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Certified Public Accountants and Consultants



# GO WITH THE (CASH) FLOW

Not-for-Profit Webinar

February 4, 2025



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## INTRODUCTION

### *GYF Strongly Believes in Serving Those Who Serve Others*

- We are proud that, since our founding in 1990, serving the non-profit industry has been a primary focus for our firm
- Our professionals value a philanthropic spirit and culture and dedicate significant portions of their careers to serving non-profit organizations
- We utilize the expertise gained from assisting other non-profits to help you concentrate on your central purpose and fulfill your mission

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## MEET THE EXPERTS




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## TODAY'S OBJECTIVES

- Show how the statement of cash flows (SoCF) is prepared and demonstrate how to interpret the information
- Present different options for preparation of the SoCF
- Discuss how the SoCF complements the other financial statements
- Explain how the SoCF helps you manage your organization's cash position
- Point out specific considerations for nonprofit organizations

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## INTRODUCTION

### *Primary objectives of the statement of cash flows (SoCF)*

- Provides relevant information about the cash receipts and payments of an organization during a period

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## INTRODUCTION

### *Primary objectives of the SoCF*

- Helps donors and readers of financial the statements to assess the entity's ability to:
  - Generate positive future net cash flows
  - Meet obligations
  - Explain reasons for differences between change in net assets and cash receipts and payments
  - Provide details behind investing and financing transactions

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## INTRODUCTION

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### *Why the SoCF is essential for nonprofit organizations*

- Demonstrates financial health
- Tracks restricted vs. unrestricted cash
- Provides insights into fundraising and grant cash flows
- Complements other financial statements
- Enhances decision-making

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## INTRODUCTION

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### *Scope*

- Integral element in general-purpose financial statements
- Any organization that reports both financial position and results of operations should also provide a statement of cash flows (for each period results of operations are provided)
- Required by ASC 230

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## PREPARING THE SoCF

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### *Overview of cash flow sections*

- Operating Activities (day-to-day operations)
- Investing Activities (long-term investments and asset acquisitions)
- Financing Activities (contributions, loans, or grants with restrictions)
- Net Cash Change and Reconciliation to Cash at End of Period

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## PREPARING THE SoCF

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### *Operating activities*

- Presented first, as reflects the cash receipts and payments associated with the organization's core business functions
- Operating activities create the revenues, expenses, gains, and losses that comprise the change in net assets from applying the accrual basis of accounting

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## PREPARING THE SoCF

### *Operating activities (indirect method)*

- Reconciles change in net assets (surplus or deficit) to net cash flow from operations
- Essentially begins with the accrual-basis statement of activities and converts it to cash-basis
  - Adjusts effects of all accruals and deferrals
  - Adjusts for all noncash items

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## PREPARING THE SoCF

### *Operating activities (indirect method)*

|   | Adjustments to Change in Net Assets – Gains/Losses and Noncash Activities  |
|---|--|
| Example items to deduct from change in net assets | <ul style="list-style-type: none"> <li>• Net recognized gains on investments</li> <li>• Gains on sales of PP&amp;E or extinguishment of debt</li> </ul>  |
| Example items to add to change in net assets      | <ul style="list-style-type: none"> <li>• Depreciation on PP&amp;E</li> <li>• Amortization of intangible assets</li> <li>• Net recognized losses on investments</li> <li>• Losses on sales of PP&amp;E</li> </ul> |

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## PREPARING THE SoCF

### Operating activities (indirect method)

|   | Adjustments to Cash-Basis Change in Net Assets Operating Activities –<br>Changes in Statement of Financial Position Line Items   |
|---|--|
| Assets: Deduct increases and add decreases      | <ul style="list-style-type: none"> <li>Receivables – Trade, Grants, Contributions, Pledges</li> <li>Other current assets (that are not investing or financing activities)</li> </ul> |
| Liabilities: Add increases and deduct decreases | <ul style="list-style-type: none"> <li>Accounts payable</li> <li>Accrued payroll</li> <li>Other current liabilities (that are not investing or financing activities)</li> </ul>      |

