Cash Flow Management

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Importance of Cash Flow Management

•Cash flow issues can cause immediate financial trouble including government intervention

•Spending control

•Cash flow issues cause the most stress for organization’s staff and leaders

Cash Flow Elements

Current cash in bank

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Cash coming in:

- Government funding
- Customer receipts
- Loan proceeds

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Cash going out:

- Payroll
- Expenses and asset purchases
- Payments to vendors
- Debt/loan repayment

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Expected cash balance after all payments and receipts

Causes for Cash Flow Shortage

- Late funding and customer payments
- Overspending
- Significant prior debt to vendors – accounts payable
- Aggressive debt/loan terms and repayment
- Ineffective use of borrowing – from banks and within organization

Cash Flow Management Considerations

- Profit doesn't mean good cash flow, need to consider the timing of receipts and payments
- Need to prepare cash flow projection/tracking during periods of tight cash flow
- Quarterly cash flow projections are used for planning, monthly/weekly cash flow tracking is used for managing cash
- Cash flow tracking is for the organization/department overall (not by individual program) and uses payment and receipt categories from the bank account (not income and expenses from the accounting software)
- For organizations with tight cash flow, projections and tracking reports should be provided to leadership. Ensuring sufficient cash flow is the leadership's responsibility, finance staff only provide information and recommendations
- Cash flow tracking example

Cash Flow Management – Government Funding

- Set up GCIMS access to view expected funding
- Get on an email list with ISC to receive funding deposit confirmations and reporting requirements
- Make sure reporting that causes funding halts is submitted on time
- Establish a relationship with FSO – they may be able to override funding halts and provide additional funding

Cash Flow Management – Customer Receipts

- Sales terms – customers should pay within 30 days
- Collection processes – accounts receivable review, sending balance statements and calling customers to follow up on payments at least monthly
- Set up for credit card and debit sales and preauthorized bank withdrawals, if applicable
- Customers with late payment history can be put on COD (cash on delivery)
- Bad debt – send to a lawyer or a collection agency

Cash Flow Management – Payments

1. Payments that must be made on time:
   - Payroll
   - Income assistance
   - Insurance
   - Bank loan payments (can be delayed in some instances)

2. Payments that should be made on time but can be late for 2-3 months:
   - Pension and group insurance
   - Utilities and internet

3. Payments that can be delayed:
   - Most vendor payments
   - Always better to communicate and make a payment plan

Cash Flow Management – Effective Bank Debt Structure

1. Line of credit - for daily operations. Banks may offer a line of credit up to the amount of our average monthly funding. Line of credit interest should be around Prime rate plus 0.25% - 2%. Current prime rate is 6.7% (variable rate, depends on Bank Of Canada lending interest rate). There's no set repayment for a line of credit, the balance is expected to revolve throughout the month.

2. Equipment and business purchase loans – normally for specific equipment or business purchase, set repayment, interest can be fixed or variable. Loan term will vary depending on the nature of the project it's used for; most common term is 5 years. Term should be long enough for repayment amounts not to cause cash flow shortage. Interest rate is normally around Prime to Prime + 3%.

3. Mortgages – used for land and buildings purchase/construction, longest repayment terms and lowest interest rates. Bank uses the land and buildings as loan security and can offer a lower interest rate and longer repayment terms. CMHC mortgages normally have lower interest rates than commercial bank mortgages. Interest rates on mortgages are normally lower than Prime.

Cash Flow Management – Debt

- Review current loans, their terms and repayment amounts (use current and long-term debt notes in the last annual audit and/or bank agreements). Are interest rates and repayment terms reasonable? If no, can we refinance?

- When restructuring loans, approach your current bank and at least one other bank. Banks tend to offer better deals to new customers.

- Security for bank loans – sometimes trust funds are used as security, can create tension within community

- Is line of credit limit sufficient for our operations? Can we request an increase?

- If line of credit is always at the maximum and doesn't revolve, it was likely used to finance losses or equipment/business purchases – a term loan may be needed to repay the current LOC balance so it can be used for operations again

Cash Flow Management – Debt (continued)

- Read bank loan agreements focusing on repayment terms, interest rate, security and guarantees and reporting requirements

- Prior accounts payable – can be managed through making payment plans with vendors and through getting a term loan from a bank

- Consider borrowing from programs and projects within the organization

- Example of bank debt notes in an audit

- Example of bank agreement

Financing Opportunities for First Nations

1. First Nations Finance Authority (FNFA) – low-rate long term financing for member First Nations. Current long-term lending rate is 4.25%. Loan term is 10, 20 or 30 years, loans are based on own source revenue. https://www.fnfa.ca/en/fnfa/

2. Community Economic Development Fund – loans (including forgivable portions) for business projects. Interest rates are normally at the higher end and repayment terms may be aggressive. https://www.cedf.com/loans/

3. Ontario Financing Authority Aboriginal Loan Guarantee Program - provides a Provincial guarantee for a loan to finance a portion of its equity investment (typically about 75 per cent) in an eligible project. Eligible projects: electricity infrastructure projects, including renewable energy infrastructure in Ontario (e.g., wind, solar and hydroelectric generation projects) and transmission projects. https://www.ofina.on.ca/algp/

4. Indigenous Economic Development Fund – economic development and construction project grants and loans https://www.ontario.ca/page/funding-indigenous-economic-development

5. CMHC for mortgages

Practical Application for First Nations Finance

Thank you for your time

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