

# Cash Management and Cash Modeling

## Planning a Path through the Pandemic

Curtis Klotz, CPA

Director of Nonprofit Innovation

Curtis.Klotz@CLAconnect.com

Heidi Grinde, CPA

Principal, Outsourcing

Heidi.Grinde@CLAconnect.com

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# What We're Covering in this Web Resource

## Cash Management and Cash Modeling

- Nonprofits are facing unprecedented challenges due to the pandemic
- To survive financially, nonprofits must know the truth about their finances
- We will discuss two tools and two types of analysis
  1. Cash Management
    - Projections and Forecasting
  2. Cash Modeling
    - Scenarios and Decisions



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# COVID-19 Crisis and Nonprofits

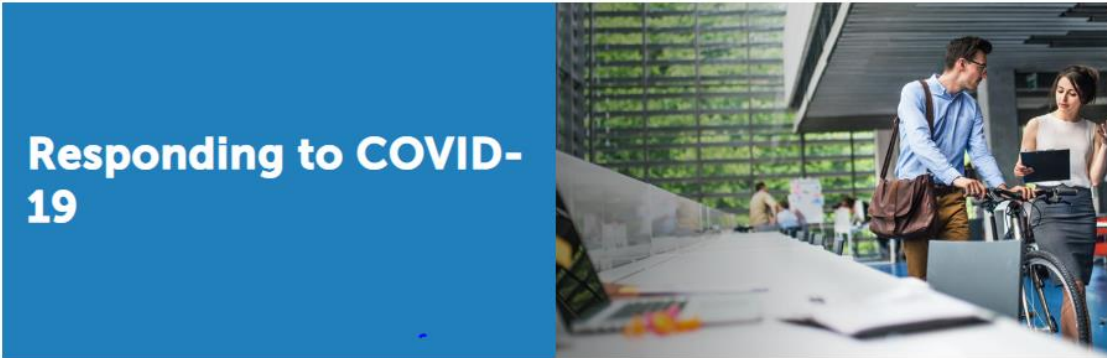
- Nonprofits at the forefront
  - Health care, social service, mental health, food shelves
- Nonprofits as community anchors
  - Arts organizations, afterschool programs, senior drop-in centers, community organizations, advocacy groups
- Nonprofits are being affected severely
  - Closures, service interruption, cancellations, financial uncertainty, donors in crisis themselves



<https://www.claconnect.com/COVID19>



# CLA COVID-19 Resources at CLAconnect.com



Unforeseen disruptions — from the coronavirus (COVID-19) to natural disasters — can create many uncertainties. These resources can help you lay out a strategy to put your organization on its toes versus its heels.



Operational Support



Regulatory and Tax Updates



Inspirational and Leadership Tips



Financial Management and Disaster Relief



Accounting and Financial Statement Guidance




Workforce and Human Resource Guidance



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## Financial Leadership in the Face of Impossible Choices

March 18, 2020 | by Curtis Klotz

Nonprofit health care, social service, and mental health organizations are deeply engaged in the response to the COVID-19 pandemic, selflessly treating those who have become ill, supporting their



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# Our Current Context

## Financial leadership in midst of crisis

- The entire economy is disrupted
- Program stoppages and closures
- Sudden drop off in funding
- Uncertain timeframe



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## Cash Management and Cash Modeling

- **Unflinching analysis** of your current fiscal state
- Willingness to **seek and share solutions** across your whole organization
- Let **commitment to your mission** guide thoughtful and effective choices
- Consider all the options – **adapt, create, innovate**







# Cash Management

## Projections and Forecasting

# How and why you must do a cash projection or forecast

*Your financial truth may require drastic action*

- Every budget assumption must be questioned

*Cash is different than accrual*

- A promise is one thing, cash in the bank is another

*In a crisis, collections and payables are all about relationships*

- You need to know who to ask for what and when
- We're all in this together





# Cash Management is all about the details

## Receipts

- Fundraising disruption
- Stimulus provisions
- Emergency funding opportunities

## Expenditures

- Payroll
- Program materials
- Immediate needs
- Occupancy
- Technology
- Effect of cancellations
- Increases in demand



## Focus on cash without donor restrictions

### XYZ Nonprofit Organization

### Cash Flow Projection - Rolling Twelve Months

	March	April
Beginning Cash Without Restriction	157,963	137,801

Donor restrictions still apply until you meet the purpose restriction, the timeframe of a restriction passes, or donor waives restrictions.

