

Cash Flow Management For SDA Organizations

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**CASH FLOW MANAGEMENT
FOR SDA CONFERENCES AND UNIONS**

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Profit/Cash in Nonprofit Organizations

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- Profit and Cash for Stability
- Profit and Cash for Innovation
- Profit and Cash for Growth

Cash is “king”

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Without cash, it is impossible to go forward with the mission of the organization



Cash Flow Options in the Accounts

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- **Unrestricted Net Assets**
 - No donor-imposed restrictions
- **Temporarily Restricted Net Assets**
 - Donor-imposed restrictions for specific purpose or time
- **Permanently Restricted Net Assets**
 - Donor-imposed restrictions in perpetuity

Internal Controls Over Cash and Inventory

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Without good internal controls over cash and inventory, cash management cannot be effective.

Organizational Policies for Cash Flow Planning and Management

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Refer to handout of Organizational Policies for Cash Flow Planning and Management

Annual Cash Flow Forecast Worksheet

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Universal Nonprofit Annual Cash Flow Forecast Worksheet Fiscal Year 2000

BUDGET CATEGORY	ACCRUAL BUDGET	ADJUSTMENTS	EXPLANATION	CASH OUTFLOW
Personnel	\$1,153,163	\$(53,163) ^a	Accrued compensation	\$1,100,000
Consultants and Professional Services	107,022	(82,022) ^b	Deferred payment arrangement	25,000
Materials and Supplies	114,613	—	N/A	114,613
Facility Costs	119,014	—	N/A	119,014
Specific Assistance to Clients	89,873	—	N/A	89,873
Other Costs	74,977	—	N/A	74,977
Total Operating Costs	<u>\$1,658,662</u>	—	N/A	<u>\$1,523,477</u>
Capital Equipment	60,000	(46,000) ^c	Equipment financed	14,000
Totals	<u><u>\$1,718,662</u></u>	<u><u>\$(181,185)</u></u>		<u><u>\$1,537,477</u></u>

^aAdjustment to illustrate *payment* in fiscal year 2001 of personnel expenses *incurred* in fiscal year 2000.

^bAdjustment to illustrate *payment* in fiscal year 2001 of consultant expenses *incurred* in fiscal year 2000.

^cAdjustment to show acquisition of equipment via a deposit of \$14,000 in fiscal year 2000 with balance of \$46,000 due in a future period.

Annual Cash Flow Forecast

**ABC Nonprofit
Annual Cash Flow Forecast
Year Ending December 31**

	2000	2001	2002	2003	2004	TOTAL
OPENING CASH BALANCE	\$270,649	\$3,246	\$(193,080)	\$84,967	\$264,779	\$270,649
CASH INFLOWS:						
Revenue 1	\$3,818,231	\$3,727,081	\$3,675,425	\$3,550,750	\$3,675,985	\$18,447,472
Revenue 2	1,500,400	1,440,238	1,410,155	1,375,500	1,260,555	6,986,848
Revenue 3	1,167,938	1,149,503	1,172,493	1,160,575	1,100,660	5,751,169
Revenue 4	909,004	881,995	865,665	825,785	795,235	4,277,684
Revenue 5	741,347	748,676	715,675	685,985	650,785	3,542,468
Revenue 6	628,422	600,364	580,685	550,685	535,155	2,895,311
Revenue 7	461,884	464,159	460,557	455,758	430,125	2,272,483
Total Cash Inflow	<u>\$9,227,226</u>	<u>\$9,012,016</u>	<u>\$8,880,655</u>	<u>\$8,605,038</u>	<u>\$8,448,500</u>	<u>\$44,173,435</u>
Total Cash Available	\$9,497,875	\$9,015,262	\$8,687,575	\$8,690,005	\$8,713,279	\$44,444,084
CASH OUTFLOWS:						
Payroll	\$4,384,435	\$4,186,679	\$4,061,078	\$4,020,468	\$4,030,499	\$20,683,159
Payroll Taxes	525,964	397,734	385,802	381,944	382,897	2,074,341
Health Insurance	402,392	382,075	370,612	359,494	348,709	1,863,282
Employee Benefits	848,437	797,280	765,388	734,773	705,382	3,851,260
Consultants	714,083	647,047	601,754	559,631	520,457	3,042,972
Rent	250,000	226,625	209,628	193,906	179,363	1,059,522
Other Costs	1,922,491	2,150,322	1,825,675	1,749,335	1,723,095	9,370,918
Capital Purchases	40,000	45,000	36,996	150,000	100,000	371,996
Loan Repayments	406,827	375,580	345,675	275,675	225,675	1,629,432
Total Cash Outflow	<u>\$9,494,629</u>	<u>\$9,208,342</u>	<u>\$8,602,608</u>	<u>\$8,425,226</u>	<u>\$8,216,077</u>	<u>\$43,946,882</u>
CLOSING CASH BALANCE	\$3,246	\$(193,080)	\$84,967	\$264,779	\$497,202	\$497,202

Note: This forecast needs careful analysis. It is unsatisfactory to show a \$3,246 cash surplus on forecasted inflows of over nine million dollars in fiscal year 2000. Because these are forecasts that are subject to error, the projected surplus of \$3,246 is too small. Note the projected \$(193,080) cash deficit at the end of fiscal year 2001. This forecast needs to be reworked. Either collections are coming in too slow, or cash is going out too fast. This indicates a cash flow problem.

