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Putting Cash To Work For Your Nonprofit

March 21, 2024



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Session CPE Requirements

- You need to attend 50 minutes to receive the full 1 CPE credit.
- 4 Attendance Markers that read: “I’m Here,” will be launched during this session. You must respond to a minimum of 3 to receive the full 1 CPE credit.

****Both requirements must be met to receive CPE credit****



Learning Objectives

01

Recognize 2024 cash management trends

02

Identify cash versus investments and the advantage of viewing them as one

03

Discuss how trends may impact your current financial policy

04

Recall nonprofit case studies and how they strategized to execute their investment plans



Common Nonprofit Misconceptions



We do not have funds to invest



We can not invest in case we lose funds



Investing is too complicated – let's stick with a CD



It's not worth our time to get it set up – minimal returns



How can it be?

According to a study from [MIT's Sloan School of Management](#), **11.2% of nonprofits hold investment accounts**. On the flip side, this means that nearly 90% of nonprofits aren't investing their funds. As a result, they're hampering their potential growth and the impact they could have on their community.



Polling Question – Describe Your Investment Policy

What situation best describes your nonprofit's policies over cash and investments?

- We have an investment policy?
- I think we have a policy floating around from 2004 around here somewhere.
- Our policy covers operational matters but does not really define specific pools of funds for distinct organizational goals.
- We actively review our policy on a regular basis and either affirm or update as needed.



Managing Cash Starts With Good Policy

Develop a Written and Approved Policy



Specify, Specify, Specify



Identify the Funding Source



Set Limits



Oversee Other Reserves Appropriately



What Does “Cash” Mean?

Funds used to pay wages, benefits, regular operating expenses,

A source of liquidity for planned routine and/or strategic spending over a defined period,

Funds to cover debt-related expenses such as interest and principal payments,

A source of liquidity for emergency operating needs, and

An investment option, either explicit or by default.



Assessing Your Nonprofit's Liquidity Needs

- Review historical cash flows and cash balances, paying close attention to seasonal patterns and always keeping mind the funds needed to run the organization
- Identify unique or changing conditions for future cash flows
- Employ target financial ratios to size your optimal cash balances
 - Current ratio
 - Quick ratio
 - Cash ratio



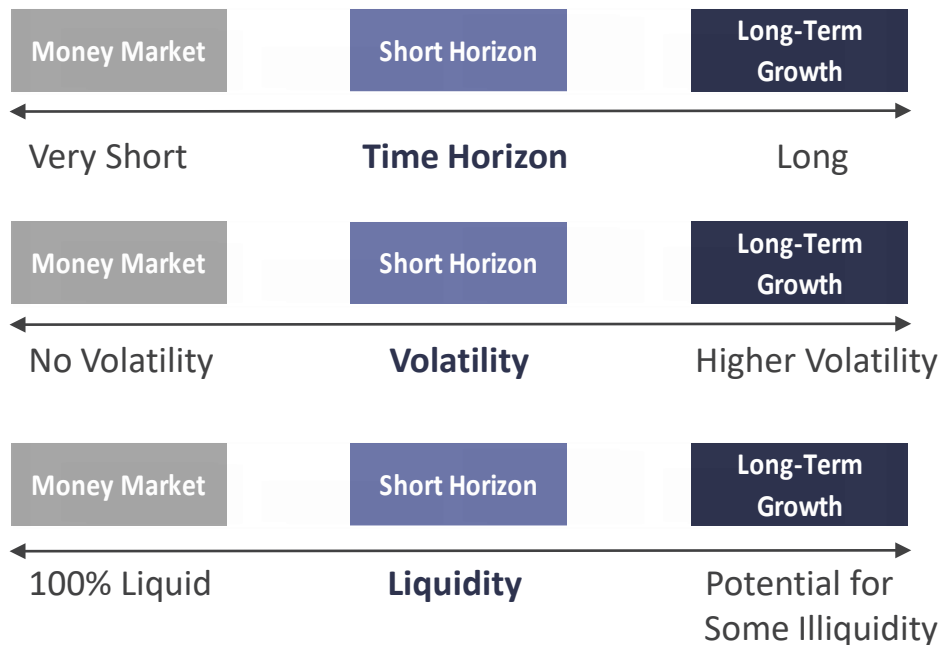
Being Intentional With Existing Cash



Looking At The Whole Picture – Not Just Cash

Designated cash pools are separate and distinct from long-term investment pools, but need to be considered together.