Don't assume a change until you have negotiated a change, but do reach out to funders. Many are waiving restrictions at the moment

# Receipts on a cash basis

## XYZ Nonprofit Organization

### Cash Flow Projection - Rolling Twelve Months

	March	April	May	June	July
<b>Beginning Cash Without Restriction</b>	<b>157,963</b>	<b>137,801</b>	<b>103,734</b>	<b>33,540</b>	<b>706</b>

#### Contributed Support

Grants - confirmed	15,000	0	0	10,000	0
Grants - pledged and expected	0	0	5,000	0	0
Individual contributions (no restrictions)	2,365	2,100	2,000	1,900	1,800
Special events (include expenses below)	0	0	0	0	0
Amounts released from restriction	26,500	25,000	16,000	17,000	13,000

#### Earned Revenue

Fees for service	16,640	17,500	18,000	18,000	18,000
Accounts receivable collected	5,000	3,500	1,000		
Other earned income	50	0	0	25	0

#### Cash Received from Other Sources

Loan/Line of credit proceeds	0	0	0	0	0
Other	0	0	250	0	0

<b>Total Cash Basis Support &amp; Revenue</b>	<b>65,555</b>	<b>48,100</b>	<b>42,250</b>	<b>46,925</b>	<b>32,800</b>
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## Contributed Support

- Foundations
- Individuals
- Corporations
- Released from restriction

## Earned Revenue

- Fees for service
- Tuition
- Membership
- Contracts
- Investment earnings

## Other Sources

- Loan payments
- Principal payments received





# Expenditures on a cash basis

## XYZ Nonprofit Organization

### Cash Flow Projection - Rolling Twelve Months

	March	April	May	June	July
<b>Beginning Cash Without Restriction</b>	<b>157,963</b>	<b>137,801</b>	<b>103,734</b>	<b>33,540</b>	<b>706</b>

#### Cash Expenditures for Operations

Salaries and Wages	50,385	50,385	75,577	50,385	50,385
Payroll Taxes and Benefits	13,085	13,085	17,028	13,085	13,085
Other Staff Expenses	2,000	1,000	2,500	200	200
Contracted Services	8,500	8,500	6,000	6,000	6,000
Equipment & Technology	1,500	1,500	2,000	1,500	1,500
Occupancy	700	850	1,700	700	850
Travel	3,700	1,200	1,000	1,000	1,000
Office Operations	3,458	3,258	4,250	4,500	3,258

#### Other Cash Expenditures

Mortgage Payments (principal and interest)	1,789	1,789	1,789	1,789	1,789
Other Loan Payments	600	600	600	600	600
<b>Total Cash Expenditures</b>	<b>85,717</b>	<b>82,167</b>	<b>112,444</b>	<b>79,759</b>	<b>78,667</b>

## Operations

- Usual budgeted expenses
- Cash basis only
- No divide-by-twelve math
- Concentrate on largest items
- When the money leaves you

## Other Cash Outlays

- Capital expenditures
- Installment payments
- Principal payments



# The gaps become your goals

## Identify shortages

- Timing matters

## Solve for the immediate

- Buy yourself time

## Smaller interventions

- What can be done quickly

### XYZ Nonprofit Organization

#### Cash Flow Projection - Rolling Twelve Months

	March	April	May	June	July
Beginning Cash Without Restriction	157,963	137,801	103,734	33,540	706

Total Cash Basis Support & Revenue	65,555	48,100	42,250	46,925	32,800
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Total Cash Expenditures	85,717	82,167	112,444	79,759	78,667
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Net change in cash for period	(20,162)	(34,067)	(70,194)	(32,834)	(45,867)
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Ending Cash Without Restriction	137,801	103,734	33,540	706	(45,161)
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# The gaps become your goals

XYZ Nonprofit Organization

Cash Flow Projection - Rolling Twelve Months

	March	April	May	June	July	August	September	October	November	December	January	February	TOTAL
Beginning Cash Without Restriction	157,963	##	##	##	##	##	##	##	##	##	(293,731)	(328,398)	157,963

Total Cash Basis Support & Revenue	65,555	##	##	##	##	##	##	##	##	##	54,000	19,000	483,630
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Total Cash Expenditures	85,717	##	##	##	##	##	##	##	##	##	88,667	78,517	1,029,508
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Net change in cash for period	(20,162)	##	##	##	##	##	##	##	##	##	(34,667)	(59,517)	(545,878)
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Ending Cash Without Restriction	137,801	##	##	##	##	##	##	##	##	##	(328,398)	(387,915)	(387,915)
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Long range planning

