

Financial Foundations

Managing Cash Flow

While standard nonprofit financial reports – the Budget, Income Statement and Balance Sheet – provide important management information, these statements alone do not tell whether there is enough cash on hand to pay for an unexpected heating repair, to take on a new program opportunity, or even to cover payroll next month. For this, effective cash flow management is essential.

WHY MANAGE CASH FLOW

Every organization experiences ups and downs in cash flow because the timing of when money is received often doesn't match when payments are due. Common causes of cash flow shortages are:

- Timing of donations and grants;
- Reimbursement-based contracts;
- Timing of disbursements, such as advance payments;
- Changes in revenue sources or payment schedules;
- Operating with a deficit – expenses exceed revenue;
- Unexpected or unplanned events:

The cost of these shortages can be very high, including:

- Late fees, penalties and finance charges;
- Damaged relationships with vendors and contractors;
- Lost opportunities for new mission building activities;
- Time spent worrying about and trying to resolve cash flow problems after they occur.

WHEN TO MANAGE CASH FLOW

While cash flow management is always a useful tool, it is particularly important to diligently manage cash flow when your organization is undergoing significant financial changes, such as:

- Developing and implementing new programs;
- Recovering from or facing deficits;
- Cutting back on programs or staff;
- Experiencing changes in sources and structure of funding.

By understanding cash flow and planning ahead, we can avoid problems and shortages, provide stability to our

organization and take advantage of opportunities to purchase capital assets and build organizational capacity.

Managing cash flow is not a one-time activity. Projections should be updated and reviewed regularly. The frequency will depend on how closely the organization's cash flow needs to be monitored.

HOW TO MANAGE CASH FLOW

The earlier you anticipate cash flow issues, the easier it is to address them. The most effective way to manage cash flow is to develop and maintain cash flow projections that look forward 12 months.

MNAF has developed the **Cash Flow Projection Template**, an Excel spreadsheet that can be downloaded at www.nonprofitsassistancefund.org. The template provides a general framework with built-in calculations. As with all financial reports, the usefulness of cash flow projections hinges on the accuracy of the information used. When developing projections:

- Start with an accurate cash balance;
- Base projections on realistic budget assumptions;
- Reflect the expected timing of receipts and payments – don't just divide by 12;
- Pay particular attention to when you expect to receive grants and use conservative assumptions for unidentified grant funds;
- Be careful about including grants that are restricted for use in a future time period;
- Check your payroll schedule (remember, if you have biweekly payroll there will be two months a year when you must pay three payrolls);
- Note any lump sum payments such as payments for insurance, printing, payroll taxes, etc.

Once you have cash flow projection, then you are able to:

1. **Plan** the use of cash
2. **Prepare** to avoid problems
3. **Respond** to changes and adjust plans

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CASH FLOW MANAGEMENT STRATEGIES

When you anticipate cash flow short falls, there are a number of strategies that can help prevent them. As a first step, assess whether the cash flow shortfall is a problem with *timing* or is an indication of a *deficit*. The strategies used to solve the cash flow problem should match the source of the shortfall.

1. Manage the Timing

- *Speed up receipt of income:*
 - Negotiate earlier receipt of grants or contract revenue;
 - Shorten terms you allow for accounts receivable;
 - Improve collection efforts for past due receivables;
 - Introduce new payment options i.e. credit cards or automatic payments
 - Accelerate or expand fund drives
- *Slow down payments:*
 - Delay significant expenditures;
 - Negotiate longer terms with vendors;
 - Break lump sum payments into smaller, more frequent payments;
 - Delay new programs or events;
 - Delay staff additions and/ or salary increases;
- *Borrow on a line of credit or bridge loan.*

2. Manage the Amounts (Deficits)

- *Increase cash receipts*
 - Increase fees and prices;
 - Increase services that generate revenue;
 - Raise additional or emergency funds;
 - Rent out or sublet excess space;
 - Sell under-used assets;
- *Reduce cash disbursements*
 - Scrutinize expenses for temporary or permanent reductions;
 - Solicit in-kind goods and services to replace budgeted items;
 - Reduce staff salaries or hours, or layoff staff;
 - Close facilities, reduce programs or services;

HOW TO AVOID CASH FLOW PROBLEMS

- Develop realistic, well-considered budgets each year;
- Consistently operate with a goal of a surplus of revenue over expenses;
- Build internal cash reserves over time;
- Plan early and often;
- Be aware of cash flow and budget assumptions and react to changes;
- Maintain good relationships with vendors, contractors and bankers.

MNAF Financial Foundations provides a brief overview of complex financial management issues. For assistance assessing your organization's specific situation and determining appropriate strategies, contact MNAF about our customized financial assistance.

MNAF offers:

- Practical financial advice and assistance
- Financial management workshops
- Loans for working capital, equipment and facilities, program expansion and other uses



NONPROFITS ASSISTANCE FUND

Helping Nonprofits Thrive

The Minnesota Nonprofits Assistance Fund® (MNAF) is a program of Nonprofits Assistance Fund, a nonprofit organization whose mission is to foster community development and vitality by building financially healthy nonprofit organizations.

For more information and assistance:

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