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## PREPARING THE SoCF

### Operating activities (indirect method)

- EXAMPLE – Cash flows from operating activities

|   |               |
|---|---------------|
| Increase in net assets  | \$ 208        |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |               |
| Depreciation and amortization   | 168           |
| Net realized and unrealized gain on investments   | (63)          |
| Loss on disposal of property  | 17            |
| (Increase) decrease in:   |               |
| Receivables   | (31)          |
| Prepaid expenses  | 11            |
| Increase (decrease) in:   |               |
| Accounts payable  | 9             |
| Accrued payroll and other liabilities   | (32)          |
| Net cash provided by operating activities   | <u>\$ 287</u> |

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## PREPARING THE SoCF

### *Operating activities (direct method)*

- Preferred approach by FASB, yet less popular approach
- Reports major classes of gross cash receipts and payments, with arithmetic sum as net cash flows from operating activities
- Previously a supplemental disclosure of the reconciliation of net income to net cash flow from operations (essentially, the indirect method) was required – this is still a good check

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## PREPARING THE SoCF

### *Operating activities (direct method)*

- Cash collected and paid in business operations is “directly” calculated
- For cash collections
  - Add a decrease in assets or subtract an increase in assets
  - Add an increase in liabilities or subtract a decrease in liabilities
- For cash payments – the opposite

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## PREPARING THE SoCF

### *Operating activities (direct method)*

- Typical classes to include, and further meaningful breakdowns allowed:
  - Cash collected from donors/customers/clients
  - Interest and dividends received & interest paid
  - Other operating cash receipts/payments
  - Cash paid to employees/vendors

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## PREPARING THE SoCF

### *Operating activities (direct method)*

- EXAMPLE – Cash flows from operating activities

|   |        |
|---|--------|
| Contributions                             | \$ 800 |
| Cash from program services                | 150    |
| Cash from fundraising events              | 241    |
| Interest and dividends received           | 334    |
| Payments to employees                     | (780)  |
| Payments to vendors for employee benefits | (180)  |
| Payments to other vendors                 | (278)  |
| Net cash provided by operating activities | \$ 287 |

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## PREPARING THE SoCF

### *Operating activities (indirect vs. direct method)*

|   |               |   |               |
|---|---------------|---|---------------|
| Increase in net assets  | \$ 208        | Contributions                             | \$ 800        |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |               | Cash from program services                | 150           |
| Depreciation and amortization   | 168           | Cash from fundraising events              | 241           |
| Net realized and unrealized gain on investments   | (63)          | Interest and dividends received           | 334           |
| Loss on disposal of property  | 17            | Payments to employees                     | (780)         |
| (Increase) decrease in:   |               | Payments to vendors for employee benefits | (180)         |
| Receivables   | (31)          | Payments to other vendors                 | (278)         |
| Prepaid expenses  | 11            | Net cash provided by operating activities | <u>\$ 287</u> |
| Increase (decrease) in:   |               |   |               |
| Accounts payable  | 9             |   |               |
| Accrued payroll and other liabilities   | (32)          |   |               |
| Net cash provided by operating activities   | <u>\$ 287</u> |   |               |

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## PREPARING THE SoCF

### *Investing activities*


- Typically presented after the operating activities section
- Involves acquiring or disposing of non-current assets, including capex
- Involves making and collecting loans (as lender)

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## PREPARING THE SoCF


### *Investing activities*

| Typical cash inflows<br>Cash receipts from:  | Typical cash outflows<br>Cash payments for:                         |
|--|---|
| Sales of property, plant, equipment, and other productive assets                               | Purchase of property, plant, equipment, and other productive assets |
| Sales of investments   | Purchase of investments   |
| Collections on loans   | Disbursements for loans   |
| Insurance settlement proceeds related to investing activities (for example a damaged building) |   |

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## PREPARING THE SoCF

### *Investing activities*

- **EXAMPLE – Cash flows from investing activities**

|   |          |
|---|----------|
| Purchase of investments                           | \$ (500) |
| Proceeds from sales and maturities of investments | 750      |
| Purchase of property and equipment                | (150)    |
| Net cash provided by investing activities         | \$ 100   |