- Requires larger solutions

Add to find the gap

- $\$157K + \$387K = \$544K$

Use all the levers

- Receipts and expenditures





# Levers for changing timing and amount of receipts

- Stimulus measures
  - SBA PPP/EIDL loans and loan forgiveness
  - Families First Corona-virus Relief Act (FFCRA)
  - Disaster Relief / Emergency Relief Grant Pools
- Negotiations with current funders
  - Ask funders to waive restrictions on grants
  - Ask for early payment of multi-year grant installments
  - Ask for increase on a current grant agreement
- New fundraising initiatives
  - A special appeal to your most loyal contributors
  - If your mission warrants it, appeal to new donors because of program relevancy



# Levers for changing timing and amount of expenditures

- Don't do things
  - Suspend discretionary spending
  - Curtail program activities with less mission impact
- Accounts payable management
  - Negotiate terms and delay payments
  - Communicate with your vendors
- Mind your core
  - Keep a strong core – you need good finance, fundraising, HR, IT, and governance
- Personnel strategies may be required
  - Staying consistent with your mission and values is crucial
  - Your employees are the key to your organization's resiliency after the crisis



# Personnel Strategies – Three Options



- Maintain All Staff
  - No Salary Reductions
- Maintain All Staff
  - With Salary Reductions
- Reduce Staff

(watch companion webinar recording)





# Cash Modeling

## Scenarios and Decisions

# The trajectory of a downturn and eventual recovery

## Dip

- How deep will the losses be?
- How long will operations be disrupted?

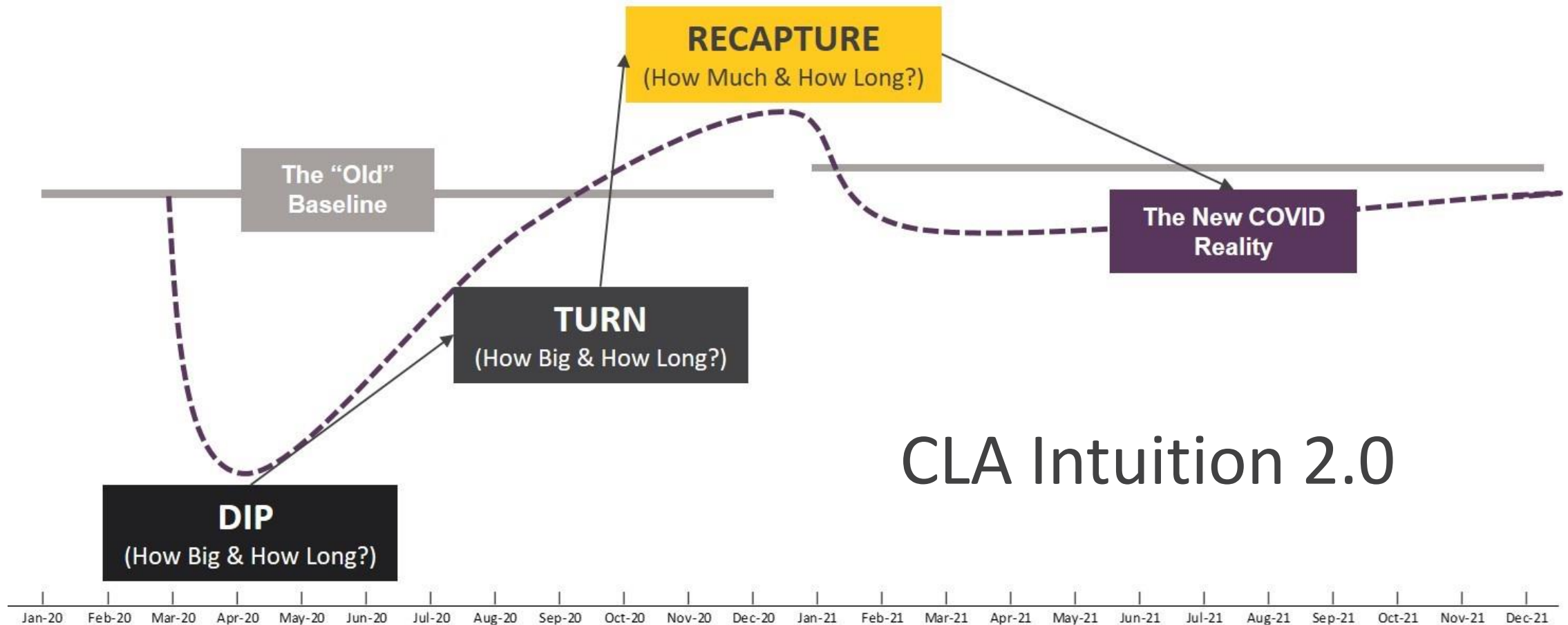
## Turn

- How long will it take to climb out?
- What resources can be maintained?

