

4D. Fiscal: Managing Cash Flow Challenges

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Cash Flow Strategies
June 16, 2011

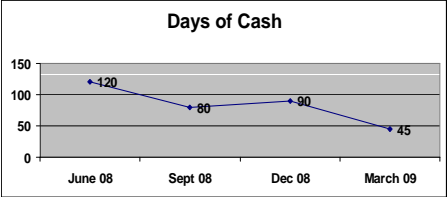
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Do You Have Enough Cash?

Days of Cash


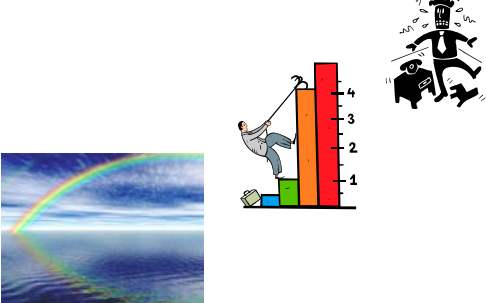


| Month | Days of Cash |
|----------|--------------|
| June 08 | 120 |
| Sept 08 | 80 |
| Dec 08 | 90 |
| March 09 | 45 |

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Rate Your Cash Anxiety Level



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**46 of 50 States
Have Made Major Cuts**

- Recession is creating major State deficits
- States required by law to balance their budgets
- Full impact of state budget shortfalls has been muted by ARRA funding which ends 9-30-11

Center on Budget and Policy Priorities, May 2011, Update on State Budget Cuts

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NFPs are “carrying” the States

- Illinois - 5 months late in NFP payments
- Louisiana –more than 1 year behind on some NFP payments
- New York Comptroller: late processing of contracts occurs 87% of the time –
- North Carolina –considering withholding 2% from all NFP contracts to pay for State “oversight

State Budget Crises: Ripping the Safety Net Held by Nonprofits, May 2010, National Council of Nonprofits



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**State Lay-offs/Furloughs
= NFP Cash Crisis**

- **Delays** in contracting
- **Delays** in processing vouchers & cost reimbursement invoices
- **Bumping:** “new” staff will have less familiarity with compliance requirements, NFP challenges, etc.



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 **Cash Flow Spiral** 


- States utilize cost reimbursement payment mechanisms
- State cash crisis delays paying bills
- State budget cuts result in contracting & reimbursement processing slow-downs




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 **Cash Flow Spiral....** 

- NFP cutbacks slow submission of cost reimbursement requests
- NFP confront 60 to 180 day delay in collecting cash
- Lines of credit for NFPs reduced or cancelled



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CAA Cash Flow Challenges

- **Use-it-or-lose-it** funding model has limited ability to build reserves
- A-110 **Federal Cash Management** requirements
- Cost **reimbursement** contracts
- Shifting balance between directly accessed federal \$\$ & “bill and wait” funding sources

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More CAA Challenges

- A-122 & other restrictions on use of federal \$ to acquire facilities **limiting collateral for borrowing**
- Foundation **restrictions**
- Grants **compliance** rather than entity **health focus** of financial management
- **Seasonality** of fund raising events and campaigns

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Brief Happy Interlude!



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Some CAA's Have Excess Cash

- Have built substantial reserves
- Need sound investment policies
- Need competent investment management
- Confront compliance challenges



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Cash Flow Management Tools

- Role clarity
- Cash flow projection
- Effective management:
 - Payables
 - Receivables
 - Compliance & restrictions
- Lines of credit

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Cash Flow Management Roles

- Overall **responsibility** for ensuring availability of cash when needed
- Key functions:
 - Cash flow projection
 - Treasury management
 - A/P & A/R systems management

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Cash Flow Projection Worksheet

