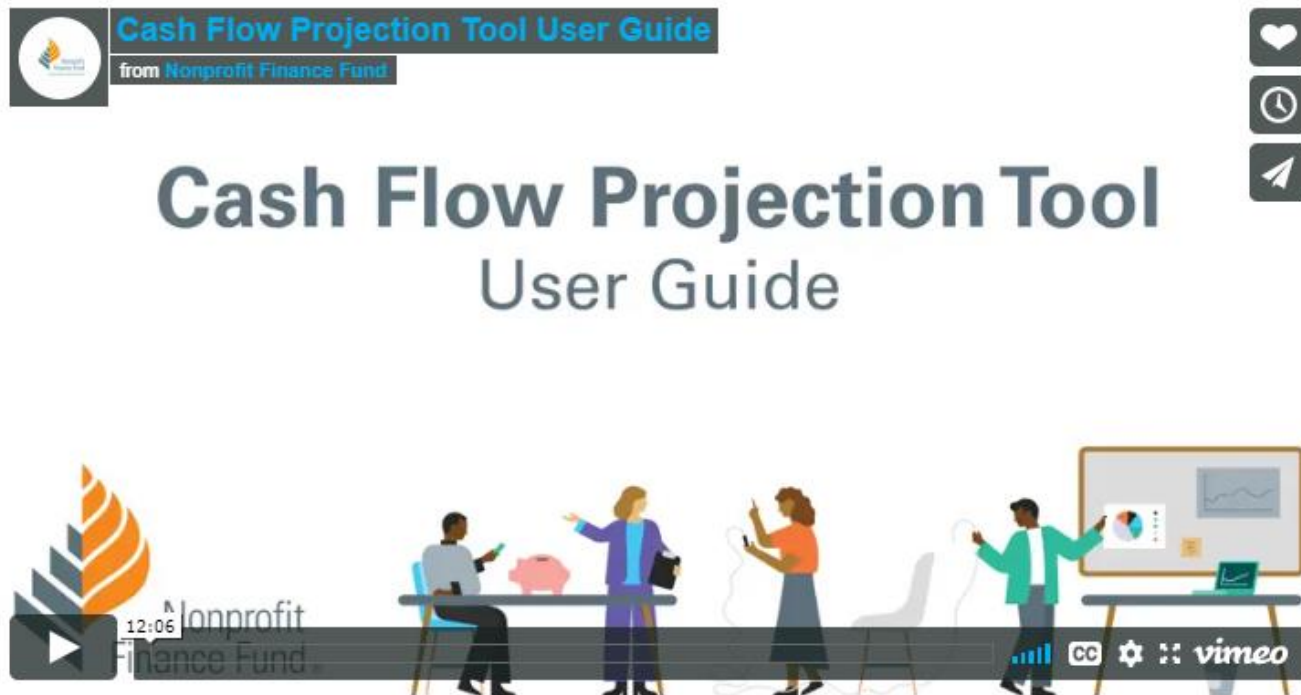
Separating Unrestricted & Restricted Cash

| <i>In thousands</i> | Jan-22 | Feb-22 |
|--|--------|--------|
| Beginning cash balance | 120 | 140 |
| Beginning cash balance w/out restrictions | 100 | 90 |
| Cash in w/out restrictions | | |
| Admission/ticket sales | 40 | |
| Foundation grant | 70 | |
| Net assets released from restriction | 10 | |
| Total cash in w/out restrictions | 120 | |
| Cash spent | | |
| Payroll | 90 | |
| Rent | 40 | |
| Total cash spent | 130 | |
| Net cash w/out restrictions in/(out) | (10) | |
| Ending cash balance w/out restrictions | 90 | |
| Cash with restrictions | | |
| Cash in with restrictions | 40 | |
| Cash released from restrictions | (10) | |
| Net cash w/ restrictions in/(out) | 30 | |
| Total net cash | 20 | |
| Ending cash balance | 140 | |