Cash Pools:
Provide for
spending today



Investment Pools:
Provide funding
far into the future



Defining Individual Reserves

Purpose	Time Horizon	Certainty of Need	Amount Needed	Replenishment
Wages; benefits; utilities; rent	Overnight to 1 year	Highly certain	Highly predictable	Replenished as drawn
Tech spend; debt service	1-3 years	Mix of highly certain and uncertain	Somewhat predictable	Replenished as drawn
Construction costs; debt service	Multi-year	Varies over time	Generally higher than initially estimated	Not replenished
Self-insurance	3+ years	Varies over time	Varies over time	Varies by nonprofit
Cover unforeseen events	Uncertain	Uncertain	Uncertain	Replenished as drawn



Do Not Forget About Risk



Let's define risk.



What comes to mind when you hear the work risk when it comes to your reserves?

Differing Manifestations Of Risk

- **Permanent loss of capital (partial):** Investor who puts in a dollar gets less than that back, but still gets something.
- **Permanent loss of capital (total):** All money invested is lost.
- **Temporary loss of capital:** Imagine you buy a bond at par (\$100) and a rise in interest rates reduces the market price to \$99.25. If you hold the bond to maturity, you will get your \$100 back.
- **Loss of purchasing power (inflation):** If you buy a 10-year bond yielding 2% for \$100, you will get \$2 in interest each year and your \$100 back after 10 years. But if inflation averages 3% over that 10-year span, your purchasing power has actually declined.





Current Hot Topics



Poll – Cash Management

What situation best describes your nonprofit over the last two years?

- No changes to cash management strategy,
- Discussed changes to cash strategy but took no action, or.
- Actively changed your cash management strategy.
 - Some examples could include:
 - Changed banking relationships,
 - Added a new account to earn more on cash,
 - Began using CDs or Treasuries, or
 - Spread cash out to confirm all funds are covered by \$250,000 per institutional FDIC limit.



Cash Management – Are You Putting Your \$ To Work?

With limited interest rates the past 15 years, maximizing return on cash and savings was a non-issue.

With rising interest rates, opportunities to gain meaningful returns with minimal risk and flexible liquidity are now available.

\$1M Example

Investment Vehicle	Avg Rate of Return	Annual Interest
Savings Account (based on national average*)	0.58%	\$5,800
Certificate of Deposit – CDs (based on national average**)	1.53%	\$15,300
Schwab Treasury Money Market (SUTXX) ^ (as of 3/14/24)	5.18%	\$51,800
6 Month Treasury Bills^^ (as of 3/14/24)	5.37%	\$53,700

