

Understanding Cash Flow Planning

Presented to:



YOUTH CALIFORNIA

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Let's Build a More Just and Vibrant Society

About Nonprofit Finance Fund

With over 40 years of lending, consulting, community engagement, and advocacy expertise, Nonprofit Finance Fund (NFF) is a nonprofit and community development financial institution (CDFI) deeply committed to social justice.

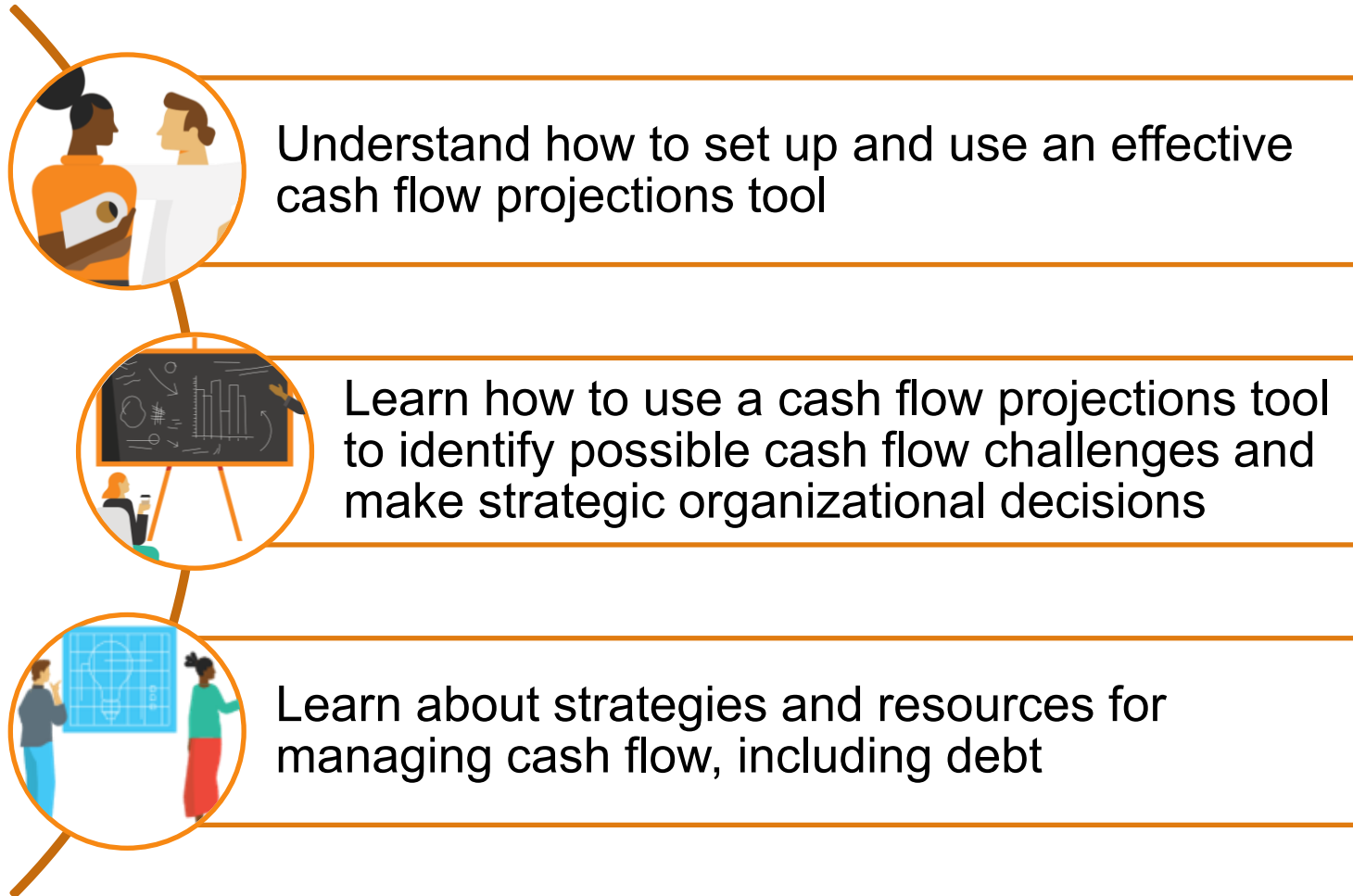
We help mission-driven organizations achieve their communities' aspirations through:

- Financing
- Consulting
- Partnership and knowledge-sharing

We are guided by our Core Values →



Learning Goals



Let us know in the chat: Which of these statements best describes you when it comes to talking about cash flow?

