



Managing Liquidity & Cash Flow

Managing liquidity and cash flow is about taking charge of one of the most essential resources your ESE has for maintaining financial health: cash. This guide will help you understand how much cash you have and what it can cover (liquidity), and how that cash is expected to move in and out of your organization over time (cash flow). By regularly monitoring these two elements, you can make smarter decisions, navigate timing mismatches, and stay ahead of potential shortfalls. As your ESE gets more confident in this area, you'll be in a position to build reserves, which are critical for long-term growth. Use this guide to:

- Calculate your liquidity so you know how much cash you have available and what obligations it can cover
- Project your future cash position to anticipate shortfalls or surpluses and adjust your plans accordingly
- Learn about practical approaches to cash management that can strengthen your ESE's financial health and set you up for long-term sustainability

CONTENTS	
Introduction	2
Core Cash Management Practices: Awareness, Planning, and Action.....	2
Awareness: Understanding Your ESE's Liquidity Position.....	2
Calculating Your ESE's Days Cash On Hand (DCOH).....	2
Using DCOH to Determine the Best Approach to Cash Management	3
Planning: Developing Cash Flow Projections	4
How to Build a Cash Flow Projection	4
Common Mistakes to Avoid When Building Your Cash Flow Projections	6
Action: Managing Cash Proactively and Responding to Shortfalls	7
Addressing Small or Short-Term Cash Shortfalls.....	7
Addressing Large or Long-Term Cash Shortfalls	7



Introduction

Cash is one of your ESE's most critical financial resources. Managing cash effectively means understanding both how much you have and how it's moving — that is, your liquidity and cash flow. Understanding your ESE's **liquidity** helps you assess your current position: how much accessible cash you have and what obligations it can cover. Projecting and planning your ESE's **cash flow** gives you a look forward: how cash is expected to come in and go out over time. These two concepts work hand-in-hand and are essential to cash management.

Core Cash Management Practices: Awareness, Planning, and Action

In this guide we will discuss liquidity and cash flow within the context of the following cash management practices:

- **Awareness:** Having a clear picture of your current cash (or liquidity) position and how long your cash can cover your ESE's obligations.
- **Planning:** Developing useful cash flow projections, reviewing them regularly, and establishing long-term financial resilience by setting and working towards reserve goals.
- **Action:** Steering your ESE's cash position in real time by putting systems in place to handle cash responsibly and knowing what actions to take when shortfalls arise.

This guide will walk you through the above practices, laying out tools and approaches that are relevant for ESEs. Also note that this guide integrates closely with two others in the ESE Financial Health Toolkit: "Financial Health Metrics and Indicators for Your ESE" and "Orientation to Internal Controls." You'll see references to these throughout, so we recommend reviewing them in advance or keeping them handy as you review this guide.

Awareness: Understanding Your ESE's Liquidity Position

Awareness is the first and most essential step in healthy cash management as it's about understanding where your ESE's liquidity (or cash) position is right now. This includes how much cash you have in the bank as well as how long that cash would cover your ESE's obligations if no new funds were to come in. Calculating your ESE's liquidity position is a stress test for your organization's financial resilience, and it also helps you to determine how your ESE should approach planning and action.

Calculating Your ESE's Days Cash On Hand (DCOH)

This section directly to the "Financial Health Metrics and Indicators for Your ESE" tool, which provides practical guidance on how to calculate liquidity metrics. If you've already reviewed that tool or have it available, you'll see that it guides you on calculating Days of Cash On Hand (DCOH). As is discussed in the guide, when calculating your ESE's daily expenses you should always exclude non-cash items (such as depreciation or amortization) but you may elect to include non-operating expenses or cash flows (such as interest payments or repayment of debt) in order to be more conservative. For our purposes here, we **strongly recommend this more conservative approach**. In other words, when going through the steps below to calculate DCOH, include *all* cash outflows in order to provide as realistic an indicator as possible.



$$\text{Days of Cash on Hand} = \frac{\text{Cash and cash equivalents}}{[\text{Operating Expenses} / 365]}$$