7-01-09 to 12-31-09

| | July | Aug | Sept | Oct | Nov | Dec |
|-------------------------------|---------------|---------------|---------------|----------------|-----------------|-----------------|
| Opening Cash | 7,000 | 29,350 | 6,100 | 200 | (5,250) | (23,350) |
| Expected Receipts | | | | | | |
| Client fees | 8,000 | 8,200 | 6,000 | 4,000 | 4,000 | 3,500 |
| Gov Contract #1 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Gov Contract #2 | 22,500 | 0 | 0 | 22,500 | | 0 |
| Donations | 500 | 200 | 200 | 500 | 800 | 15,000 |
| Foundation grants | 20,000 | 0 | 20,000 | 0 | 0 | 30,000 |
| Subtotal Receipts | 61,000 | 18,400 | 36,200 | 37,000 | 14,800 | 58,500 |
| Loans Received | | | | | | |
| Total Cash Available | 68,000 | 47,750 | 42,300 | 37,200 | 9,550 | 35,150 |
| Expected Disbursements | | | | | | |
| Payroll | 28,000 | 28,000 | 28,000 | 23,000 | 23,000 | 23,000 |
| Employee taxes | 2,800 | 2,800 | 2,800 | 2,300 | 2,300 | 2,300 |
| Fringe benefits | 3,000 | 3,000 | 3,000 | 2,400 | 2,400 | 2,400 |
| Professional services | 800 | 4,000 | 4,500 | 500 | 2,000 | 200 |
| Rent | 2,000 | 2,000 | 2,000 | 1,500 | 1,500 | 1,500 |
| Utilities | 400 | 400 | 400 | 300 | 400 | 600 |
| Office supplies | 200 | 100 | 200 | 100 | 200 | 100 |
| Program supplies | 1,000 | 800 | 500 | 100 | 100 | 100 |
| Insurance | 0 | 0 | 0 | 12,000 | 0 | 0 |
| Printing | 200 | 100 | 200 | 100 | 600 | 100 |
| Postage | 50 | 50 | 50 | 50 | 300 | 50 |
| Transportation | 400 | 400 | 350 | 100 | 100 | 100 |
| Other | 100 | 0 | 100 | 0 | 0 | 100 |
| Loan repayments | 0 | | | | | |
| Subtotal Disbursements | 38,850 | 41,850 | 42,100 | 42,450 | 32,900 | 30,550 |
| Ending Cash | 29,350 | 6,100 | 200 | (5,250) | (23,350) | 4,600 |

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Rolling Cash Flow Projection

- Monthly **projection** of cash receipts & disbursements
- Includes **borrowing & debt repayment**
- May include **capital** items
- **Add an additional month's** projection as each month is completed
- Projects **available cash** at beginning & end of each month

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Cash Flow & Restrictions

- **Separate sections** in cash flow projection: Unrestricted & Restricted
- **Segregate** Unrestricted & Restricted Beginning and Ending cash estimates
- Modify format to accommodate accounting **software limitations**

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A-110 Cash Management

- Use federal cash only for costs **allowable** within federal agreements
- Direct drawdown must not result in holding federal \$\$\$ for more than **3 days**
- **Time limits** for holding federal cash are generally the **responsibility of Recipient** not the Sub-recipient

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A-110 Cash Management

- <http://www.whitehouse.gov/omb/circulars/a110#22>
- **HHS Cash Management**
<http://dhhs.gov/asfr/of/finpollibrary/financialpolicies.html#Cash%20Management>

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More A-110 Cash Issues

- Separate bank accounts **not** required
- Ability to **track federal cash** received & disbursement is **required**
- **Direct recipients** must report federal cash on hand and project federal cash requirements

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Choices for Direct Recipients


- Draw down federal \$ in **advance of use**
- Draw down federal \$ **immediately after use**
- **HUGE THREAT:** lack of access to federal draw down system

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Cash Challenges in State/Local Funding Agreements

- Cost reimbursement approach requires the CAA to:
 - **Advance cash** to meet costs
 - Prepare & submit **request for reimbursement**
 - **Wait** to collect payment while request is processed



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Reimbursement Speed-Up Strategies

- Get agreement signed before incurring costs
- Speed month-end close
- Prioritize processing of largest invoices
- Streamline preparation of services component of reimbursement request
- Establish positive relationships with funder staff responsible for processing

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More Speed-Up Strategies

- Negotiate for advance payment
- Negotiate for penalty and interest when reimbursement is delayed beyond agreed period – 30 days?
- Lobby for legislation awarding penalties for late payment

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Control Payables

- If cash is tight, set systems to utilize maximum delay in payment
- **Analyze vendor policies:**
 - Grace periods
 - Late fees and interest
 - Risk of “shut-off”
 - Public relations fall out

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Payables Delays to Avoid

- Wages
- Payroll tax & regulatory filings
- Health & retirement benefits
- Employee reimbursements
- Local small business vendors