[^]schwab.com/money-market-funds

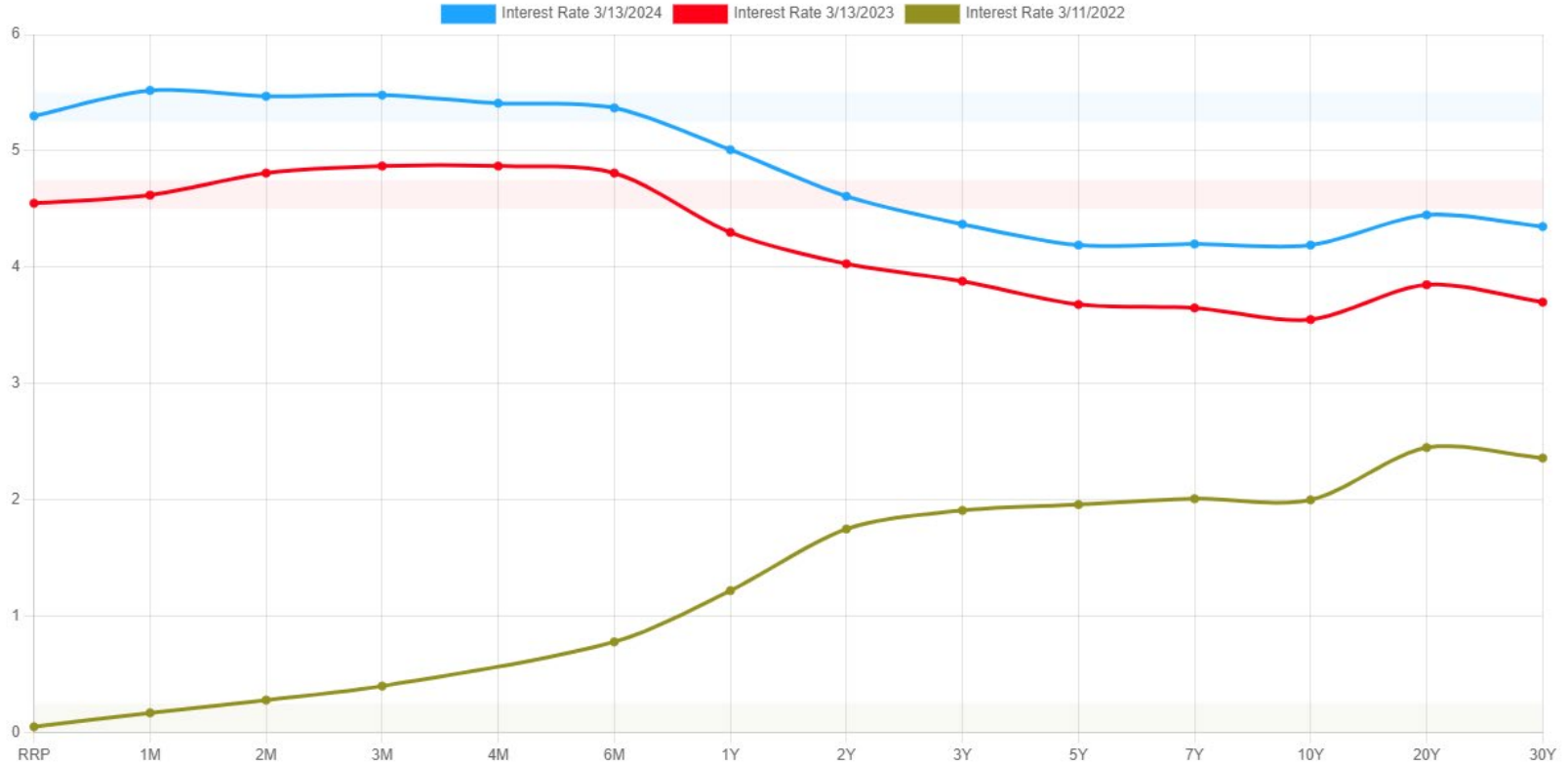
^{^^}home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics

* <https://fred.stlouisfed.org/series/SNDR>

**<https://fred.stlouisfed.org/series/NDR6MCD>



Cash Opportunity - Current Treasury Rates



Source: U.S. Dept. of the Treasury & St. Louis Federal Reserve



What Does The Future Hold For Interest Rates On Cash?

CME FEDWATCH TOOL - MEETING PROBABILITIES									
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024				0.0%	0.0%	0.0%	0.0%	1.0%	99.0%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	6.1%	93.8%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.8%	59.8%	36.4%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	31.0%	48.4%	18.7%
9/18/2024	0.0%	0.0%	0.0%	0.0%	1.3%	22.5%	43.4%	27.3%	5.4%
11/7/2024	0.0%	0.0%	0.0%	0.6%	11.0%	32.1%	36.0%	17.3%	2.9%
12/18/2024	0.0%	0.0%	0.4%	7.8%	25.6%	34.8%	23.1%	7.4%	0.9%
1/29/2025	0.0%	0.2%	4.3%	17.2%	30.5%	28.6%	14.7%	3.9%	0.4%
3/19/2025	0.1%	2.3%	10.8%	23.9%	29.5%	21.7%	9.3%	2.2%	0.2%

Source: CME FedWatch Tool on March 14, 2024

CME FEDWATCH TOOL - TOTAL PROBABILITIES				
MEETING DATE	DAYS TO MEETING	EASE	NO CHANGE	HIKE
3/20/2024	6	1.00 %	99.00 %	0.00 %
5/1/2024	48	6.20 %	93.80 %	0.00 %
6/12/2024	90	63.59 %	36.41 %	0.00 %
7/31/2024	139	81.27 %	18.73 %	0.00 %
9/18/2024	188	94.57 %	5.43 %	0.00 %
11/7/2024	238	97.06 %	2.94 %	0.00 %
12/18/2024	279	99.09 %	0.91 %	0.00 %
1/29/2025	321	99.57 %	0.43 %	0.00 %
3/19/2025	370	99.79 %	0.21 %	0.00 %

Source: CME FedWatch Tool on March 14, 2024





Case Studies



Being Intentional With Cash

Situation

- \$2 million in checking account earning 0%
- *“What do we do with the cash we’re sitting on?”*