1

I know how much we budgeted for the year, but I don't always understand when money comes in or goes out.

2

I have a good gut sense for how much and when money is coming in and going out, but it's hard to explain.

3

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

Let us know in the chat: Do you use a cash flow planning tool at your organization?



Yes

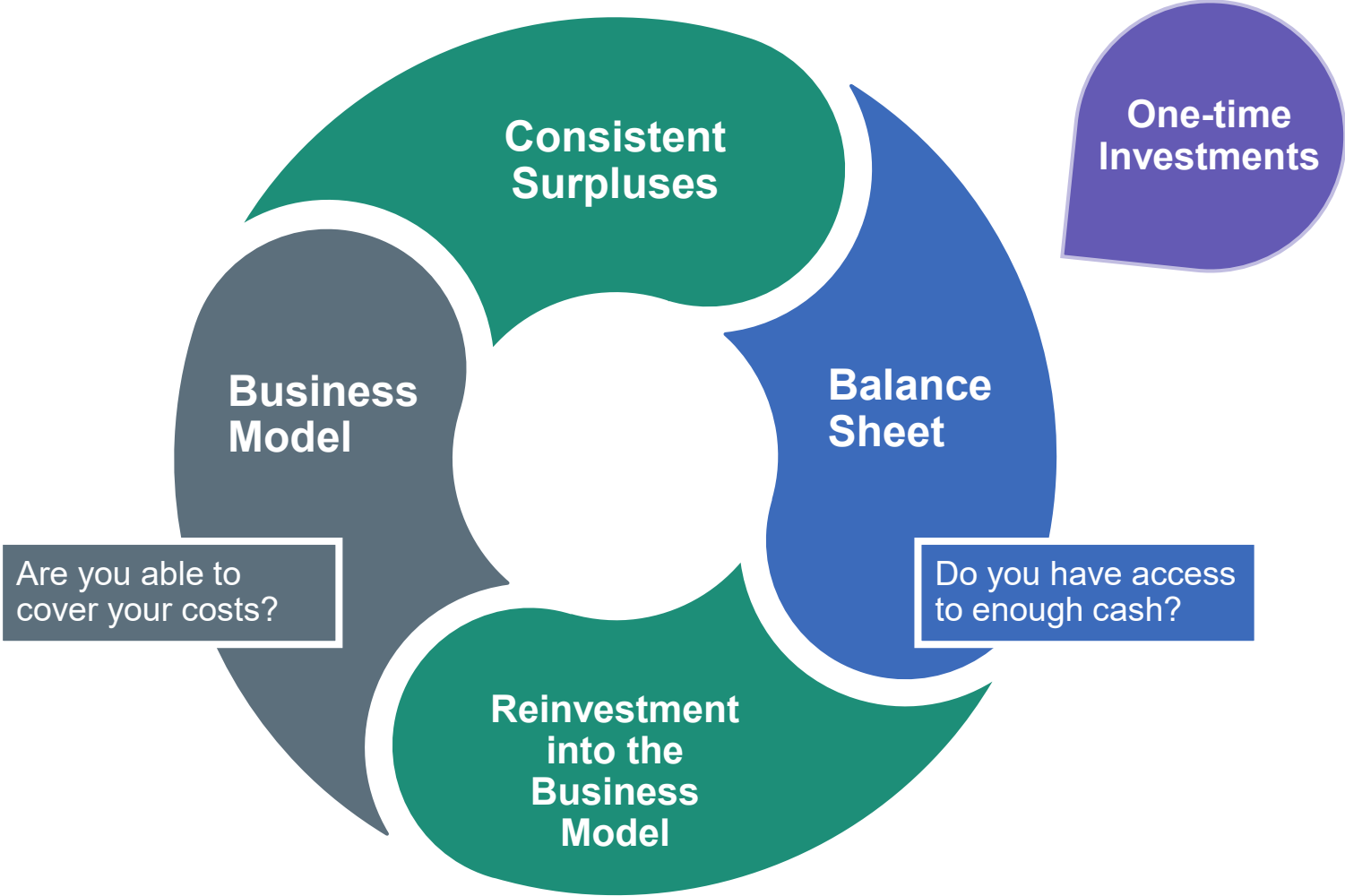


No



I don't know...