## Recapture

- Can you salvage anything lost?
- What will your new normal look like?

# Strategic decisions in a time of uncertainty



## CLA Intuition 2.0



# Analysis based on broader inputs

Current  
Liquidity

Baseline  
Revenue &  
Expenses

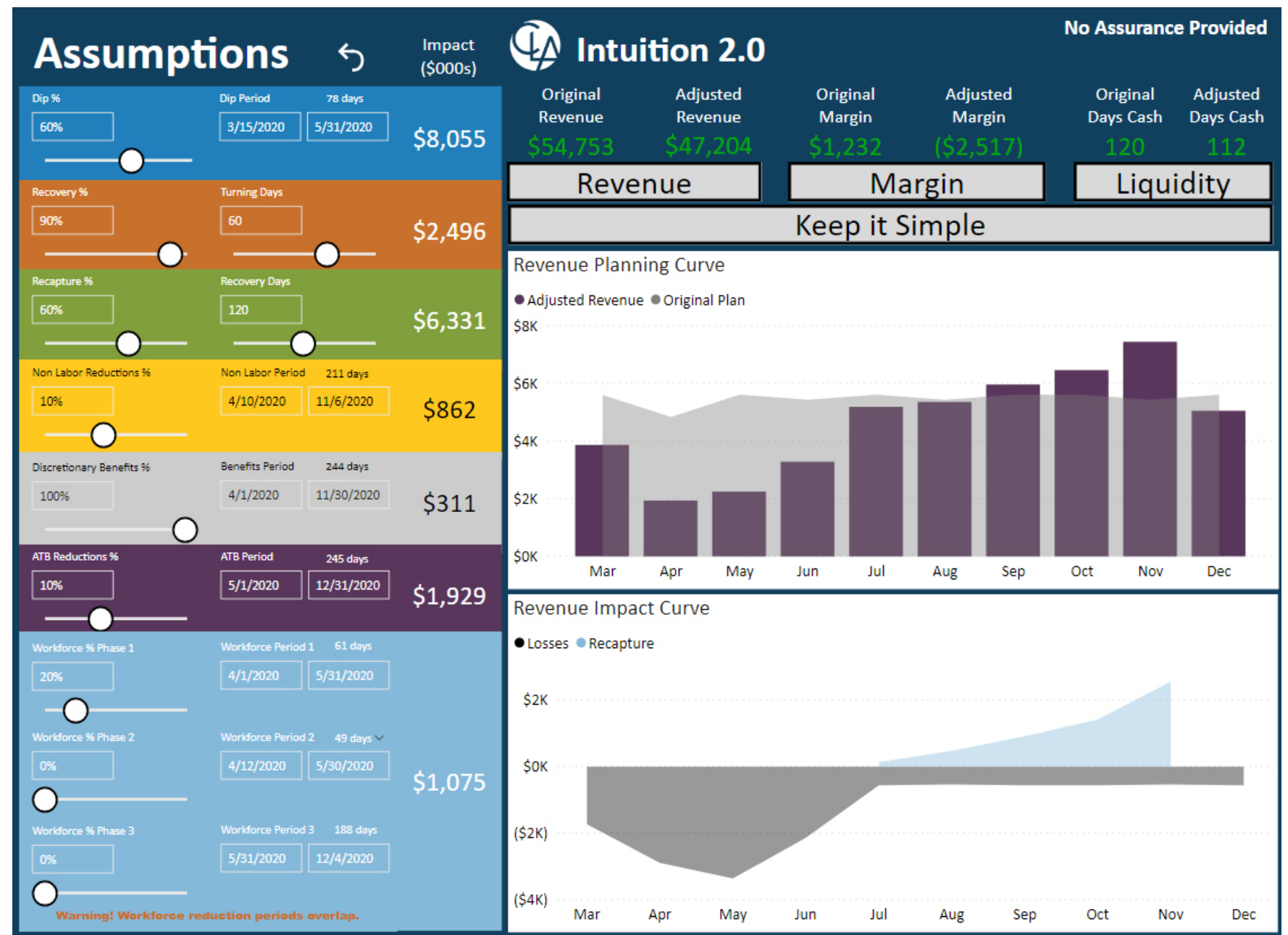
Expected  
Effects of  
Downturn

Non-Labor  
Expenditures

Personnel  
Expenditures

Anticipated  
Timelines

Scenario planning allows you to model multiple options



# Identify your organizational goals

Where you land becomes  
Where you launch

- Determine the current baseline
- Determine the likely outcomes without any intervention
- Decide what you want the future to look like for your organization
- Decide the scale of the interventions necessary to get you there
- Develop strategies appropriate to the scale of the needed interventions