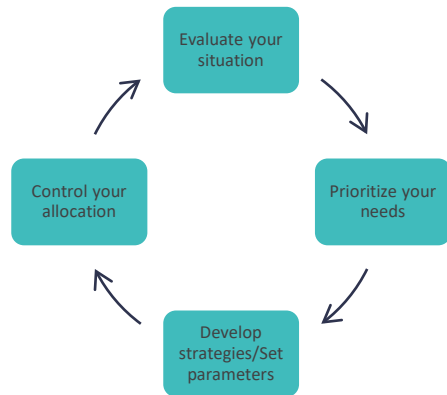
Approach

- Always begin with the strategic plan outlined in your policy
- Organization has determined all \$500,000 should be kept safe and liquid in an Operating Reserve while remaining \$1.5 million can be put into a Rainy Day Reserve
 - Operating Reserve: Keep **\$500,000** in checking, but check with bank to see if they have an insured cash sweep program so that all \$500,000 can be covered by FDIC insurance.
 - Rainy Day Reserve: Generate a more competitive rate of interest (around 5% in today’s environment) across an appropriate mix of money market funds, CDs, and short-term Treasury bills. On an annual basis, \$75,000 of interest would be earned on **\$1.5M** yielding 5%.

Being Intentional With Cash – Part II

Situation

- \$7 million in checking account earning 0% (or somewhere else not earning the current market rates)
- *“How much cash do we really need?”*



Approach

- Always begin with the strategic plan outlined in your policy
- Organization has determined that 4 distinct pools should be established:
 - (1) Operating Reserve: Keep **\$2M** in checking, but check with bank to see if they have an insured cash sweep program so that all \$2M can be covered by FDIC insurance.
 - (2) Rainy Day Reserve: Generate a more competitive rate of interest (around 5% in today’s environment) on a **\$1M** emergency reserve.
 - (3) Growth Reserve: Build a **\$2M** ladder of T-bills with staggered maturities over the next 3 years to support planned expansion of programming.
 - (4) Sustainability Reserve: Establish a longer-term pool of **\$2M** across a mix of assets including stocks/bonds/etc. to provide for the long-term sustainability of the organization.



Key Considerations For Differing Reserves

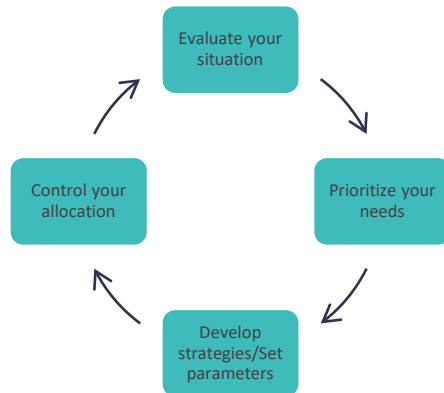
Type of Reserve	Time Horizon	Certainty & Amount of Need	Replenishment	Appropriate Investments
Operating Reserve	Short (<30 days)	Predictable; highly certain	Replenished as drawn	Insured bank accounts; money market funds
Rainy Day Reserve	Near-term (>30 days; <1 year)	Both timing and magnitude uncertain	Replenished as drawn	Committed line of credit; mix of insured bank accounts, money market funds, short-term Treasuries
Growth Reserve	Medium-term (>1 year; <3 years)	Near-term predictable; longer-term less so	Not replenished as funds drawn	Mix of less risky near-term fixed income and riskier medium-term assets
Sustainability Reserve	Long-term (>3 years)	Varies over time; timing of draw unpredictable	Varies by nonprofit	Higher share of riskier assets



Recent Cash Influx

Situation

- Organization recently received significant gift from private donor
- *“Is there an opportunity to be more thoughtful?”*



Approach

- Always begin with the strategic plan outlined in your policy
- Organization has determined that an investment committee should be formed from a subset of board members to develop a long-term, strategic framework for the funds
- After deliberation between staff, the board, and investment advisor, organization has decided to establish a board-designated endowment in the name of the donor that will provide an annual income stream back to the organization in perpetuity