Surpluses Support Mission Success



Understanding Cash vs. Accrual Accounting

Cash Accounting

- Similar to balancing a checkbook
- Measures cash coming in and cash going out when it “exchanges hands”
- Option for small or more straightforward organizations

Accrual Accounting

- More comprehensive
- Measures revenue when earned and expenses when incurred
- Revenue & Expense \neq Cash

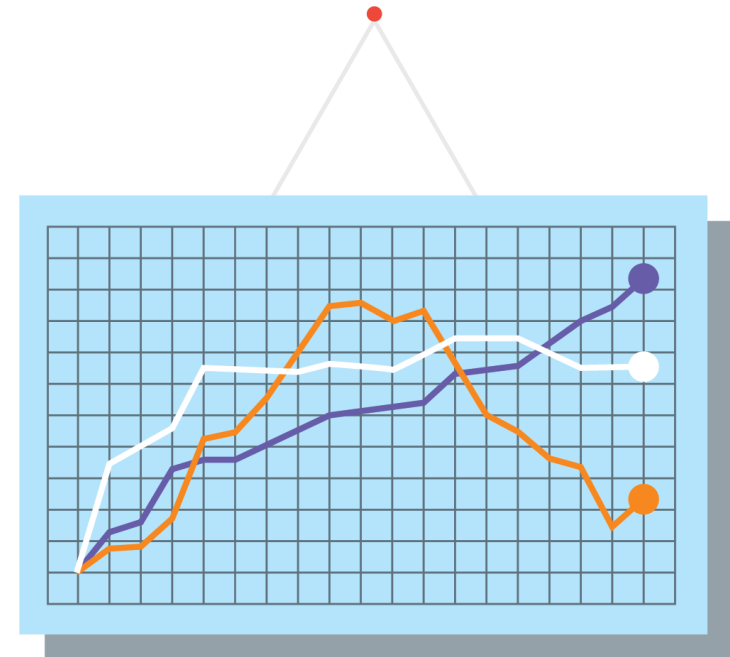
➤ **“Cash in”** is not always the same as revenue

➤ **“Cash out”** is not always the same as expense

Cash Flow Projections: Visibility into the Timing of Cash

A cash flow projection gives you:

- A **visual landscape** of cash flowing in and cash flowing out to better understanding of the organization's **ability to tolerate risk**
- **Less uncertainty** about whether cash will be available to meet future needs when they arise
- An estimate of **how much cash will be available** over the course of the week, month, quarter
- 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



How Do Cash Flow Projections Differ from a Budget?

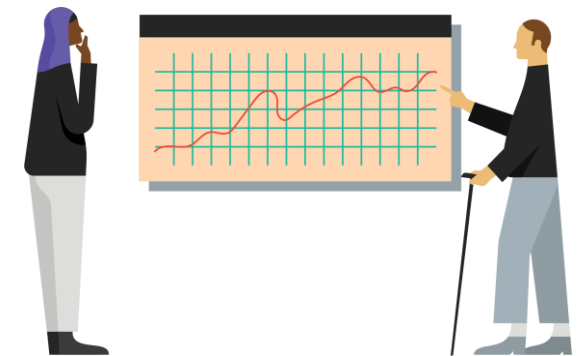
A budget is...

- A roadmap and guide for the fiscal year
- A financial plan and set of priorities
- Accrual-based orgs: An expression of the total revenue you expect will come in and expenses that will go out that fiscal year



A cash flow projection tool is..

- A roadmap and guide broken into smaller increments of time eg monthly, weekly
- A separate document that forecasts the timing of cash in and out
- Accrual-based orgs: A cash exercise that compares the cash you expect to have with the expenses you must pay for



What information do you need for a cash flow projection?

