STRATEGIES FOR CASH MANAGEMENT

Recent bank failures have led nonprofit staff and board leaders to reexamine the security of their deposits. The Federal Deposit Insurance Commission (FDIC) provides insurance for funds up to $250,000 per customer per financial institution. However, many organizations have operating needs that require accounts to hold more than the insured limit of $250,000 at a given time. The following guidance can help you effectively manage your cash to meet both your operating and security needs.

ASSESSING YOUR ORGANIZATION'S LIQUIDITY NEEDS

To determine how best to manage your organization's cash, you must first determine how much liquidity the organization needs to operate.

- **How much cash on hand do you need to cover your operating expenses?**
    - Start by calculating your weekly, bi-weekly, and monthly average spend to determine the liquidity you will need to cover regular expenses.
- **How does the timing of your operating revenue and expenses affect your cash needs?**
    - When you will receive payments from funders or generate earned income throughout the year?
    - Do your program expenses happen seasonally? If so, what times of year require additional cash on hand to cover seasonal expenses?
    - Are your programs affected by current events and, as a result, your spending patterns are less predictable? If so, how quickly would you need additional cash on hand to meet unknown expenses?
- **What are your long-term goals?**
    - Do you have any long-term goals or strategies that will require cash outlays over the coming weeks or months?
- **Do you have any policies setting targeted levels of cash on hand for short term liquidity or longer term operating purposes?**
    - Ensure you have the level of cash on hand to meet your policies. Some organizations maintain 3 months of typical expenses on hand. Other organizations may want more or less depending on their revenue model and expense volatility.

Evaluate Your Operating Reserve Policy. Many organizations have an operating reserve policy established by their board of directors that requires **3 – 6 months operating expenses in cash** to weather uncertainty. If you don't have an operating reserve policy, this guide can help you develop one.

CASH FLOW PROJECTIONS AND ANALYSIS

After assessing your organization's liquidity needs, project cash flow to identify months where additional cash or liquidity may be needed.

- **Projecting Cash Flow.** [This template] helps nonprofit leaders project cash flow for 12 months. Start from your current cash position—what's in the bank right now. Apply your anticipated expenses from your budget by month and your anticipated revenue by month. Then ask what might change in the next 12 months.
  - Are you planning to start any new programs with additional expenses or hire new staff?
  - Do you have any new funding opportunities that you should include?
- **Analyzing Cash Flow.** Cash flow projections will help you determine if you will have a cash shortage or significant excess of cash in any given month. Based on your anticipated expenses and revenue:
  - Are there months when you will not have enough cash on hand to cover your expenses?
  - Do you need to apply for a line of credit to cover expenses while you wait for a grant payment to come in?
  - Could you negotiate with vendors to make payments later?
  - Are there optional purchases that can wait until cash is more readily available?
  - Do you have enough cash that you could consider short term investment options to make that money work for you?
- **Frequency of Cash Flow Projections.** Many nonprofit leaders project cash on a monthly basis as part of their regular financial planning and analysis process. Your nonprofit may need to project cash flow more frequently if you are particularly concerned about your cash.

Focus on the details during projections. Take the time to think through which month your budgeted expenses will be incurred. You may have expenses that are the same or similar each month (e.g., payroll, monthly subscriptions) or that are paid in the same month of every year. Be sure to consider the timing of expenses that aren't regular (e.g., specific program or fundraising events) or when you may incur a new expense (e.g., hire a new position or begin work with a consultant).

STRATEGIES FOR MANAGING CASH

You've assessed your liquidity needs and projected your cash flow. You've identified a minimum and a maximum amount of cash that you might need on hand. You identified that you have cash on hand that you don't regularly need for operating purposes or that you may need more cash on hand than the FDIC insured limit. Here are some key goals of managing your cash:

1. Ensuring you have cash on hand to cover operations
2. Leveraging your cash to earn passive income
3. Safeguarding your assets
4. Maintaining a manageable workload for your finance team

Strategies and tools you use to manage cash will vary depending on the options available to you as an organization and the risk tolerance of your board and staff leadership. Below are some strategies to address your cash management goals with key considerations.

