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Managing and Analyzing Cash Flow

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Managing and Analyzing Cash Flow

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**Presentation for
WAD Quinquennial Division-Wide Council
July 4, 2017**

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Andrews University

Not-for-Profit Organizations

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1. Focus on mission and its requirements.
2. Functioning board who believes in the mission.
3. Use of competent and knowledgeable volunteers.

Not-for-Profit Organizations

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Require profit and cash for:

1. Stability
2. Innovation
3. Growth

Definitions

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“Profit” is an accounting term

“Profit” is calculated:

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

Definitions

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Accounting done on the accrual basis is on one timetable.

Cash flows are on another timetable.

Universal School - SFA

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Income:	
Tuition & Fees	\$600,000
Donations	<u>60,000</u>
Total Earned Income	\$660,000
Expenses:	
Salaries & Wages	\$540,000
Retirement Contributions	40,000
Administrative & General	180,000
Materials & Supplies	150,000
Depreciation Expense	<u>40,000</u>
Total Expenses	<u>950,000</u>
(Decrease) Before Subsidies	(290,000)
Subsidies	<u>300,000</u>
Increase from Operations	\$ <u>10,000</u>

Universal School - SFP

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Assets	
Cash	\$ 50,000
Accounts Receivable	300,000
Prepaid Expenses	50,000
Cash Held for Agency Accounts	3,000
Plant Assets	<u>950,000</u>
Total Assets	<u>\$1,353,000</u>
Liabilities and Net Assets	
Accounts Payable	\$ 250,000
Agency Accounts	<u>3,000</u>
Total Liabilities	<u>253,000</u>
Unallocated Net Assets	150,000
Net Invested in Plant	<u>950,000</u>
Total Liabilities and Net Assets	<u>\$1,353,000</u>

Turning Assets to Cash?

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Accounts Receivable:

90 days or less:	\$210,000
90-180 days	45,000
Over 180 days	45,000

Uncollectible: $\$45,000 + \$22,500 = \$67,500$

Turning Assets to Cash?

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Inventory:

Watch for obsolete and/or slowing moving stock

Cash Flow Forecast

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Adequate Cash Permits Organizations to:

Survive crises

Take advantage of opportunities

Cash Flow Forecast

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Cash Flow Forecast is a Cash Flow Budget

Doing this task is acknowledging that

One cannot both feast and become rich.

Ghanaian Proverb

Cash Flow Forecast

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1. Tuition and Fees assumed to be collected: 30% in the 1st month of the semester; 10% in the 2nd month; 10% in the 3rd month; 15% in the 4th month; remainder (35%) collected over the summer if the student returns the following semester.
2. Donations received averaged throughout the year.
3. Subsidies received quarterly.

Cash Flow Forecast

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4. Salaries are paid monthly.
5. Retirement contributions are paid quarterly.
6. Administrative and General expenses are averaged throughout the year.
7. Materials and Supplies: 75% purchased at the beginning of the semester; 30 days credit on invoices.
8. Depreciation expense does not appear on the Cash Flow Forecast.

	January	February	March	April	May	June
Tuition Receipts	90,000					
Collection of A/R		30,000	30,000	45,000		
Donations	<u>5,000</u>	<u>5,000</u>	5,000	<u>5,000</u>	<u>5,000</u>	5,000
Subsidy			<u>75,000</u>			<u>75,000</u>
Cash Inflow	95,000	35,000	110,000	50,000	5,000	80,000
Salaries & Wages	45,000	45,000	45,000	45,000	45,000	45,000
Retirement			10,000			10,000
Adm & General	15,000	15,000	15,000	15,000	15,000	15,000
Materials & Supplies		56,250	18,750			
Cash Outflow	<u>60,000</u>	<u>116,250</u>	<u>88,750</u>	<u>60,000</u>	<u>60,000</u>	<u>70,000</u>
Net Cash In (out)	35,000	(81,250)	21,250	(10,000)	(55,000)	10,000
Beginning Cash Balance	<u>50,000</u>	<u>85,000</u>	<u>3,750</u>	<u>25,000</u>	<u>15,000</u>	<u>(40,000)</u>
Ending Cash Balance	85,000	3,750	25,000	15,000	(40,000)	(30,000)

Possible Corrective Actions

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1. Establish the frequency of preparation and the format of cash flow forecasts, reports, and analyses, including who is responsible for preparing these documents and to whom they will be disseminated.
2. Decide the amount of the optimum balance of cash needed for operating the school.
3. Identify what actions will be taken, and by whom, to address short- and long-term negative cash flow situations.

Possible Corrective Actions

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4. Establish all billing and collection procedures. Can a higher percentage of the Accounts Receivable be collected each month? Is there is a discount policy in place to provide an incentive for parents and guardians to pay sooner, or perhaps pay the year-in-full upon initial registration? What other actions can be taken to collect accounts receivable, especially the past due accounts receivable?

Possible Corrective Actions

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5. Is there a plan in place whereby months with excess cash-on-hand (e.g., January) can be immediately invested so that it provides some interest return?
6. Can an arrangement be made with vendors to lengthen out the payment policies on the invoices?