- Past and current **budget**
- Starting **cash balance**
- **Actual operating results** - past profits & loss statements or statements of activities
- **Details** about the cash including the **amount, nature** (unrestricted or restricted, operating or non-operating/one-time) and **expected timing of cash** (monthly or annual expense)
- **Anticipated** demand for services, if available
- **Estimated** repayment date or turnaround time for repayment



Basic Example: Cash Flow Projection

<i>In thousands</i>	Jan-24	Feb-24
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 24	Feb 24
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 24	Feb 24
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	

Setting up a Cash Flow Projections Tool



Monthly Cash Flow Projection

Organization ABC
FY 2023

	FY 2024 Budget	JAN 24 PROJ
Beginning TOTAL Cash balance		100,000
Beginning Operating Cash balance w/OUT restrictions		80,000

Beginning cash balance entered in first month of the fiscal year

Unrestricted cash separated from restricted cash

Non-operating cash separated from operating cash

Total ending cash balance

	FY 2024 Budget	JAN 24 PROJ
Beginning TOTAL Cash balance		100,000
Beginning Operating Cash balance w/OUT restrictions		80,000
Operating Cash Receipts w/OUT restrictions		
Total earned	45,000	1,000
<i>Contributed</i>		
Total foundations	50,000	-
Total government	425,000	-
Total corporations	10,000	-
Special event(s)	20,000	-
Individuals	-	-
Board	20,000	-
Net assets released from restrictions	-	3,000
Total Contributed (w/out restrictions)	525,000	3,000
Total Operating Cash Receipts w/OUT restrictions (Earned + Contributed)	570,000	4,000
Operating Cash Spent		
Total personnel	394,500	32,874
Total professional fees	10,000	-
Total occupancy	76,000	6,207
Total support	42,350	350
Total operating cash spent	522,850	39,431
Net Cash from Operations	47,150	(35,431)
Ending Operating Cash Balance w/OUT restrictions		44,569
Cash w/restrictions		
Cash received with restrictions	25,000	10,000
Cash released from restrictions	-	3,000
Net Cash w/restrictions	25,000	7,000
Non-Operating Cash Receipts		
Capital grant	100,000	
Draw on line of credit (LOC) or Long-term debt	100,000	-
Non-Operating Cash Spent		
Capital expenditures	-	-
Repayment of LOC or Long-term debt	-	-
Net Non-Operating Cash	200,000	0
Ending Cash Balance		

Sample Cash Flow



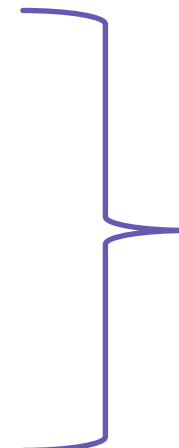
Monthly Cash Flow Projection

Organization ABC

	FY 2024 Budget	JAN 24 PROJ	FEB 24 PROJ	MAR 24 PROJ
Beginning TOTAL Cash balance		100,000	71,569	34,788
Beginning Operating Cash balance w/OUT restrictions		80,000	44,569	7,788
Operating Cash Receipts w/OUT restrictions				
Total earned	45,000	1,000	1,000	2,000
<i>Contributed</i>				
Total foundations	50,000	-	-	5,000
Total government	425,000	-	-	27,500
Total corporations	10,000	-	-	-
Special event(s)	20,000	-	-	-
Individuals	-	-	-	-
Board	20,000	-	5,000	-
Net assets released from restrictions	-	3,000	-	-
Total Contributed (w/out restrictions)	525,000	3,000	5,000	32,500
Total Operating Cash Receipts w/OUT restrictions (Earned + Contributed)	570,000	4,000	6,000	34,500
Operating Cash Spent				
Total personnel	394,500	32,874	32,874	32,874
Total professional fees	10,000	-	-	5,000
Total occupancy	76,000	6,207	8,707	5,207
Total support	42,350	350	1,200	-
Total operating cash spent	522,850	39,431	42,781	43,081
Net Cash from Operations	47,150	(35,431)	(36,781)	(8,581)
Ending Operating Cash Balance w/OUT restrictions		44,569	7,788	(793)
Cash w/restrictions				
Cash received with restrictions	25,000	10,000	-	-
Cash released from restrictions	-	3,000	-	-
Net Cash w/restrictions	25,000	7,000	0	0
Non-Operating Cash Receipts				
Capital grant	100,000	-	-	-
Draw on line of credit (LOC) or Long-term debt	100,000	-	-	-
Non-Operating Cash Spent				
Capital expenditures	-	-	-	-
Repayment of LOC or Long-term debt	-	-	-	-
Net Non-Operating Cash	200,000	0	0	0
Ending Cash Balance		71,569	34,788	26,207



Ending cash balances from previous month become the next month's beginning cash balances.



