

**USING DOLLARS THAT MAKE
SENSE...**

**UNDERSTANDING CASH
MANAGEMENT FOR
SMALL BUSINESS**



The opinions expressed by the presenters are the opinions of the presenters and are not the opinions of Battelle Memorial Institute or the Pacific Northwest National Laboratory. Battelle's role in supporting this seminar is a part of its service to the public and does not:

- (1) constitute an endorsement of the presenters, the presenters' opinions, or the organizations represented by the presenters; or*
- (2) represent a recommendation of any services, strategies or products discussed during this presentation. This seminar is presented for educational purposes only.*

What we will Cover Today

- Definition of Cash Management
 - The “basics” in 59 seconds
- Cash management banking tools
- Investing Your Cash Flow

Think fast....

....name the three things most important to the success of your business.....

Cash Management didn't make your list????!!!

..... you're not alone. Most entrepreneurs think a lot more about sales and marketing than the specifics of managing cash....

What is Cash Management?

Definition:

What is Cash Management?

People have a hard time describing it...
It is broadly enough defined that it is
perpetually misunderstood...

Cash management is nothing more
than:

**"cash in, cash accumulated and
cash out."**

Cash Management Basics

A 59 second overview

Cash is Generated into a Business Through:

- Loan or credit card proceeds
- Asset sales, sales of services and/or “goods”
- Owner investments

Cash flows out of a business through:

- Business expenditures
- Loan or credit card principal payments
- Asset purchases
- Owner withdrawals

Cash Inflows and Outflows can be Categorized into Three Main Business Parts:

- **Operating**, which covers sales and business expenditures
- **Investing**, which covers asset sales and purchases
- **Financing**, which covers loans payments and proceeds, and owner investments and withdrawals

Finished!

That completes our 59 second overview of the basics of cash management ... Now the real work begins....

How do you quickly and efficiently monitor, gather, analyze, generate management reports and neatly pile your cash up so you can then make it work hard (earn interest) and keep it safe while it is in your possession?

Karen Lyle

- **Use your bank's tools.** With an array of cash management tools available, you never have to be in the dark again about your cash situation. Business owners and individuals in charge of the financial affairs of a business should maximize and use efficiently the basic tools that banks make available. Partner and build a relationship with your banker....

Rita Van Schoiack

Financial Advisor
Baker Boyer Investor Services

IMPORTANT INFORMATION

- **PrimeVest Financial Services, Inc. is:**
- An independent registered broker-dealer
- Member FINRA and SIPC
- **Securities and insurance products are provided by PrimeVest Financial Services, Inc.:**
- *Not a Deposit *Not FDIC Insured *Not insured by any Federal Government Agency *Not Guaranteed by the Bank or any Affiliate *May be Subject to Investment Risk, Including Possible Loss of Value
- Advisory services may only be offered by Investment Advisor Representatives in connection with a PrimeVest Advisory Services Agreement and disclosure brochure as provided.
- We do not offer tax or legal advice.
- Please consult your personal tax and legal professional.

Investing Cash Flow

The Basics

Three Types of Cash

- **Operating Cash**
 - Money needed Now
- **Core Cash**
 - Money needed a Little Later
- **Accumulation Cash**
 - Money needed much Later

Operating Cash

- Short term- same day & overnight availability
 - Overnight sweep
 - Money Market Mutual Funds
 - Repurchase Agreement “Repo”

Core Cash

(Two Horizons: Short & Intermediate)

- Short Term- six months and under
 - US Treasury Bills
 - US Government Agency Notes
 - Commercial Paper
 - Bankers Acceptances
 - CD's

Core Cash Continued

- Intermediate Term- 6 months to 5 years
 - US Treasury Notes
 - US Government Agency Notes
 - Example: Fannie Mae, Freddie Mac, Federal Home Loan Bank, etc
 - Corporate Notes
 - Municipal Notes/ Bonds
 - Mutual funds-short/intermediate horizon

Accumulation Cash

- Long Term- 5 years and longer
 - US Treasury Notes
 - US Government Agency Notes
 - Corporate Bonds
 - Asset Backed/Mortgage Backed Securities
 - Mutual Funds (Long Term)
 - Customized account management

Where Can you Find These Investments?