Separating Unrestricted, Operating Cash Balance

| <i>In thousands</i> | Jan-22 | Feb-22 |
|--|--------|--------|
| Beginning cash balance | 120 | 140 |
| Beginning operating cash balance w/out restrictions | 100 | 80 |
| Operating cash in w/out restrictions | | |
| Admission/ticket sales | 40 | |
| Foundation grant | 20 | |
| Net assets released from restriction | 10 | |
| Total operating cash in w/out restrictions | 70 | |
| Operating Cash spent | | |
| Payroll | 40 | |
| Rent | 50 | |
| Total operating cash spent | 90 | |
| Net operating cash w/out restrictions in/(out) | (20) | |
| Ending operating cash balance w/out restrictions | 80 | |
| Net cash w/ restrictions in/(out) | 30 | |
| Non-operating | | |
| Capital grant | 50 | |
| Capital project expenditure | 40 | |
| Net non-operating cash in/(out) | 10 | |
| Total net cash | 20 | |
| Ending cash balance | 140 | |

A Sample Cashflow Tool with Step-by-Step Instructions is Available
at: <https://nff.org/covid-19-tools-and-resources-nonprofits#tools>



Identifying Anticipated Financing Needs

| Organization ABC | Jan-2022 | Feb-2022 | Mar-2022 | Apr-2022 | May-2022 | Jun-2022 | Jul-2022 | Aug-2022 | Sep-2022 | Oct-2022 | Nov-2022 | Dec-2022 | Total |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-------|
| Beginning TOTAL Cash balance | 100 | 120 | 110 | 105 | 115 | 100 | 80 | 40 | 15 | 25 | 60 | 70 | 100 |
| Beginning Operating Cash balance w/OUT restrictions | 80 | 70 | 60 | 55 | 65 | 50 | 10 | (30) | (45) | (35) | 0 | 10 | 80 |
| Operating Cash Received w/OUT restrictions | | | | | | | | | | | | | |
| Ticket sales | 20 | 20 | 35 | 20 | 15 | - | - | | 20 | 25 | 30 | 30 | 215 |
| Foundation grant | 10 | 20 | 10 | 40 | - | - | 10 | - | 40 | - | - | - | 130 |
| Special event(s) | - | - | - | - | 20 | | - | - | - | 60 | - | 50 | 130 |
| Individuals | - | - | - | - | - | - | - | 25 | - | - | 30 | 30 | 85 |
| Net assets released from restrictions | 10 | - | - | - | - | 10 | - | 10 | - | - | - | - | 30 |
| Total Operating Cash Receipts w/OUT restrictions | 40 | 40 | 45 | 60 | 35 | 10 | 10 | 35 | 60 | 85 | 60 | 110 | 590 |
| Operating Cash Spent | | | | | | | | | | | | | |
| Payroll | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 480 |
| Rent | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 120 |
| Total operating cash spent | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 600 |
| Net Cash from Operations | (10) | (10) | (5) | 10 | (15) | (40) | (40) | (15) | 10 | 35 | 10 | 60 | (10) |
| Ending Operating Cash Balance w/OUT restrictions | 70 | 60 | 55 | 65 | 50 | 10 | (30) | (45) | (35) | 0 | 10 | 70 | 70 |
| Cash w/restrictions | | | | | | | | | | | | | |
| Cash received with restrictions | 30 | - | - | - | - | 30 | - | - | - | - | - | - | 60 |
| Cash released from restrictions | 10 | - | - | - | - | 10 | - | 10 | - | - | - | - | 30 |
| Net Cash w/restrictions | 20 | 0 | 0 | 0 | 0 | 20 | 0 | (10) | 0 | 0 | 0 | 0 | 30 |
| Non-Operating Cash Received | | | | | | | | | | | | | |
| Capital grant | 50 | - | - | - | - | - | - | - | - | - | - | - | 50 |
| Non-Operating Cash Spent | | | | | | | | | | | | | |
| Capital expenditures | 40 | - | - | - | - | - | - | - | - | - | - | - | 40 |
| Net Non-Operating Cash | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10 |
| Ending Operating Cash Balance w/OUT restrictions | 70 | 60 | 55 | 65 | 50 | 10 | (30) | (45) | (35) | 0 | 10 | 70 | 70 |
| Ending Cash Balance | 120 | 110 | 105 | 115 | 100 | 80 | 40 | 15 | 25 | 60 | 70 | 130 | 130 |