Use the below steps to calculate DCOH:

Step One: Use your Balance Sheet or Statement of Financial Position to locate your “Cash and cash equivalents.” Note that it is most useful if you take this value from the Balance Sheet or SOFP from your most recently closed month.¹

Step Two: Calculate your average daily expenses by identifying your total annual expenses on your Income Statement or Statement of Activities.² Divide this total by 365 in order to get your average daily expenses. If possible, use a rolling 12-month total for expenses (instead of the total from the most recently closed year) in order to calculate this as accurately as possible.³

Step Three: Divide the value from Step One by the value in Step Two according to the formula above.

Using DCOH to Determine the Best Approach to Cash Management

Once you have calculated your DCOH, the table below will help you determine the recommended approach to cash management. It's very important to recognize that the DCOH calculation that you just completed *does not* include all cash outflows (such as repayment of debt). We'll address this in the next section (“Planning”), but for now use the DCOH calculation to assess your overall risk position and determine how to best approach cash management.

¹ The question is sometimes raised as to whether lines of credit can be considered a “cash equivalent.” The answer is that they cannot. Lines of credit are a form of financing and while they can be used as tools to respond to cash shortfalls, they should not be included in the calculation of Cash On Hand.

² Be sure to *exclude* non-cash expenses such as depreciation and amortization. In order to be more conservative in this calculation, you may also elect to *include* interest expenses even though these expenses are not considered operating expenses.

³ Importantly, if your organization is seeing a recent increase in expenses, consider taking the most recent 6- or 3-month total of expenses as your starting point in this step. By doing so you'll account for this increase in expenses and have a more conservative calculation in this metric (which will be more useful for internal planning as it will better reflect reality).



If ...	...then we recommend that you
Your ESE's DCOH is Less than 30 days *or* Your ESE's monthly cash outflows vary significantly from month to month	• Take a very conservative or cautious approach to cash management, as your ESE may be at high risk of regular or severe cash shortfalls • Check your cash position and update cash flow projections on at least a monthly basis (although twice monthly might be best given your cash risk profile) • Produce a 12-month rolling forecast if possible, though a shorter forecast of 3 to 6 months is OK as long as you revisit and update it monthly • Ensure you have basic cash management controls in place
Your ESE's DCOH is 30 to 90 days	• Continue to be conservative or cautious, but your ESE may be in a position to begin formally building reserves if it hasn't already done so • Check your cash position and update cash flow projections on a monthly basis • Produce a 12-month rolling forecast if possible • Begin conversations with the ESE board on establishing and building reserves if the ESE hasn't already done so • Check that your cash management controls are still relevant and effective
Your ESE's DCOH is Greater than 90 days	• Confirm that you have a reserve policy in place, or that you and the ESE board have at least considered it • Evaluate whether your ESE is in a position for growth or investment in capacity (as strong cash positions can indicate readiness for growth or internal investment) • Check your cash position and update 12-month rolling cash flow projections on a monthly basis • If your ESE is undergoing significant growth/change or considering raising capital, produce a 3- to 5-year cash flow projection • Review and reinforce your cash management controls if needed

As indicated in the table above, an ESE with only a few weeks of cash or with more variability in its monthly cash outflows has a higher risk profile, so should review its cash position at least monthly and exercise elevated caution in cash management. By contrast, one with several months of cash on hand can focus more on building reserves, refining financial controls, and considering how its cash can be a strategic resource for growth. Regardless of your ESE's liquidity position, awareness helps you to take the next step in cash management: Planning.

Planning: Developing Cash Flow Projections

Once you've established an understanding of your liquidity or cash position through DCOH, the next step is to build a forward-looking cash flow projection. This projection will help you assess how your current cash is likely to change over time based on expected inflows (like customer payments, grants, or fundraising) and outflows (like payroll, rent, or loan principal & interest payments). Planning through this lens is about forecasting the timing and volume of cash flows. The goal of developing cash flow projections is to answer the question: Will we have enough cash to meet our obligations, and if not, how severe is the shortfall and when will we need to act?