# Financial strategies based on your mission and values

There are many paths to get you to your goal

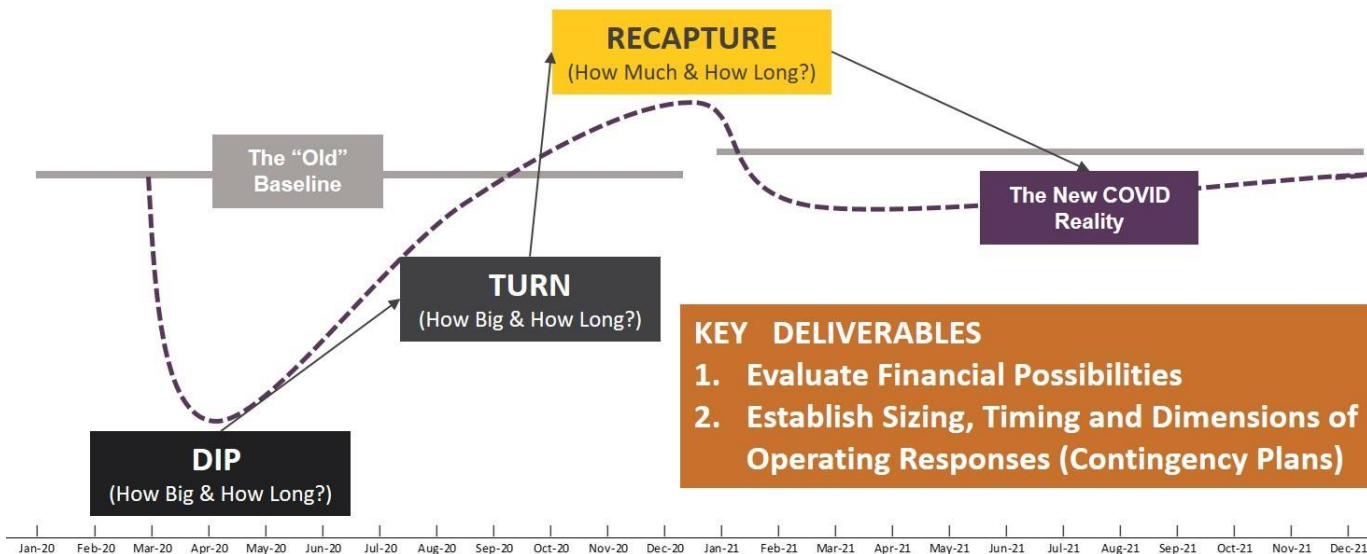
- What are your revenue generating strategies?
- Are there non-labor cost savings measures at the necessary scale?
- If personnel strategies are necessary, how do you uphold your values?
- Does your path provide for mission integrity and program effectiveness?





# The importance of a good modeling tool

- Helps you create a path from your current situation to your future
- Identifying your desired endpoint focuses your choices
- Allows you to determine the necessary scale of interventions
- You can test various strategies against your assumptions



Take a courageous, clear-eyed  
look at your current fiscal state.

Where drastic measures are  
indicated, you have the  
opportunity to stay true to your  
mission while acting prudently  
and compassionately where it  
concerns your finances.



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# Resources

CLA's [Responding to COVID-19](https://www.claconnect.com/campaign/covid-19) Resource Page

<https://www.claconnect.com/campaign/covid-19>

CLA Intuition 2.0

<https://www.claconnect.com/general/cla-intuition>

[“Financial Leadership in the Face of Impossible Choices,”](https://blogs.claconnect.com/nonprofitinnovation/financial-leadership-in-the-face-of-impossible-choices/)

Curtis Klotz, *Innovation in Nonprofit Finance* blog, March 2020

<https://blogs.claconnect.com/nonprofitinnovation/financial-leadership-in-the-face-of-impossible-choices/>

[“Community Resilience and Racial Equity – Nonprofits Responding to COVID-19,”](https://www.claconnect.com/resources/articles/2020/community-resilience-and-racial-equity-nonprofits-responding-to-covid19)

Interview with Dr. Atyia Martin, former Chief Resiliency Officer of the City of Boston

<https://www.claconnect.com/resources/articles/2020/community-resilience-and-racial-equity-nonprofits-responding-to-covid19>

[Innovation in Nonprofit Finance](https://blogs.claconnect.com/nonprofitinnovation/) blog

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# *Thank You!*

Curtis Klotz, CPA

Director of Nonprofit Innovation

Curtis.Klotz@CLAAconnect.com

Heidi Grinde, CPA

Principal, Outsourcing

Heidi.Grinde@CLAAconnect.com