Possible Corrective Actions

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7. Are there options for the school to host special events, related business activities, unrelated business activities, fund-raising activities in order to increase cash receipts? If so, guidelines for processing and managing income from these events need to be established.

Monitoring and Analysis

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Effective cash flow management requires:

Vigilance: being ever mindful of current and developing situations that might require corrective action.

Flexibility: the ability to modify plans accordingly.

3 Month Forecasted vs. Actual Cash Flow



	Forecasted	Actual	Variance & (%)
Cash Inflows:			
Tuition Receipts	\$90,000	\$80,000	(\$10,000) (11%)
Collections of A/R	60,000	55,000	(5,000) (8%)
Donations	15,000	20,000	5,000 33%
Subsidy	<u>75,000</u>	<u>75,000</u>	-0-
Total Cash Inflows	240,000	230,000	(10,000) (4%)
Cash Outflows:			
Salaries & Wages	135,000	140,000	5,000 4%
Retirement	10,000	10,000	-0-
Adm & General	45,000	45,000	-0-
Materials & Supplies	<u>75,000</u>	<u>80,000</u>	5,000 7%
Total Cash Outflows	<u>265,000</u>	<u>275,000</u>	<u>10,000</u> 4%
Net Cash Flow	(25,000)	(45,000)	(20,000)

Analysis of Variances Report

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	Forecasted	Actual	Variance	Explanation
Cash Inflows				
Tuition	90,000	80,000	(10,000)	Lower Enrollment than expected
Collection A/R	60,000	55,000	(5,000)	Illness of Collection Director
Donations	15,000	20,000	5,000	Planned donation sent earlier
Cash Outflows				
Salary & Wages	135,000	140,000	5,000	Medical costs for Collection Director
Materials & Supplies	75,000	80,000	5,000	Higher costs but contracts written at the beginning of the semester
Net Cash Flow	(25,000)	(45,000)	(20,000)	

Addressing the Negative Cash Flow

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1. Delay nonessential purchases.
2. Request extension on payments to vendors or establish installment plans with vendors to pay for essential purchases.
3. Postpone hiring new personnel or awarding salary increases to staff.
4. Request cash advances from funding sources.

Addressing the Negative Cash Flow

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5. Plan a quickly instituted fundraising drive.
6. Seek short-term loans from banks or other financial institutions.
7. Use available lines of credit.
8. Engage in careful cost cutting.
9. Review Internal Control procedures over cash and consider the possibility of embezzlement or fraud.

Basic Internal Controls over Cash

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1. Separation of duties.
2. Performing surprise audits.
3. Leaving audit trails with excellent documentation.
4. Limiting access to accounting records and end-of-year entries.
5. Checking the background of new employees.
6. Mandating long vacations.

Universal Union - SFA

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Revenue:	
Tithe	\$8,812
Tithe Passed on to Higher Organization(s)	<u>3,037</u>
Net Tithe Income	5,775
Specific Donations	<u>200</u>
Total Income	<u>\$5,975</u>
Expenses:	
Employee-related expenses	\$6,400
Administrative & General expenses	2,200
Departmental expenses	<u>1,000</u>
Total Expenses	<u>9,600</u>
Loss before appropriations	(3,625)
Appropriations (net)	<u>3,000</u>
Loss after appropriations	<u>(625)</u>

Universal Union - SFP

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Assets:	
Cash	\$ 700
Receivables	9,000
Supplies & Prepaid Expense	<u>250</u>
Total Current Assets	<u>\$9,950</u>
Liabilities and Net Assets:	
Accounts Payable	\$1,950
Offering & Agency Accounts (includes funds held for church buildings (\$5,000) & offerings payable to the Division (\$2,200))	<u>7,200</u>
Total Current Liabilities	<u>\$9,150</u>
Unallocated Tithe Function	200
Allocated Functions	<u>600</u>
Total Liabilities & Net Assets	<u>\$9,950</u>

Questions to Ask

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1. Why are the receivables so high?
2. Are there outstanding loans to employees?
3. Avoid the temptation to withhold sending offerings up to the Division.

Steps to Take

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1. Establish the frequency of preparation and the format of cash flow forecasts, reports, and analyses, including who is responsible for preparing these documents and to whom they will be disseminated.
2. Decide the amount of the optimum balance of cash needed for operating the Union.
3. Identify what actions will be taken, and by whom, to address short- and long-term negative cash flow situations.

Steps to Take

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4. Can an arrangement be made with vendors to lengthen out the payment policies on the invoices.
5. Delay non-essential purchases.
6. Postpone hiring new personnel or awarding salary increases to staff.
7. Seek short-term loans from the banks or other financial institutions.

Steps to Take

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8. Use available lines of credit.
9. Engage in careful cost-cutting.
10. Review Internal Control Procedures and consider the possibility of embezzlement or fraud.

Basic Internal Controls over Cash

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1. Separation of duties.
2. Performing surprise audits.
3. Leaving audit trails with excellent documentation.
4. Limiting access to accounting records and end-of-year entries.
5. Checking the background of new employees.
6. Mandating long vacations.

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