

# Cash Flow Management:

## A Tactical Review for Nonprofits of All Sizes

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# Today's Presenters



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# Today's Agenda

1. The value of managing cash flow
2. Cash flow management fundamentals
3. Preparing and using cash flow projections
4. Case study: Migrant and Immigrant Community Action Project
5. Questions and discussion
6. Wrap up

# Why Manage Cash Flow?

- ▶ Cash flow differs from budget and financial statements
- ▶ Supplemental to other financial reports
- ▶ Cash management plans for all financial activities in addition to income and expenses in operating budget
- ▶ Managing risks and taking advantage of opportunities
- ▶ ALL nonprofits have cash flow dynamics to manage

# Poll:

1. Do you use cash flow projections regularly?
2. If so, what is your primary reason?  
Drop down options?

1	Need to manage periods of tight cash flow
2	Overall confidence in cash availability when needed
3	Manage cash to earn interest income
4	Manage line of credit or other debt obligations
5	Other reason

# Cash Management Fundamentals

- ▶ Financial reports and budget answer “how much?”
  - ▶ What income is earned or pledged/committed?
  - ▶ What expenses are incurred?

	Accrual report
Time period	May 2024
State contract	\$100,000
Foundation grant	\$ 50,000
Total Income	\$150,000
Personnel expenses	\$105,000
Other expenses	\$ 35,000
Total Expenses	\$140,000
Surplus/deficit	\$ 10,000

# Cash Management Fundamentals

- ▶ Financial reports and budget answer “how much?”
- ▶ Cash flow answers “when?”

	Accrual report	Cash flow report		
Time period	May 2024	May 2024	June 2024	July 2024
State contract	\$100,000	\$0	\$80,000	\$20,000
Foundation grant	\$ 50,000	\$0	\$50,000	\$0
Total Income	\$150,000	\$0	\$130,000	\$20,000
Personnel expenses	\$105,000	\$105,000	\$0	\$0
Other expenses	\$ 35,000	\$25,000	\$10,000	\$0
Total Expenses	\$140,000	\$130,000	\$10,000	\$0
Surplus/deficit	\$ 10,000	(\$130,000)	\$120,000	\$20,000



# Common Factors: Incoming Cash Flow

## Timing of revenue receipts

- ▶ Reimbursement based contracts
- ▶ Cash cycle for billing and third-party payments, such as insurance
- ▶ Seasonal timing of cash - program driven income, periodic activities
- ▶ “Lumpy” cash flow of foundation and corporate grants
- ▶ Swings in contributed income - annual campaigns, special events
- ▶ Pledge payments from previous years
- ▶ Restricted funds in cash flow

# Common Factors: Outgoing Cash Flow

## Timing of expense payments

- ▶ Payroll schedule - monthly, bi-monthly, every 2 weeks,
- ▶ Periodic lump sum expenses - such as insurance, professional services
- ▶ Seasonal expense fluctuations related to programs
- ▶ Expenses that require prepayment
- ▶ Procedures for when accounts payable are paid
- ▶ Payments for expenses from prior years

# Other Common Cash Flow Factors

- ▶ Purchases of capital assets - cash payment, timing, financing
- ▶ Loan payments - interest and principal
- ▶ Cash flow for capital campaigns
- ▶ Cash flow for building/capital projects
- ▶ Cash flow for cash intensive business models
- ▶ Non-cash income or expenses (not cash!)
- ▶ Using lines of credit
- ▶ Using cash reserves

# Creating Cash Flow Projections

- ▶ Start with budgeted income and expenses and capital purchase plans
- ▶ Current financial information for receivables, payables, obligations
- ▶ Current cash balances - unrestricted, restricted, designated
- ▶ Estimate TIMING of inflows and outflows
- ▶ Use available tools - accounting software and Excel or other spreadsheets

# Cash Flow Projections Inputs

Foundation & Corporate grants	\$ 430,000
Individual donors & special event	\$ 90,000
State contract	\$ 600,000
Program service fees	\$ 80,000
<b>TOTAL INCOME</b>	<b>\$1,200,000</b>
Personnel expenses	\$800,000
Contracted services	\$150,000
Other operating expenses	\$130,000
Depreciation	\$60,000
<b>TOTAL EXPENSES</b>	<b>\$1,140,000</b>
<b>BUDGETED SURPLUS</b>	<b>\$60,000</b>

# Cash Flow Projections

Month:	Jan	Feb	Mar	Apr
<b>Cash on Hand (beginning cash)</b>	<b>125,000</b>	<b>116,850</b>	<b>97,700</b>	<b>95,550</b>
Grants - Foundations/Corp	40,000		25,000	
Funds released from restricted			50,000	
Individual contributions	10,000		10,000	
Special events		5,000	15,000	15,000
State contract	0	30,000	35,000	40,000
Program service fees	5,000	5,000	5,000	5,000
Acct Rec Collection (prev year)	20,000	30,000		
<b>TOTAL RECEIPTS</b>	<b>75,000</b>	<b>70,000</b>	<b>140,000</b>	<b>60,000</b>
<b>DISBURSEMENTS for Operations</b>				
Personnel expenses	66,700	66,700	66,700	66,700
Contract services	5,000	5,000	40,000	5,000
Other Operating expenses	9,783	15,783	13,783	9,783
Depreciation	0	0	0	0
<b>TOTAL OPERATING DISBURSEMENTS</b>	<b>81,483</b>	<b>87,483</b>	<b>120,483</b>	<b>81,483</b>
<b>DISBURSEMENTS for Financing</b>				
Mortgage payments - principal	1,667	1,667	1,667	1,667
<b>DISBURSEMENTS for Capital Expenses</b>				
Purchases - technology/renovation			20,000	5,000
<b>TOTAL DISBURSEMENTS</b>	<b>83,150</b>	<b>89,150</b>	<b>142,150</b>	<b>88,150</b>
<b>NET CASH FOR THE PERIOD</b>	<b>(8,150)</b>	<b>(19,150)</b>	<b>(2,150)</b>	<b>(28,150)</b>
<b>ENDING CASH</b>	<b>\$116,850</b>	<b>\$97,700</b>	<b>\$95,550</b>	<b>\$67,400</b>

# Presenter



**DANNA BRITTO**

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# Cash Flow - risks and opportunities





# Decisions

It's all about timing

- ▶ Speed up timing for incoming cash flow - options
  - ▶ Change terms or change activities
- ▶ Slow down timing of outgoing cash - options
  - ▶ Change terms or change activities
- ▶ Manage cash flow dips with reserves or line of credit - options
- ▶ Consider financing or other options for large capital purchases

Advance awareness and planning time is key

# Roles for Cash Management



Q&A

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# Case Study Interview



**JESSICA MAYO**  
Co-Director & Attorney

MICA PROJECT

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Q&A

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# Takeaways

- Every nonprofit has cash flow dynamics to manage.
- Cash flow is broader than operating budget revenue and expenses, factoring in capital purchases, loan payments, long term pledges and obligations, and cash investments.
- Preparing cash flow projections provides the advance awareness needed for decisions to avoid problems.
- Good cash flow management requires information and ideas from multiple perspectives.
- Planning and managing cash flow reduces risks, affords opportunities, and brings peace of mind.

# Resources & Wrap Up

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