Strategies for Managing Cash Flow

Options available to nonprofits

Access existing cash

- Internal cash **reserves** built from unrestricted operating surpluses
- Approach **funders** to ease restrictions on existing revenue

Receive cash

- Approach funders for accelerated/**advanced** payments
- Change the **timing** of particular events or annual appeals
- **Conversion** of funds (ticket revenue to donations)

Do not spend cash

- Negotiate favorable payment plans with **vendors and lenders**
- **Minimize** expenses

Borrow cash

- Draw on an external line of **credit** or bridge loan, if appropriate



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Common Options for Using Debt to Address Cash Flow

Line of Credit

- Can help address periodic or recurring **cash flow** issues
- Provide cash for timing gaps between disbursement and receipt of cash
- Monthly interest paid on outstanding balances
- Non-use fee paid if the line of credit is not being used

Bridge Loan

- **Bridge timing gap** from a specific source
- Cover expenses until the particular source of funds is received
- Principal repayment is required upon receipt of funds
- Monthly interest payments are required, generally from the organization's operating cash flow

Debt: Opportunities and Considerations

Opportunities

- Potential to access a greater amount than through philanthropy alone
- Faster access to capital
- Flexible capital
- Better rate available to nonprofits sometimes through a government or mission entity

Considerations

- Being able to successfully complete a loan application
- Managing to loan payments
 - Business model
 - Messaging
- Difficulty of securing a loan without collateral
- Internal resistance to loans

Strategic Questions

Putting the Cash Flow Document to Use

What are my greatest cash flow challenges?

What activities are core to mission? How do these activities impact cash flow?

What are my *non-negotiable* cash needs?

How might cash inflows be affected by the current economy?
Updated Tax Code?

Can payments to vendors be delayed?
If so, how long?

How will operating changes affect reserves and the ability to manage cash flow?

Plan Your Response

Cash flow projections lay the groundwork



Strategic Decisions

Engage staff, board and funders
in data-driven strategic
conversations

Understand the implications of
new funding or timing of events
such as the lifting of social
distancing restrictions



Understand Scenarios

Developing explicit scenarios and
contingency plans

It is difficult when you are forced
to take drastic action without a
thoughtful plan



Identify Triggers

Determine the triggers that lead
to Plan B, Plan C, etc.

For example: if X% of revenue
doesn't arrive by Y, we will do Z
actions

Review: Learning Goals



Create a cash flow projection tool and **understand** common strategies for managing cash flow



Recognize common missteps and how to avoid them



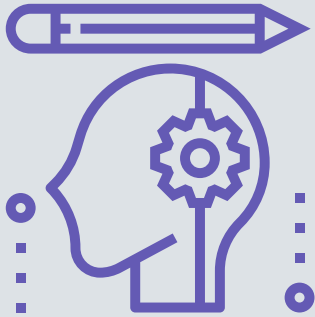
Understand the differences between cash and accrual accounting and how cash flow management connects to accessing credit

Check-Out

Please share via voice or chat your response to any of all of the following questions:

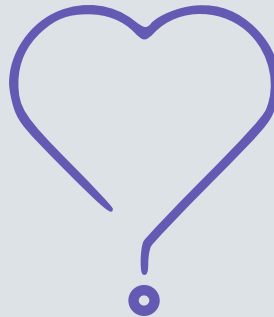
Head

What did you **learn** from today's session?



Heart

How did today's session make you **feel**?