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## PREPARING THE SoCF

### *Financing activities*

- Typically presented after the investing activities section
- Involves activities related to long-term liabilities and net assets
  - Receiving restricted resources that have donor-imposed stipulations for long-term use
  - Borrowing money and repaying amounts borrowed

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## PREPARING THE SoCF

### *Financing activities*

| Typical cash inflows<br>Cash receipts from:   | Typical cash outflows<br>Cash payments for:       |
|---|---|
| Contributions and investment income that a donor restricted for acquiring, constructing, or improving long-lived assets |   |
| Permanent endowments  | Debt issuance costs                               |
| Borrowing (notes, mortgages, etc.)  | Repayments on borrowings (reduction of principal) |

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## PREPARING THE SoCF

### *Financing activities*

|  |                                       |                 |
|--|---------------------------------------|-----------------|
| <ul style="list-style-type: none"> <li>▪ EXAMPLE – Cash flows from financing activities</li> </ul> | Payments on line of credit            | \$ (500)        |
|  | Proceeds from borrowings              | 200             |
|  | Contributions to endowment fund       | 180             |
|  | Net cash used in financing activities | <u>\$ (120)</u> |

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## PREPARING THE SoCF

### *Noncash investing and financing activities*

- Should be disclosed in a narrative or summarized in a schedule
- Typical items:
  - Obtaining an asset by entering into a capital lease
  - Obtaining a building via a gift or purchasing a building with a mortgage

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## PREPARING THE SoCF

### *Cash and cash equivalents*

- Cash includes the following:
  - Currency on hand
  - Demand deposits with financial institutions
  - Other kinds of accounts that have the general characteristics of demand deposits or amounts due on demand (example – Paypal balance)

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### *Cash and cash equivalents*

- Cash equivalents include:
  - Short-term, highly liquid investments that are both:
    - Readily convertible to known amounts of cash; and
    - So near maturity that they present an insignificant risk of changes in value because of interest rate changes

#### Common Examples of Cash Equivalents


Yes: A three-month U.S. Treasury bill (T-bill) purchased two months from maturity

Yes: A three-year U.S. Treasury note purchased three months from maturity


No: A three-year U.S. Treasury note purchased three years ago (even if the remaining maturity is three months or less)

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## PREPARING THE SoCF

### *Cash and cash equivalents*


Example policy disclosure – Cash and cash equivalents

All highly liquid investments with original maturities of less than three months at the date of purchase are classified as cash equivalents. The cash and cash equivalents at financial institutions may at times exceed federally insured limits and may at times exceed statements of financial position amounts due to outstanding checks.

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## PREPARING THE SoCF

### *Restricted cash and cash equivalents*

- ASU 2016-18, Statements of Cash Flows clarifies that restricted cash and cash equivalents should be included in beginning and ending cash and cash equivalent amounts in the SoCF
  - Transfers between restricted and unrestricted cash are not reported
  - Disclosure must be made of the nature of the restrictions
  - Reconciliation to be provided between SoCF and statement of financial position

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## PREPARING THE SoCF

### *Restricted cash and cash equivalents*

#### ■ ILLUSTRATIVE DISCLOSURE

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

|  |                 |
|--|-----------------|
| Cash and cash equivalents  | \$ 4,575        |
| Restricted cash included in assets restricted to investment in building                | <u>160</u>      |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | <u>\$ 4,735</u> |

Amounts restricted to investment in building on the statement of financial position include restricted cash received with a donor-imposed restriction that limits the use of that cash to long-term purposes.