Total ending cash balance can differ from operating cash balance without restrictions, giving insight into what is or is not flexible and available for use and potential cash flow issues.

Strategies for Managing Cash Flow

Options available to nonprofits

Build up cash

- Internal cash **reserves** built from unrestricted operating surpluses
- Change the **timing** of particular events or annual appeals

Hang onto cash

- Approach funders for accelerated/**advanced** payments
- Approach **funders** to ease restrictions on existing revenue
- **Conversion** of funds (ticket revenue to donations)

Minimize outgoing 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

Accessing Working Capital 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
- Difficulty of securing a loan without **collateral**
- **Managing** loan payments
 - Business model must handle expense
 - Messaging to worried stakeholders
- Internal **resistance** to debt in general

Common Missteps in Cash Flow Projections

- Not including a **beginning cash balance**
- “**Straight-lining**” income and expenses
 - Not all expenses should be straight-lined or divided equally. Utilities can vary significantly by week/season.
- Not accounting for the **accurate number of weeks** in a particular month
 - Payroll: varies if you aren’t paying weekly; if you are on a bi-weekly payroll, there will be 2 months of the year with 3 pay periods.
- **Comingling restricted cash** with current operating cash without restrictions
- **Insufficient or too much detail** – i.e., setting the tool up with granular time increments or not including detail about the *nature* of the cash
- Not noting “**cash in**” from **receivables** incurred in earlier periods
- **Letting perfect be the enemy of the good!** If timing of cash can be unpredictable, using as **conservative an estimate** as possible is helpful