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Payable Delay Strategies

- Inform vendor of cash flow problem
- Request concessions
- Request agreement to delay payment
- Make small partial payment
- Provide honest estimate of when invoice will be paid in full
- Re-contact if cannot meet extended deadline

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Dealing with Restrictions

- Must meet **A-110 Federal Cash Management** requirements
- Cash from cost reimbursement or purchase of service contracts is **not** generally restricted
- **Foundations** may permit **temporary** use of grants cash for cash flow purposes if certain that problem is temporary

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Financing Cash Flow with Debt

- Lines of Credit
- Mortgages
- Program Related Investment programs
- Faith-based lending programs
- Private borrowing
- Factoring

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??? Before Borrowing???

- Is it **really** a cash flow problem?
- Cash flow problems are about **timing** not deficits
- Possible to have **both** timing and deficit problem
- Key ?: when will you have the cash required to **repay debt?**

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Lines of Credit

- Generally require a **banking relationship** with the lender
- Draw down and repay funds **throughout** the year to meet peak cash demands
- Require “**rest period**” when all funds are fully repaid
- May be **secured** or **unsecured**

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Mortgage Debt

- Must **own** real property
- Debt is **secured** by property
- Property purchased/improved with federal \$ - generally requires federal approval to encumber with debt
- **Deed restrictions** may deter lenders

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Mortgage Debt Not Ideal for Cash Flow Purposes

- Basic model assumes that full loan will be drawn down at one time
- Interest accrues on full amount drawn down
- Difficult to earn as much interest as charged
- Deferred repayment schemes may mask growing deficit problem

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Program Related Investments

- **Foundation PRI** programs offer loans and investments for purposes consistent with their giving priorities
- Foundation may use PRI amounts to meet **IRS pay-out requirements**
- PRI's are **not grants** – include **repayment** expectations & terms

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PRI . . . continued

- PRI programs commonly invest in **affordable housing & real estate** purchase or rehab projects
- Some PRIs available as **“working capital”** loans for NFP business ventures
- PRI for cash flow purposes still an emerging field

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Faith-based Institutions

- **Mission Related Investments** – MRI
- Religious orders & some large denominations offer MRI programs
- Many MRI programs focus on **needs of the poor**
- Require repayment & **credit-worthiness**
- Most prefer real estate & working capital to cash flow lending

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Private Borrowing

- Donors or other interested individuals
- Requires **promissory note**
- Frequently require **co-signers**
- Board members may be willing to personally co-sign for portions of the loan
- Loans from Board members pose **disclosure & inurement challenges**

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Factoring

- **Factors** are for-profit businesses that **purchase Accounts Receivable** at a deeply discounted rate
- Factors interested in purchasing government receivables
- **Huge risk** – “discount” amount is not allowable expense
- Similar to **Pay Day Lenders**


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Campaigns to Build Cash Reserves

- Specific appeal to closest **donors**
- Build cash reserves
- Establish **Board Designated Cash Reserve** as segment of Unrestricted Net Assets
- May help to segregate cash account & **manage like an internal line of credit**


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Cash Flow Problems Destroy

- Management **time** and **energy**
- Focus on developing new funding strategies
- Employee **morale**
- Community **reputation**
- Major factor in Executive Director and CFO **burn-out**


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Cash Flow Resources

- IRS discussion of PRIs
<http://www.irs.gov/charities/foundations/article/0,,id=137793,00.html>
- Council on Foundations MRI discussion
<http://www.irs.gov/charities/foundations/article/0,,id=137793,00.html>
- Nonprofit Finance Fund
<http://nonprofitfinancefund.org>

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Next Steps

- Clarify **responsibility** for managing cash flow
- Prepare 13 month **Cash Flow projection**
- Consider impact of State budget crisis
- Identify & implement **strategies** to meet cash flow needs

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| Cash Flow Projection Worksheet | | | | | | |
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| Office supplies | 200 | 100 | 200 | 100 | 200 | 100 |
| Program supplies | 1,000 | 800 | 500 | 100 | 100 | 100 |
| Insurance | 0 | 0 | 0 | 12,000 | 0 | 0 |
| Printing | 200 | 100 | 200 | 100 | 600 | 100 |
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