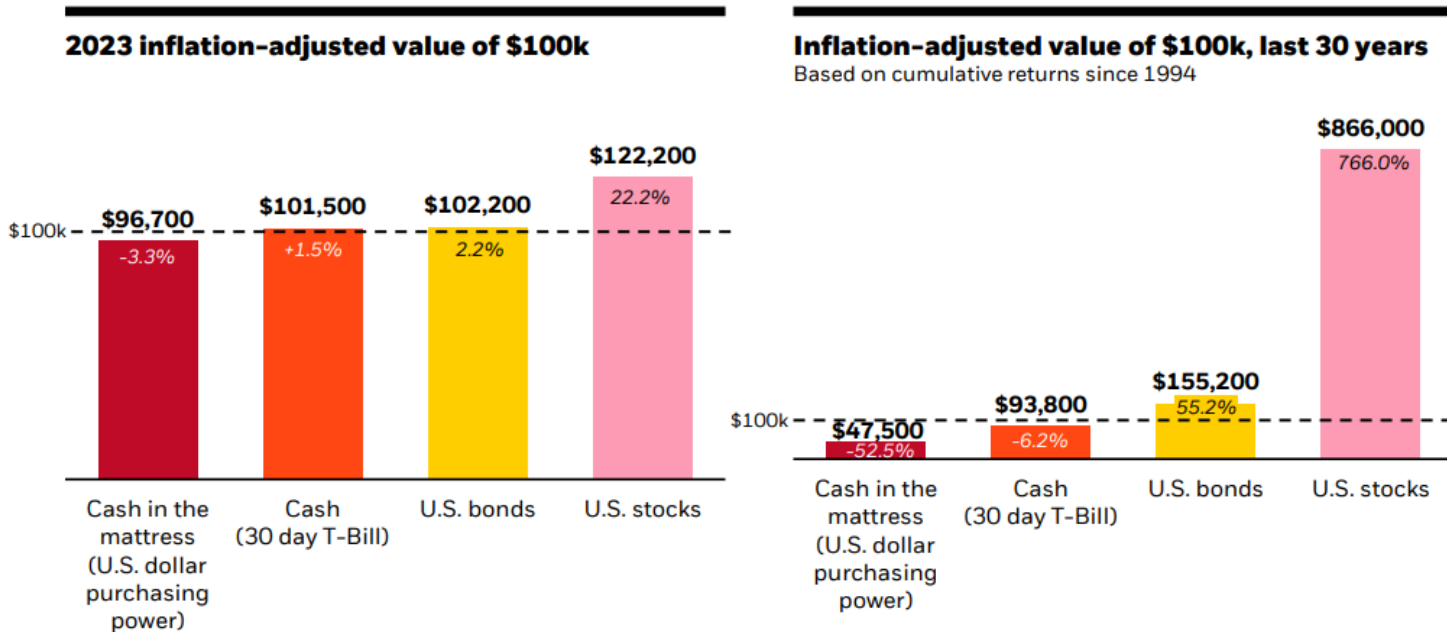




Extra Credit



Moving Beyond Cash: Inflation-Adjusted Returns



Source: BlackRock, Morningstar



Fed Changing Rates In Election Years

Federal Reserve rate cuts & hikes in election years

Since 1992

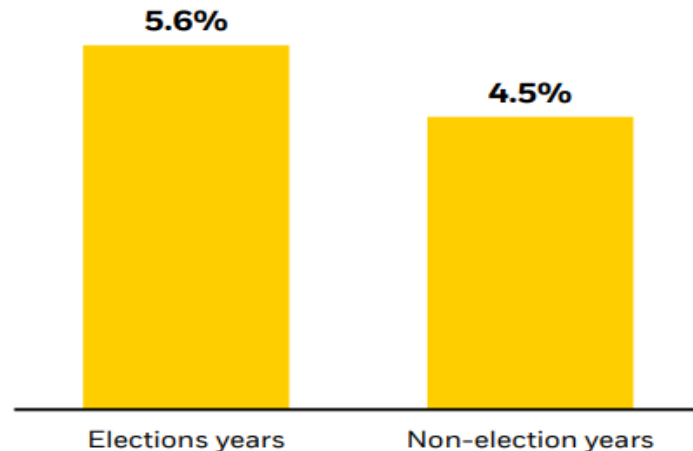
Rate cut year	Rate cuts	Fed Funds Rate change	Core bond returns
2020	2	1.5% to 0%	7.5%
2008	7	4.25% to 0%	5.2%
1996	1	5.5% to 5.25%	3.6%
1992	3	4.0% to 3.0%	7.4%

Rate hike year	Rate hikes	Fed Funds Rate change	Core bond returns
2016	1	0.25% to 0.5%	2.7%
2004	5	1.0% to 2.25%	4.3%
2000	3	5.5% to 6.5%	11.6%

Source: BlackRock, Morningstar

U.S. bond returns in election years vs. non-election years

Average annual returns since 1926



Thank you!

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