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## PREPARING THE SoCF

### *Additional Considerations*

- Gross presentation of cash receipts and payments is more relevant than net information, with a few exceptions. When turnover is quick or maturities are short, only the net changes during the period need to be reported.
- When the indirect method is used (most common), the amounts of interest (net of amounts capitalized) and income taxes paid should be disclosed
- Bank overdraft (negative bank account balance) shown as a financing activity

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## PREPARING THE SoCF

### *Additional Considerations*

- Predominance principle
  - Cash receipts and payments that have aspects of more than one class of cash flows should be determined by:
    - Applying specific guidance for such payments
    - In the absence of specific guidance, separately identify the source or use of the cash flow on the basis of the underlying cash flow; if still cannot be determined, then apply the predominant source/use

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## PREPARING THE SoCF

### *Additional Considerations*

- Leasehold improvements – when a lessee makes payments for leasehold improvements in an operating lease, the cash outflows are investing activities
  - However, if reimbursed by a landlord, the lessee should present the cash inflow as an operating activity
- Government grants – When expenditures are paid prior to the reimbursements from government grant funds, an entity should present the eventual grant monies consistent with the related cash flow

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## PREPARING THE SoCF

### *Additional Considerations*

- In-kind contributions
  - Donated services, goods, or fixed assets, do not involve actual cash movement; therefore they do not directly appear on the SoCF
  - Instead, disclosure is required (ASU 2020-07)
  - Exception – when a donation is immediately sold for cash

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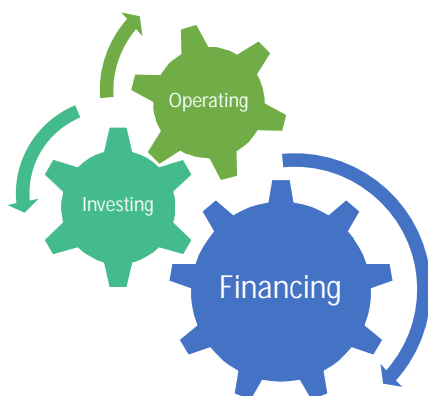


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## SoCF (SUMMARIZED)



|   |                        |
|---|------------------------|
| Net cash provided by operating activities | \$ 500                 |
| Net cash used in investing activities     | (200)                  |
| Net cash provided by financing activities | <u>100</u>             |
| Net increase in cash                      | 400                    |
| Cash, beginning of year                   | 1,000                  |
| Cash, end of year                         | <u><u>\$ 1,400</u></u> |

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## INTERPRETING THE SoCF

### *What Can You Learn From Reading the SoCF?*

| SoCF Section                            | Information   |
|---|---|
| Net Cash Flow from Operating Activities | Positive or negative implications                       |
| Cash Flow from Investing Activities     | Strategic investments or stagnation signals             |
| Cash Flow from Financing Activities     | Reliance on loans or grants                             |
| Cash Flow Variability Trends            | Seasonal or operational fluctuations                    |
| Cash Reserves Ratio                     | How long the organization can operate with current cash |

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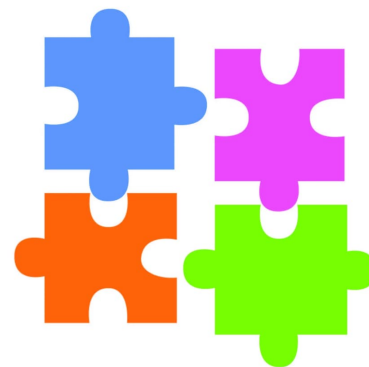


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## INTERPRETING THE SoCF

### *How does the SoCF complement the other financial statements?*

- Integration with the Statement of Financial Position (Balance Sheet)
- Relationship with the Statement of Activities (Income Statement)
- Importance of SoCF in giving a complete financial picture



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## INTERPRETING THE SoCF

### *Integration with the Statement of Financial Position (Balance Sheet)*

- Cash, cash equivalents and restricted cash ties out
- Changes in current assets & liabilities are primarily reflected in the operating activities section
- Noncurrent assets will correspond with investing activities section
- Long-term liabilities and net asset categories will correspond with financing activities section

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## INTERPRETING THE SoCF

### *Integration with the Statement of Activities (Income Statement)*

- Operating Activities
  - Revenue and expenses on the Statement of Activities correspond to cash from operations in the SoCF
  - Non-cash items are adjusted in the SoCF to reflect only cash changes
- Financing Activities – contributions with donor restrictions that are long-term in nature are categorized as inflows