Multiple Bank Relationships

Cash to Cover Operations	• Multiple bank accounts at a single bank will not increase your coverage under FDIC insurance but may help to organize your cash for specific purposes. For example, many organizations have a separate bank account for payroll.
Earn Passive Income	• Different account types (checking vs. savings) have different interest rates that could work in your favor.
Safeguard Assets	• Maintaining accounts at multiple banks in amounts under the FDIC limit would ensure that your deposits are fully insured in case of bank failure. The FDIC covers $250,000 of deposits at a single banking institution. Multiple bank accounts at the same institution will not protect your assets over that amount. • Diversifying banking relationships may enable you to leverage benefits from different types of banks and limit your exposure to bank failure.
Maintain Manageable Finance Workload	• In considering whether to maintain accounts at multiple banks, understand the transfer process. To keep accounts under the FDIC limit and ensure you have enough cash to make large payments, you may need to manually transfer funds between banks. Will you be able to make transfers electronically? What are the fees associated with transferring funds between the accounts? What is the capacity of your finance team to manage frequent funds transfers and how will this process impact workflow in the finance department? • Additional bank accounts add to the monthly reconciliation work for your finance team.

Certificates of Deposit (CDs) and Other Investment Vehicles

Earn Passive Income	• CDs and short-term investment vehicles such as treasury bills (T-Bills), money market accounts, high-yield savings accounts, bond funds, and municipal bonds can help nonprofits earn higher interest rates, increasing a nonprofit's liquid unrestricted net assets (LUNA), which further secures the organization's ability to weather unexpected circumstances and provides liquidity for operations. • If held to maturity, CDs, T-bills, and other bonds can provide stable interest payments despite market fluctuations. • There is always some risk associated with investment vehicles. While they may provide higher rates of return, they are subject to market volatility.
Cash to Cover Operations	• CDs and other short-term investment vehicles may have a specific time horizon to maturity and are unavailable until that time without heavy financial penalties. Analyze and determine the time horizon in which you will need the cash invested. Because CDs and some other short-term investment vehicles mature at specific dates, create a strategy for your short-term investments to insure you have liquidity at a variety of time horizons. This deliberate planning of your investments is also called "laddering."
Safeguard Assets	• Individual CDs and high-yield savings accounts are also subject to the FDIC insurance limit. Treasury bills (T-Bills) and other government bonds are fully insured by the US government. • The Securities Investor Protection Corporation (SIPC) provides limited insurance (up to $500,000 of market value) for securities held with a brokerage firm. SIPC insurance kicks in only if your brokerage firm fails.
Maintain Manageable Finance Workload	• If considering long-term investment vehicles, you may want to work with an investment advisor or asset manager. • If you do not have an investment advisor or firm, you will need to manage CDs manually to ensure they stay under the FDIC insured limit.

Sweep Accounts and CDARS

Safeguard Assets	• Insured cash sweep (ICS) accounts and Certificates of Deposit Accounts Registry Service (CDARS) are services provided by banks that will automatically transfer funds to other institutions when your account exceeds the FDIC insurance limit. • ICS accounts and CDARS manage all the accounts in one place, so you don't have to manually manage the cash yourself.
Earn Passive Income	• ICS accounts are not investment vehicles. These accounts can accrue interest at a similar or slightly lower rate to standard checking or savings accounts and there may be fees associated with this service. Be sure to understand the fees and see if you can negotiate. • Because CDARS utilize CDs, CDARS have specific maturity dates and cannot be accessed at any time.
Maintain Manageable Finance Workload	• Sweep accounts allow you to have a single online portal where you can manage and reconcile all accounts open at multiple banking institutions.

REFERENCES AND RESOURCES

"Where Should My Nonprofit Keep Its Operating Cash?" by Amy Silver O'Leary, Council of Nonprofits

"Short-Term Investments: Definition, How They Work, and Examples" by Troy Segal, Investopedia

"What is CDARS" by American Deposit Management Company

"What SIPC Protects" by SIPC