How to Build a Cash Flow Projection

Cash flow projections always begin with your starting cash balance and then layer in expected inflows and outflows month by month. This gives you a rolling view of whether your cash position will grow, shrink, or hit a potential shortfall. Ideally, ESEs should build a rolling 12-month cash flow projection that is updated monthly.



For earlier-stage organizations or those unable to make confident 12-month projections, even a 3- to 6-month forecast can be extremely valuable as long as it's being reviewed and updated regularly.

Use the below steps to build a cash flow projection, utilizing the accompanying Excel workbook if needed (there are more specific instructions in the Excel workbook on which cells to modify at how to navigate the spreadsheet):

- 1) **Begin with your current cash balance.** Start with your actual cash position at the end of the most recently closed month. You can find this in your Balance Sheet (or Statement of Financial Position) or in your Statement of Cash Flows. This is your starting point for building or updating your cash flow projections.
- 2) **Identify all expected cash inflows** over the next 12 months (or over the next 3–6 months if you're doing a shorter-term forecast). For each inflow, record the dollar amount in the month you expect the cash to arrive. Common types of inflows include:
 - **Income from Sales:** Cash received at the point of sale (e.g., a customer pays for a meal at a restaurant ESE).
 - **Collected Accounts Receivable:** Cash expected to arrive 30 or more days after the service is delivered or the sale is made (e.g., a landscaping job completed in June and paid for in July).
 - **Grants and Donations:** Funds expected based on grant agreements, pledges, or fundraising projections.
 - **Cash Released from Restrictions:** Previously restricted cash that becomes available for use once conditions are met.
- 3) **Identify all expected cash outflows** over the same period, and record the dollar amount in the month when the cash will actually leave your account. Include all types of outflows across:
 - **Operating Activities (ongoing business expenses)** such as:
 - Payroll and benefits
 - Rent and utilities
 - Program supplies and vendor payments
 - Insurance, technology, and admin expenses
 - Taxes and fees
 - **Investing Activities (larger, one-time purchases)** such as:
 - Purchase of equipment and vehicles
 - Facility improvements or leasehold improvements
 - **Financing Activities (outflows related to debt)** such as:
 - Loan principal payments
 - Interest payments on loans or lines of credit
- 4) **Identify any shortfalls and their timing.** Once inflows and outflows are mapped month by month, you'll be able to spot when and where your ending cash balance goes negative or too low for comfort.



If you find a shortfall, identify the timing and duration of that shortfall, and assess the severity. Using this, you can explore options to address those shortfalls in the next section, “Action.”

- 5) **(Optional) Model multiple scenarios.** For ESEs navigating uncertainty, it can be helpful to create Base-, Best-, and Worst-Case versions of your cash flow projection. By adjusting key inputs (like timing of revenue, unexpected costs, or increase in costs over time), you can better anticipate and prepare for cash shortfalls.

Common Mistakes to Avoid When Building Your Cash Flow Projections

There are some common pitfalls to avoid when building cash flow projections. Identifying these and knowing how to avoid them will help you build projections that are more realistic, useful, and actionable. This section offers guidance to help you steer clear of these common mistakes and build projections with more confidence.