Cash Flow Monitoring and Analysis

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Vigilance:

Being mindful of current and developing situations that might require corrective action and flexibility

Cash Flow Monitoring and Analysis

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Flexibility:

The ability to modify cash plans according to the developing situation

Forecasted vs. Actual Cash Flow Report

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Universal Nonprofit Forecasted-Versus-Actual Cash Flow Report Fiscal Year 2000

	FORECASTED CASH FLOW	ACTUAL CASH FLOW	DOLLAR VARIANCE	PERCENTAGE VARIANCE
CASH INFLOWS:				
Program Revenue	\$175,000	\$157,550	\$(17,450)	-9.97
Grants and Contracts	575,000	550,000	(25,000)	-4.35
Contributions	75,000	95,000	20,000	26.67
Total Cash Inflows	<u>\$825,000</u>	<u>\$802,550</u>	<u>\$(22,450)</u>	<u>-2.72</u>
CASH OUTFLOWS:				
Personnel Costs	\$475,000	\$481,250	\$6,250	1.32
Supplies	115,000	105,125	(9,875)	-8.59
Insurance	45,000	43,500	(1,500)	-3.33
Communications	17,500	16,730	(770)	-4.40
Space Costs	150,000	152,500	2,500	1.67
Total Cash Outflows	<u>\$802,500</u>	<u>\$799,105</u>	<u>\$(3,395)</u>	<u>-0.42</u>
NET CASH FLOW	\$22,500	\$3,445	\$(19,055)	-84.69

Note: Even though this organization forecasted a \$22,500 cash surplus, it was still able to create an actual \$3,445 cash surplus by cutting cash outflows \$3,395 below forecasted. By careful monitoring and increasing contributions significantly (by \$20,000), it was able to overcome cash inflow shortfalls of \$17,450 in program revenue and \$25,000 in grant and contract revenue. It changed its game plan and had a positive cash year. This was good cash flow management. See Exhibit 7.3 for a more detailed analysis.

Annual Analysis of Key Variances Report

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Universal Nonprofit Analysis of Key Variances Report Fiscal Year 2000

	FORECASTED CASH FLOW	ACTUAL CASH FLOW	DOLLAR VARIANCE	PERCENTAGE VARIANCE	IS THE VARIANCE SIGNIFICANT?	VARIANCE ANALYSIS
CASH INFLOWS:						
Program Revenue	\$175,000	\$157,550	\$(17,450)	-9.97	Yes	Forced to close for a week owing to severe weather.
Grants and Contracts	575,000	550,000	(25,000)	-4.35	Yes	A funding source ceased operations.
Contributions	<u>75,000</u>	<u>95,000</u>	<u>20,000</u>	<u>26.67</u>	Yes	Additional donations solicited to help offset lost grant.
Total Cash Inflows	<u>\$825,000</u>	<u>\$802,550</u>	<u>\$(22,450)</u>	<u>-2.72</u>	Yes	See previous variance analyses.
CASH OUTFLOWS:						
Personnel Costs	\$475,000	\$481,250	\$6,250	1.32	No	N/A
Supplies	115,000	105,125	(9,875)	-8.59	Yes	Delayed purchases.
Insurance	45,000	43,500	(1,500)	-3.33	No	Negotiated a less expensive premium.
Communications	17,500	16,730	(770)	-4.40	No	Monitored usage more effectively.
Space Costs	<u>150,000</u>	<u>152,500</u>	<u>2,500</u>	<u>1.67</u>	No	N/A
Total Cash Outflows	<u>\$802,500</u>	<u>\$799,105</u>	<u>\$(3,395)</u>	<u>-0.42</u>	No	N/A
NET CASH FLOW	\$22,500	\$3,445	\$(19,055)	-84.69		

Forecasted Cash Shortages

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Corrective Actions:

- Identify what caused the projected cash deficit
- Investigate and analyze cost drivers
- If a line of credit or an interim loan is taken, keep in mind that without corrective action, the problem will return

Addressing Short-term Negative Cash Flows

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- Delay nonessential purchases
- Request extensions on payments to vendors
- Establish installment plans with vendors to pay for essential purchases
- Postpone hiring new personnel or awarding salary increases to staff

Addressing Short-term Negative Cash Flows

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- Plan an “emergency” or quickly instituted fundraising drive
- Request cash advances from funding sources
- Seek short-term loans from banks or board members

Addressing Short-term Negative Cash Flows

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- Use available lines of credit
- Transfer money from other internal accounts that may be paid back when cash flow is again positive (subject to legal and regulatory restrictions)
- Borrow against investments

Addressing Short-term Negative Cash Flows

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- Engage in careful cost cutting

Questions?