

THE CASH CRUNCH!

Principles for Effective Cash Flow Management

By Michael W. Lowstetter

When I talk to other nonprofit managers about their financial problems, I hear statements like, “I break into a sweat almost every payroll Friday,” or “It seems like money is leaving our organization quicker than it’s coming in,” and it causes me to think, they may have a cash flow problem. If these statements ring true for your organization or church, you might have a cash flow problem.

Three Steps for Effective Cash Management

Cash flow management is the process of predicting, tracking and controlling the cash coming into and going out of the organization over a set period of time. This definition highlights the three steps to effective cash management.

Predicting is simply putting together a cash flow budget that reflects your goals. *Tracking* is important in order to know if adjustments are needed. You’ll need to track your actual performance throughout the period. *Controlling* your cash flow through active management is how you can influence the flow of cash. This is often the most difficult but most important step in addressing cash management concerns.

Predicting Cash Flow

In order to effectively manage your cash, set a goal for your organization. Cash flow budgets are an essential element in this process.

■ **Predict cash inflow.** One of the most challenging parts of setting a cash flow budget is predicting cash inflows. Because of its difficulty, this is the best place to start. List all your income sources and evaluate each one to determine when

they’re usually collected. Using historical data, industry trends or program changes, calculate possible increases or decreases in cash inflows.

■ **Use historical data.** Historical data is very helpful in predicting your cash needs for items such as supplies, travel and entertainment, postage and professional services. These are expenses that are incurred frequently, but not consistently. Historical data is also essential in helping predict the “ups and downs” of cash inflow. It’s best to footnote your cash flow budget with as much source data as possible.

■ **Plan for big events.** Organizations and churches can have “big events,” impacting both inflow and outflow. Usually these events are easily predicted. If you’re planning a golf outing, include this increased cash income, as well as the preceding cash outflow, in your cash budget. Be sure to plan for extra cash needs for capital expenditures, bonuses, etc., and include all predictable usages of cash.

■ **Align with budget.** If your organization already produces an operations budget, use this document as a guideline for your cash flow budget. Alignment with your existing budget will help in projecting the amount of cash needed for salaries, benefits, utilities, insurance, debt repayment and other operating expenditures. If you use the accrual method of accounting, adjust line items such as accounts receivable and accrued contributions back to the cash method.

Tracking Cash Flow

The second step in cash flow management is to develop a system for tracking actual cash usage. Goals and budgets are important, but without regular reporting on how actual per-

formance lines up with projections, they'll be ineffective.

■ **Keep it simple.** The reporting structure for your cash tracking should not be very detailed. The report needs to be simple to produce as well as to read. In putting this report together, consider grouping expense line items. For example, rather than listing cash used for salaries, payroll taxes, medical insurance and other benefits individually, group them into salary/benefits. An easy way to produce these reports is to tie them back to your bank statements. If you use just one operating account, the credits and debits on this account are your inflows and outflows for the month. Develop a method that's easy to produce and can be read and implemented effectively.

■ **Report with timeliness.** Cash flow budgets typically cover a short period, six to twelve months, so the timeliness of the reporting instrument is very important. You as a financial manager want this report published soon enough for spending adjustments (or efforts to increase cash inflow) to be made, using this information. A lag in reporting could limit your options for future modification.

■ **Get others involved.** Success in managing cash flow is going to be increased if you can get support from key personnel. It's important that everyone who has purchasing authority understand cash flow and receive regular reports on their performance. The senior management team and board of directors (or senior pastor and elders/deacons) need to be informed of cash flow usage on a monthly basis.

Controlling Cash Flow

It's not sufficient to simply predict and track your cash. The most important step in this process is controlling

cash flow. Below are a few techniques for managing the cash coming into and going out of your organization.

Cash Inflow

■ **Deposit cash promptly.** Organizations need to put together a process that addresses how to handle incoming cash. If your organization gets checks, credit card or cash payments on a daily basis, then you should deposit funds daily. If you're a church, then your policy will most likely revolve around depositing cash weekly. Set a policy based on your needs. Once it's in place, assess it periodically for effectiveness.

■ **Establish a collection process.** Most of us working in a Christian ministry haven't considered the need for an effective collection system. But charities also need timely payment for the services they provide. It's not a fun system to establish, but it will be worse to have your organization go out of business because you're not collecting money owed to you.

■ **Create monthly contribution programs.** If your organization relies heavily on donations, consider creating monthly contribution programs. By having donors sign up for these programs, you can better align the timing of these gifts with the expenses you incur.

■ **Discount for early payment.** Sometimes getting less cash sooner is more important than getting the full amount you billed for. This is accomplished by giving customers discounts for early or prepayment. If they take advantage of the discount, you get usable cash quicker. If they don't, you get your full profit margin. You "win" in both situations, and your customer has options.

■ **Time development activities.** One final method to consider is simply looking at the timing of your big fundraising activities. If you run major events or

have special offerings, it's a good idea to plan those proceedings around times you're forecasting a cash gap.

Cash Outflow

■ **Ask for invoices.** Many times when you're making a purchase, usually larger ones, you have an option of payment types. Choosing to be invoiced or billed can effectively slow the transfer of cash.

■ **Consider debt for purchases.** Debt is definitely a "four letter word" in the nonprofit industry, and must be carefully planned and considered. However, when your organization is making larger purchases, such as property, vehicles and other capital items, debt might be an option to prevent a large outflow of cash.

■ **Control operational spending.** The best way to control outflows of cash is to avoid the expenditure in the first place. In your efforts to control your cash, start by looking at your current expenses. Adjusting your spending habits goes a long way in controlling your cash outflow.

Cash management doesn't have to be a complicated time-consuming project. If you think you might have a cash flow problem, start fixing it today by putting in place this simple cash management system.

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