- **Confusing revenue with cash inflow.** Be aware that just because you earn income doesn't mean you have the cash in hand. ESEs can overestimate liquidity by counting accrued revenue or unpaid invoices as available cash. As your forecasting your inflows using the above guidance, use the “Collected Accounts Receivables” category to document the timing of cash received for services or sales made in preceding months.
- **Not updating projections regularly.** Cash flow is dynamic, and ESEs with high variability in their cash flow or with limited liquidity can face significant risk if their projections are not updated regularly. Operating with outdated projections or failing to refresh your forecast when assumptions change can cause surprises. Use the guidance shared previously in this guide to determine how regularly you should update your cash flow projections.
- **Not considering the amount or timing of irregular expenses.** Large, periodic costs such as insurance premiums, equipment purchases, or tax payments are often forgotten in cash flow projections or averaged over multiple months when in reality they occur only a few times a year. These can cause sudden drops in cash if not accounted for in advance. Use the provided Excel template to model these larger expenses and avoid the temptation to average the expenses over a 12-month period – instead, model them exactly when you expect them to occur.
- **Not including non-operating cash flows.** While you should exclude non-cash items (such as depreciation and amortization) when building your cash flow projections, you should not forget to include cash-based financing and investing activity (like debt payments or asset purchases). These are real cash outflows and can have a significant impact on your cash position. Use the guidance in the previous section to review all of the categories of cash outflows related to investing and financing activities and ensure the relevant ones are included in your cash flow projections.
- **Building projections without clear assumptions.** Projections are only as strong as their inputs and assumptions. If you don't document assumptions (e.g., why you've built in certain assumptions on collection of accounts receivable), it becomes harder to explain to others or to revise your forecast later. The accompanying Excel template provides you with space to note assumptions related to your cash flow projection.



Action: Managing Cash Proactively and Responding to Shortfalls

Taking action in response to cash shortfalls relies on first having strong internal controls and a clear understanding of what kind of cash shortfall you're facing. In addition to reviewing this section, make sure your ESE has appropriate controls in place to responsibly manage cash (see the "Orientation to Internal Controls" guide in this toolkit). With appropriate controls in place, the strategies you choose to address cash shortfalls should be guided by the size and duration of the shortfall. Small or short-term gaps may be managed with minor timing adjustments, like drawing from a line of credit or renegotiating payment dates with a vendor. Larger or longer-term shortfalls, on the other hand, may signal a need for more significant changes such as adjusting your budget, seeking new funding, or tapping into reserves.

Addressing Small or Short-Term Cash Shortfalls

The previous section guided you through building your cash flow projections and identifying shortfalls. If you project shortfalls that equal less than one month of operating expenses and/or shortfalls that last 2 months or less, then you have a small or short-term cash shortfall. Here are a few approaches to addressing this kind of shortfall:

- **Renegotiate with vendors:** Reach out to vendors to request extended payment terms or temporary flexibility, such as delaying payment by 15 to 30 days.
- **Propose new payment terms for customers:** Offer incentives like small discounts or added value in exchange for faster or upfront payments. This can help accelerate cash inflows without disrupting your service delivery.
- **Use an available line of credit:** If you have an established line of credit, draw on it to bridge short-term gaps. Be sure to first confirm that you have enough available credit to address the shortfall and review the repayment terms to ensure future payments won't create a new cash strain (this is especially important if you'll have to carry a balance on the line of credit for a period of time).

Addressing Large or Long-Term Cash Shortfalls

If you project shortfalls that equal more than one month of operating expenses and/or shortfalls that last 3 months or more, then you have a large or long-term cash shortfall. This can be a sign of a deeper issue that may require significant adjustments. Here are a few approaches to addressing this kind of shortfall:

- **Cut spending:** Evaluate your budget for non-essential expenses. Consider temporarily scaling back programs or operations in a way that preserves mission-critical activities in order to stabilize cash.
- **Access reserves:** Use board-designated or unrestricted reserves to stabilize cash during extended gaps. Be sure to document the use and plan for replenishment over time as part of your long-term sustainability strategy.
- **Refinance existing debt:** Explore refinancing existing debt to reduce monthly payments or to adjust other terms. This can improve your cash flow without taking on new obligations, but it could increase your total repayment amount if interest is capitalized or if the loan term is extended.



- **Seek loans or grant funding to cover the shortfall:** Apply for emergency or bridge funding from lenders or funders. If pursuing a loan, be sure to include the repayment schedule in your cash flow projections to confirm it won't introduce future cash constraints.
- **Determine if restricted funds can be released from restrictions:** Review whether conditions on restricted grants have been met or whether funders are open to reclassifying funds for general operating use (either permanently or temporarily). Depending on the source of the funding, you may be able to temporarily access restricted funds in certain urgent scenarios. The donor or entity placing the restrictions may require you to replenish the funds, but this could nonetheless be a way to access cash to address the shortfall.