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## INTERPRETING THE SoCF

### *Integration with the Statement of Activities (Income Statement)*

- Practical Insights:
  - A surplus on the Statement of Activities doesn't always mean positive cash flow
  - Tracking non-cash adjustments (depreciation, changes in receivables/accruals) is essential for reconciling the cash activity
  - Contributions reported as revenue may not yet be received as cash

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## INTERPRETING THE SoCF

### *Complete Financial Picture*

- Beyond the Income and Financial Position Statements
  - Statement of Activities shows revenue and expenses but may not reflect actual cash flow
  - Statement of Financial Position indicates financial status but lacks cash movement insights

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# INTERPRETING THE SoCF

## Complete Financial Picture

- Key Insights from the SoCF
  - Tracks where cash comes from (sources) and where it goes (uses)
  - Provides visibility into operating cash efficiency and sustainability
  - Helps assess operational health



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## Managing Your Organization's Cash Position

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## KEY INDICATORS TO MONITOR


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| SoCF Section                            | Observation                                 | What's Behind the Numbers?  |
|---|---|---|
| Net Cash Flow from Operating Activities | Positive or negative implications           | <ul style="list-style-type: none"> <li>Perhaps a major event occurs every two years</li> <li>Perhaps a significant grant was communicated, but has not yet been received</li> </ul> |
| Cash Flow from Investing Activities     | Strategic investments or stagnation signals | <ul style="list-style-type: none"> <li>Capacity building for future growth</li> <li>Minimal activity</li> </ul>   |
| Cash Flow from Financing Activities     | Reliance on loans or grants                 | <ul style="list-style-type: none"> <li>Evidence of building an endowment</li> <li>If borrowing, what is the plan for repayment?</li> </ul>  |

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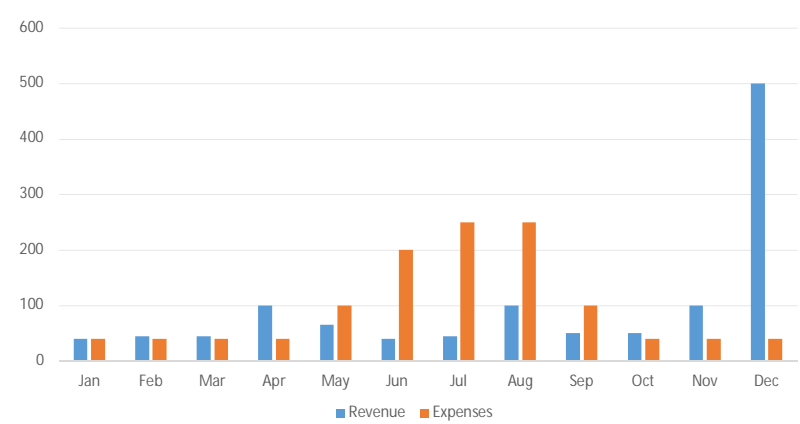
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## KEY INDICATORS TO MONITOR

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### *Variability Trends*

- Seasonal fluctuations
- Operational fluctuations



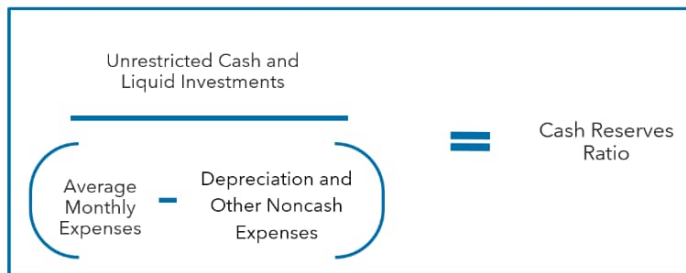
| Month | Revenue | Expenses |
|-------|---------|----------|
| Jan   | 40      | 40       |
| Feb   | 40      | 40       |
| Mar   | 40      | 40       |
| Apr   | 100     | 40       |
| May   | 60      | 100      |
| Jun   | 40      | 200      |
| Jul   | 40      | 250      |
| Aug   | 100     | 250      |
| Sep   | 50      | 100      |
| Oct   | 50      | 40       |
| Nov   | 100     | 40       |
| Dec   | 500     | 40       |