- Your Financial Institution
- A Broker/Dealer
- Discount Brokerage Firm
- Buy Directly from the Mutual Fund
- Institutional Fixed Income Dealers
- US Treasury Direct
 - www.treasurydirect.gov

Managing Risk

The Three Primary Investment Objectives for Operating Cash & Core Cash:

- Safety
- Liquidity
- Return

Accumulation cash, because of its long term horizon, can be invested into higher risk investments such as stocks and mutual funds that invest in stocks if appropriate to the objective of the funds.

Protect your Funds from Event Risk-Diversify

- Deposits with Financial institutions are insured by the Federal Depository Insurance Corporation (FDIC) up to \$100,000.00.
- *Funds above \$100,000.00 are subject to event risk*

How Do you protect your assets over \$100,000?

- Diversify Investments
 - use the investments in the lists
 - Utilize a money market mutual fund
 - Use a “sweep” product that automatically invests into a money market mutual fund, or repurchase agreements

The Investment Policy

What is it?

A written investment policy allows you to clearly establish your investment time horizon and goals, your tolerance for risk (as measured by returns in bear markets and historic volatility) and the prudence and diversification standards that you want the investment process to maintain. A written investment policy also helps identify your need to take risk in light of such factors as your financial objectives and income stability.

Who Should Consider an Investment Policy

- If you are working with Grant Funds Investors funds, funds other than your own
- The cash management/ investing is being done by someone other than yourself(the owner)

Why Should You Have an Investment Policy?

- To Protect the assets of your organization
- Protect the person doing the investing
- Auditors Like it, Lenders Like it, issuers of Grants like it

Fiduciary- Are you acting in this capacity? Implied or not You may be!!!

- Definition: An individual, corporation or association holding assets for another party, often with the legal authority and duty to make decisions regarding financial matters on behalf of the other party.

The Prudent Investor Rule

- “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence , discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived”

Investment Policy Components

Very Basic

- Scope- what funds does the policy cover
- Prudence- The Prudent investor rule
- Objective- safety, liquidity, return
- Delegation of Authority- who can invest for the organization
- Authorized institutions- list of institutions that are acceptable do investing with
- Allowable investments- a list of acceptable investments and time horizons for each.
Also, % allowable in each type of investment (diversification)

THE VALUE OF .01 = *Make sure your money is invested at all times*

- .01 (1 basis point) on \$1,000,000.00 = .28 per day
 - 2.00% for **1 day** on \$1,000,000.00 = **\$56.00**
- .01 on \$100,000.00 = .028 per day
 - 2.00% for **1 day** on \$100,000.00 = **\$5.60**

(Continued) **2.00% for 1 day on**
\$1,000.000.00=
\$56.00

\$56.00 x 2 days = \$112.00

\$56.00 x 3 days = \$224.00

\$56.00 x 30 days = \$1680.00

\$56.00 x 90 days = \$5040.00

\$56.00 x 180 days = \$10,080.00

\$56.00 x 365 days = \$20,440.00

(Continued) **2.00% for 1 day on
\$100,000.00=
\$5.60**

\$5.60 x 2 days	= \$11.20
\$5.60 x 3 days	= \$22.40
\$5.60 x 30 days	= \$168.00
\$5.60 x 90 days	= \$504.00
\$5.60 x 180 days	= \$1008.00
\$5.60 x 365 days	= \$2044.00

Remember Diversify!

- Remember Enron!
- Deposits over \$100,000.00 in one financial institution are subject to event risk....what would happen to your funds over \$100,000.00 if the institution is declared insolvent?

RESOURCES

1. www.investinginbonds.com-excellent resource for understanding bonds
2. www.investopedia.com- excellent resource for any investment topic and definitions of investment terms
3. www.entrepreneur.com- resource for general business topics including cash management
4. www.treasurydirect.gov- The US Treasury website to purchase Treasuries online and get general information on US Treasury debt