Planning Your Response

Cash flow projections can 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



Understand Scenarios

Developing explicit scenarios and contingency plans

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



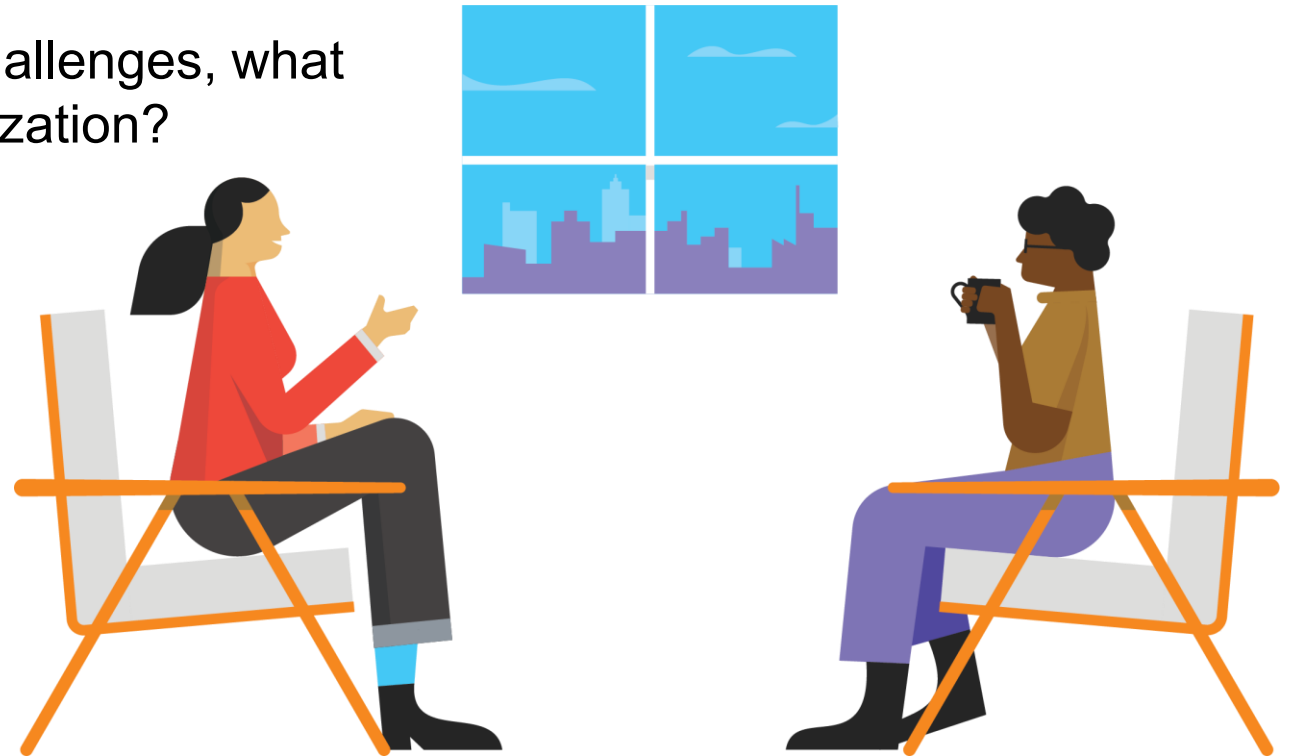
Identify Triggers

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

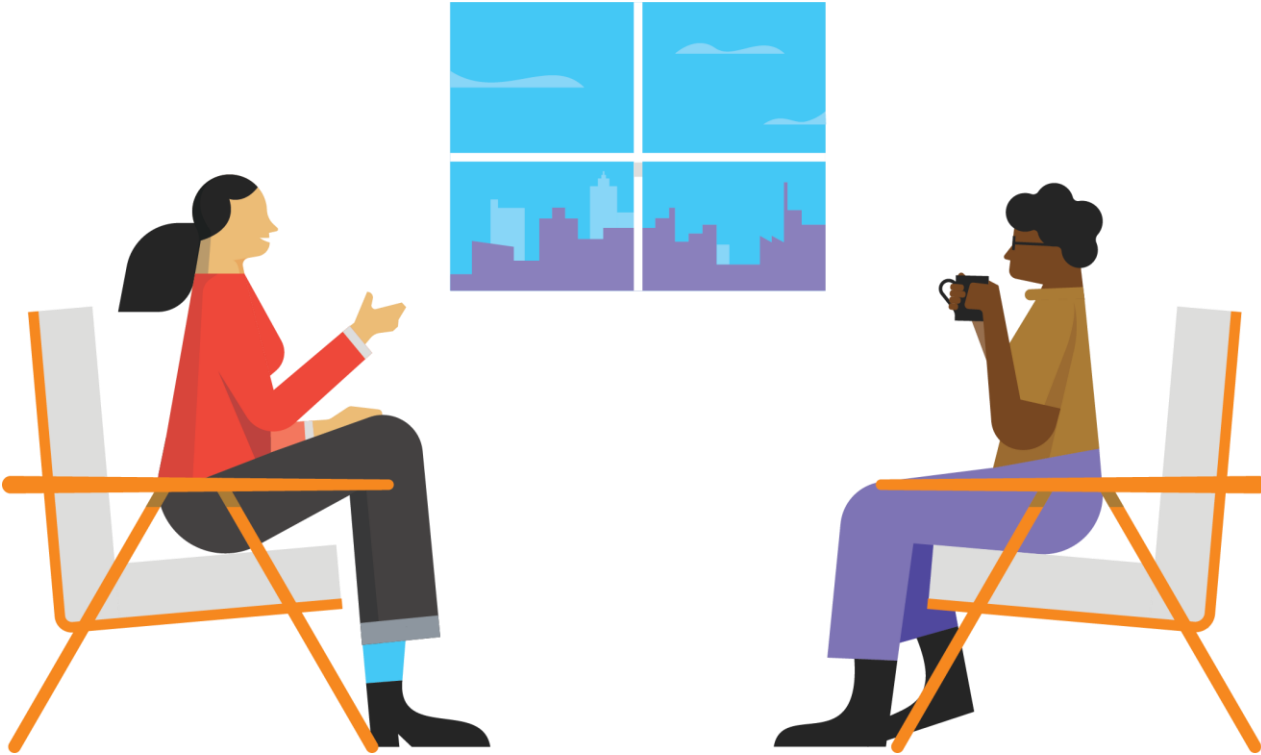
For example: if X% of revenue doesn't arrive by Y, we will do Z actions

Discussion: Cash Flow Planning

- When projecting cash flow for your organization, what **questions** come up?
- What are the **common challenges or obstacles** you encounter?
- When addressing possible cash flow challenges, what **strategies** have worked for your organization?



Q+A



Additional Resources

- A sample cash tool with step-by-step instructions: <https://nff.org/covid-19-tools-and-resources-nonprofits#tools>
- Cash Flow Planning webinar with workbook: <https://nff.org/fundamental/nonprofit-financial-management-webinars#CashFlow>

Thank You!

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