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## KEY RATIOS & INSIGHTS

### Cash Reserve Ratio

- How long the organization can operate with current cash
- Recommended range of three to six months




## KEY RATIOS & INSIGHTS


### Liquidity Ratios

| Ratio   | Formula   | Averages by Size of NFP      |               |
|---|---|------------------------------|---------------|
|   |   | Total assets                 | Average value |
| Days cash on hand: Measures the number of days of expenses that can be covered from existing cash. Generally, higher values indicate a stronger liquidity position, although there is both a benefit and an opportunity cost to holding cash reserves | Cash / [(Total expenses – depreciation expense) / 365 days] | \$100,000 - \$500,000        | 123 days      |
|   |   | \$500,000 - \$1,000,000      | 146           |
|   |   | \$1,000,000 - \$10,000,000   | 99            |
|   |   | \$10,000,000 to \$50,000,000 | 76            |
|   |   | > \$50,000,000               | 57            |





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## KEY RATIOS & INSIGHTS

### *Liquidity Ratios*


| Ratio   | Formula  | Averages by Size of NFP      |               |
|---|--|------------------------------|---------------|
|   |  | Total assets                 | Average value |
| Months of spending: A less extreme measure of liquidity than days cash on hand since it assumes receivables can be collected to sustain operations. Generally, higher values indicate a stronger liquidity position | (Current assets – current liabilities + temporarily restricted net assets) / [(Total expenses – depreciation expense) / 12 months] | \$100,000 - \$500,000        | 4.22 months   |
|   |  | \$500,000 - \$1,000,000      | 5.24          |
|   |  | \$1,000,000 - \$10,000,000   | 3.84          |
|   |  | \$10,000,000 to \$50,000,000 | 3.35          |
|   |  | > \$50,000,000               | 2.42          |

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## KEY RATIOS & INSIGHTS

### *Liquidity and Availability of Resources*


- FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*
- Disclosure of all financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date
- Qualitative information about liquidity management strategies

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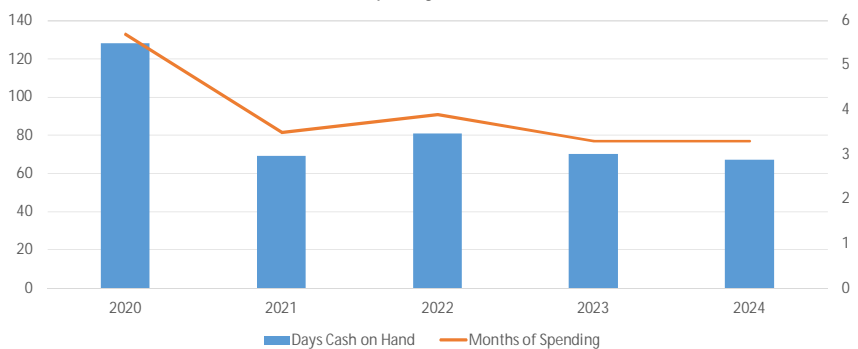


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## TRENDS & BENCHMARKS


### Liquidity Ratios




| Year | Days Cash on Hand | Months of Spending |
|------|-------------------|--------------------|
| 2020 | 130               | 5.5                |
| 2021 | 70                | 3.5                |
| 2022 | 80                | 4.0                |
| 2023 | 70                | 3.5                |
| 2024 | 68                | 3.5                |

