

The green current

Use cash flow management to make better financial decisions

For most nonprofits, steady and predictable cash flow is a pipe dream, right up there with board members who attend 100% of meetings and generous grants showing up out of the blue. The reality is that money ebbs and flows for any number of reasons.

Taking control of your cash flow can help you use those ebbs and flows to your advantage, and it gives you a tool to make good financial decisions that link to your long-term goals as well as day-to-day needs.

Cash flow management 101

Cash flow management involves analyzing the inflows and outflows of cash based on the actual timing of receipts or payments. It's not simply taking your annual budget figures and dividing by 12 to come up with a static, monthly figure. That won't give you an accurate picture of your cash flow.

Take your utility bills, for instance. In many parts of the country, heating costs during the winter months can spike significantly. Even payroll and related taxes can vary.

Cash flow report setup

Create a cash flow report using a simple grid. Along the top, list all 12 months and label them either "actual" or "projected." Going down along the left side is the following information:

Beginning balance. This line shows the amount of cash you had at the beginning of the month.

Cash coming in. Make line item entries for the biggest categories of income you'll have for each specific month. Total all the individual entries to calculate the amount of incoming cash.

Cash going out. Make line item entries for the biggest categories of expenses, combining as necessary. Total all the individual entries to calculate the amount of outgoing cash.

Net inflow/outflow. Subtract your cash going out from your cash coming in to determine your net inflow and outflow.

Ending balance. Add the beginning balance to the net inflow/outflow number to get an idea of your cash position for each month.

Use historical data in addition to what's on your calendar for the year ahead to help create your projections. Remember, you're creating a time-based report, not a simple averaging of expenses and income over 12 months.

Be realistic. If your fundraising event is cash-based, you'll have the money in the month of the event. But if you're sending out a mailing, for instance, responses can come in one, two or even three months after the initial outreach. (See the sidebar "The check's in the mail, isn't it?") Reflect that in your cash flow projections.

Compile the following information to create your cash flow report:

- A total of your cash on hand,
- Estimates of cash receipts and their due dates,
- Payment amounts and schedules for personnel expenses (including salaries, wage increases, taxes and benefits),
- Consulting and professional services fees,
- Occupancy charges (including rent and insurance),
- Office charges (including telephone service, equipment rental, service contracts and supplies), and
- Financing costs and all other expense categories (travel, postage and printing).

With your projected cash flow for the year in front of you, you can make better decisions about how and when to spend money, how much of your surplus you can invest, and whether the costs of certain activities are justifiable.

But bear in mind that you must evaluate your organization's excess revenue over expenses on an accrual basis vs. cash basis. Cash is important but, before spending any "excess," evaluate the full financial picture of your nonprofit.

Go with the flow

Creating a cash flow management report, while not terribly difficult, can be a time-consuming project, especially the first go-around. But you have to start from scratch only once. The report you create today will help your organization now and into the future.

Sidebar: The check's in the mail, isn't it?

One of the banes of nonprofit cash flow is the donor who promises to make a contribution or sponsor an event, but doesn't follow through.

The first step to rectify this situation is to send a polite, direct letter that includes an invoice. Thank the recipient for the support, remind him or her of the pledge, provide a deadline, and share results of the event or what the money has been earmarked to fund. Send this to every delinquent donor.

If the letter doesn't do the trick, your next steps depend on who the donor is and the amount pledged. If a board or staff member has direct contact with the donor, have that person call and ask for the pledged amount. If there's no direct board or staff connection, a staffer should call anyone who has pledged a significant amount.

“Significant” is key, and only you know how to define it for your organization. The point is, don't spend your valuable time and effort trying to secure small donations.

It's pragmatic to assume that some of your pledges will remain unfilled regardless of how many letters you send or phone calls you make. It's also pragmatic to get into the habit of saying to donors “Thank you for your support; would you like to write a check right now or should I send an invoice?” Be clear about what your deadline is and whether you'll accept payment in installments.

Follow these guidelines, and you'll spend a lot less time wondering if the check really is in the mail.