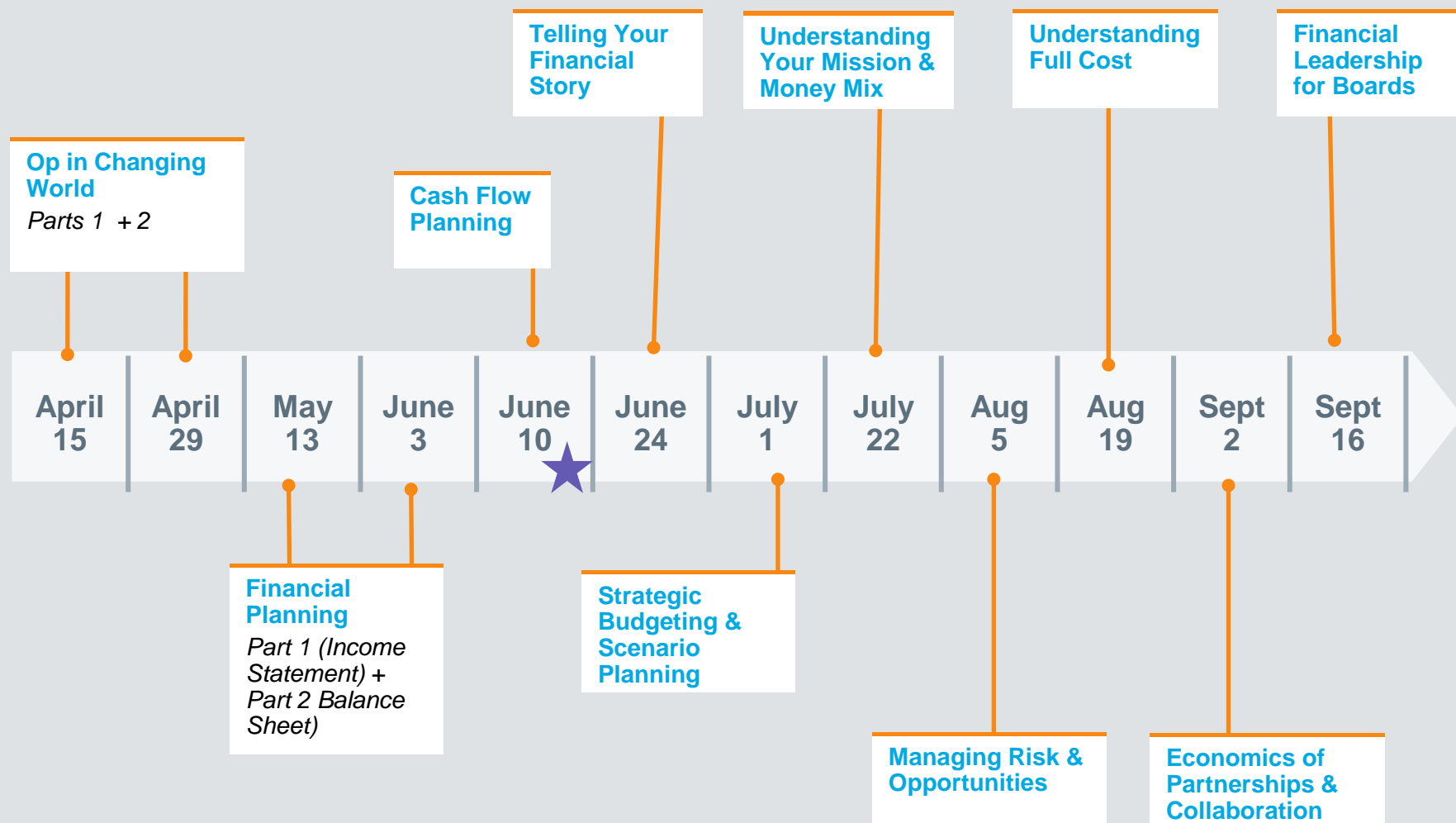


Feet

What **actions** will you take to bring this back to your organization and community?



Upcoming Sessions



Up Next

Telling Your Financial Story

June 24, 2021, 1pm EST / 10am PST

Nonprofit leaders must know, own, and effectively articulate their organization's financial story. By communicating this story well, leaders build trust and credibility, contextualize financial reports, connect finances to mission, and advocate for their organization's needs. In this webinar, NFF will guide you through the process of crafting a compelling financial story for your organization with budgets, dashboards, financial statements, and other materials. NFF will also offer techniques for getting to know your various audiences, positioning your financial story for each of your audiences, and engaging your board and other stakeholders during times of crisis.



Thank You!

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