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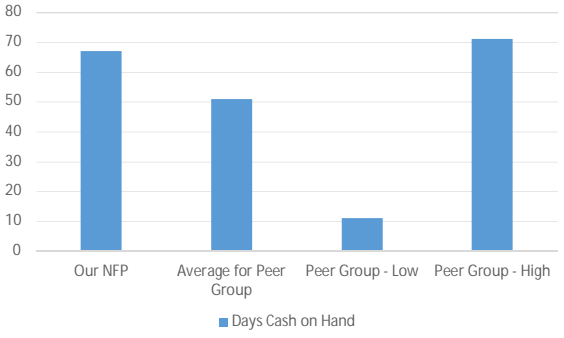
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## TRENDS & BENCHMARKS

### Best Practice Tips

- Regularly track cash flow ratios to prevent (or at least anticipate) shortfalls
- Visualize metrics for board reporting and donor transparency

### Days Cash on Hand - Benchmark



| Category               | Days Cash on Hand |
|------------------------|-------------------|
| Our NFP                | 68                |
| Average for Peer Group | 50                |
| Peer Group - Low       | 10                |
| Peer Group - High      | 70                |

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# REAL-WORLD INSIGHTS

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## EXAMPLE A

- Challenge: Consistent surpluses but negative operating cash flow
- Insight: Over-reliance on unpaid grants
- Action: Improved collection timelines and fund tracking


|   | Challenge | Action |
|---|-----------|--------|
| Increase in net assets  | \$ 200    | \$ 200 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |           |        |
| Depreciation  | 168       | 168    |
| (Increase) decrease in:   |           |        |
| Receivables   | (500)     | (100)  |
| Prepaid expenses  | 11        | 11     |
| Increase (decrease) in:   |           |        |
| Accounts payable  | 9         | 9      |
| Accrued payroll   | (32)      | (32)   |
| Net cash provided by operating activities   | \$ (144)  | \$ 256 |

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## EXAMPLE B

- Challenge: Stagnant investment activities
- Insight: Lack of reinvestment affecting service quality
- Action: Capital investment budgeting


|   | Challenge       | Action          |
|---|-----------------|-----------------|
| Net cash provided by operating activities | \$ 350          | \$ 400          |
| Cash Flows from Investing Activities:     |                 |                 |
| Property and equipment additions          | (20)            | (220)           |
| Purchase of investments                   | (12)            | (62)            |
| Net cash used in financing activities     | (32)            | (282)           |
| <b>NET INCREASE IN CASH</b>               | <b>318</b>      | <b>118</b>      |
| CASH, BEGINNING                           | 1,200           | 1,200           |
| <b>CASH, END</b>                          | <b>\$ 1,518</b> | <b>\$ 1,318</b> |

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## EXAMPLE C

- Challenge: A nonprofit consistently reported positive cash flow but struggled with program cancellations due to insufficient cash reserves for emergencies
- Insight: The organization’s strong operating cash flow masked the absence of a formal reserve strategy for unexpected expenses.
- Action:
  - Develop a cash reserve policy to maintain 3-6 months of operating expenses
  - Establish a designated reserve fund and report it separately for transparency

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## REVIEW & CONCLUSION

- Walked through the preparation of the SoCF and how to interpret the information in relation to other financial data
- Provided specific scenarios for non-profits
- Talked about managing your organization's cash position and how to monitor

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## RESOURCES FOR NONPROFITS

- [www.nonprofitaccountingbasics.org](http://www.nonprofitaccountingbasics.org)
- [www.councilofnonprofits.org](http://www.councilofnonprofits.org)
- [www.nonprofithub.org](http://www.nonprofithub.org)



"Understanding Cash Flow" [Video] – Nonprofit Financial Commons

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# QUESTIONS?

*Thank You for Attending the Program!*

Visit our website for more NFP resources:

[WWW.GYF.COM](http://WWW.GYF.COM)

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# PLEASE REACH OUT IF YOU NEED ASSISTANCE

 A circular portrait of Megan Troxell, a woman with blonde hair, wearing a grey blazer.
 

Megan Troxell, CPA  
 Partner – A&A Services Group  
 TROXELL@GYF.COM

 A circular portrait of Jason Hardy, a man with short brown hair, wearing a suit and tie.
 

Jason Hardy, CPA  
 Director – A&A Services Group  
 HARDY@GYF.COM

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