

HAVING IT WHEN YOU NEED IT: BETTER CASH FLOW MANAGEMENT

IMPROVING HOW AN ORGANISATION MANAGES ITS CASH FLOW IS A COMPLEX TOPIC, AND THERE'S NO EASY FIX THAT WORKS FOR EVERY SITUATION. ESSENTIALLY, CASH FLOW IS AFFECTED BY EVERY ACTION AN ORGANISATION TAKES. SOME OF THE ACTIONS HAVE OBVIOUS IMPLICATIONS. SAY, FOR EXAMPLE, THAT YOUR ORGANISATION BUYS RATHER THAN LEASES A NEW OFFICE BUILDING OR VEHICLE. CASH FLOW IS, NEEDLESS TO SAY, REDUCED. BUT OTHER, SEEMINGLY MORE INNOCUOUS ACTIONS ALSO CAN IMPAIR CASH FLOW.

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Many association leaders falsely believe that a balanced budget alone will ensure the financial health of an organisation. An organisation can still have a balanced budget, which indicates that it will break even or make a profit for the coming year, and still go out of business or be impaired if bills are not paid on time or, worse, if a payroll is missed - something very few organisations survive. Optimising cash flow management is one of the most important tasks in achieving overall financial health. Associations often have cash flow challenges that are unique to their sometimes complex and varied income streams; this makes managing cash flow in an association much different than doing so in a corporate environment. Associations operate in a complicated fiscal environment, one that

includes multiple sources of income and different sets of management challenges. Such an environment demands a well-planned, intensive, and aggressive approach to managing cash flow. Finance professionals who work with and within associations should have a basic understanding of the cash flow issues that most affect associations.

Effective cash flow management goes beyond economic or business planning. To convert your budgets and plans to cash flow forecasts means you need to add a time frame to the transactions that generate income as well as those that relate to paying expenses. In addition you need to understand and identify transactions that don't fall neatly into the categories of 'income' and

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'expense' while also identifying such actions as loan repayment and mortgage payments, for example, which also affect cash flow.

TRADE SHOWS AND DUES: THE BIG TWO

For many associations, an annual trade show or similar event is a primary revenue source. The cash flow challenge of dealing with a major event, which may take place once a year, versus just collecting interest or dividend income monthly on investments, is difficult.

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Let's say that your organisation has a largely successful trade show, but the largest exhibitor goes out of business before paying you or tells you they will be able to pay you in a year. Needless to say, that hurts cash flow.

Now is a difficult and challenging time for all organisations, particularly associations. The travel, airline, hospitality, and similar industries, whose economic viability is at least partially interdependent with that of associations, are facing poor, perhaps even life-threatening, economic crises due to a less than vibrant economy, residual aftershocks from 9/11, and significant international problems, such as the recent events in Iraq. It's not a difficult prognostication to say attendance at trade shows may continue to suffer. If a trade show or other large event is a significant income source for your association, then you need to pay extra attention to your cash flow projections.

In addition to the revenue produced by trade shows and other events, associations also frequently depend heavily on dues revenue. Depending on how dues are calculated and collected can have an enormous effect on cash flow. For example, one association changed its dues-billing methodology from an annual calendar year to annual billing on the anniversary date of joining the association. They found their cash flow severely affected, since members (and just about everyone else involved) became confused. Generally speaking, the dues-billing process should see little change, since dramatic changes to it can hurt short-term cash flow. If changes are essential, then cash flow needs to be part of the planning.

THE ART OF FORECASTING

Obviously, an organisation's success in earning income in excess of its expenses is an important factor in its cash flow and its overall financial health. However, making money alone will not ensure optimal cash flow. An organisation may be 'profitable' based on its financial statements, yet still be unable to pay bills when they are due. Effective cash

flow management rests upon the fundamental task of forecasting with accuracy when cash will be received and when cash must be paid out. Thus, a cash flow forecast covering a fiscal year should be based on the organisation's budget and adjusted for the timing of actual receipt and disbursement of cash for each element of the budget. An accurate and detailed cash flow forecast, especially when used in conjunction with a detailed operating budget, will allow organisations to anticipate potential cash flow difficulties and take remedial actions.

All organisations should prepare cash flow forecasts. At a minimum a cash flow forecast for 13 weeks into the future should be prepared, since many organisations do not have enough economic strength to survive even a short-term cash flow crisis. For larger, more complex organisations, a monthly cash flow forecast for a minimum of six months should be prepared. For the largest associations, a cash flow forecast for 12 months should be prepared. Regardless of the size or complexity of your organisation, cash flow should be on the front burner in the finance and executive departments.

Request that your finance staff, with perhaps the assistance of your CPA firm, start preparing cash flow forecasts. Start with the simplest one for thirteen weeks and then, as you gain expertise, work toward a one-year forecast. The largest organisations eventually will need to do five-year cash forecasts. Proper budgeting is key: the better prepared your budget is, the less time-consuming the forecast process will be.

Cash shortages almost always result in increased costs and can create a number of other problems. Consider the following examples.

An organisation delays a big membership drive for six months. Such a delay could have serious cash flow implications if fixed costs such as personnel and overhead for the organisation were calculated based on a successful membership drive. The delay may





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be unavoidable, but at least an accurate cash flow forecast will ensure that no surprises are lurking when hefty cash flow payouts, such as payroll, come due.

Another case may not be quite so obvious. The membership delay would be easily seen in the financial statements. But suppose that in a four-month span an association billed a total of €150,000 in advertising. Based on the organisation's financial statements prepared on an accrual basis, the organisation shows a profit. However, if the advertisers do not pay their bills or pay them slowly,

the association may have a serious cash flow problem. Because many operating costs are 'fixed', the organisation may then be forced to borrow money to continue operations, which will result in interest expenses that would not have been necessary with better cash flow planning and management.

It is important to note that borrowing money is a recognized and effective way to manage cash flow. Associations, especially in these difficult times, should have lines of credit available. It's far better to pay some interest than miss a payroll or anger suppliers. However, it's better still to accurately forecast cash needs so that an organisation can arrange to have cash on hand to pay its bills. Another common cash flow issue affecting associations is controlling growth by not acquiring too many new members too quickly. The expense to acquire new members through such methods as advertising or direct mail can be substantial. When you add normal member-fulfilment costs, it's highly likely that, during the first year of a large-scale membership campaign, the cash outflow needed to acquire new members plus the normal cost of membership fulfilment will exceed the cash dues income from new members. Assuming the member stays for a certain number of years and pays dues, positive cash flow can result over time. But if membership turnover is too high, then an organisation may face a poor financial and cash flow future. Frequently updating cash flow forecasts will help an association as it plans such activities.

FINDING THE RIGHT STRATEGY

That typical associations rely on more than one revenue stream to earn income can make cash flow management complicated. Finding the 'right' cash flow management strategy is contingent on the types, characteristics, sources, restrictions, and requirements related to the income that represents an organisation's cash inflow.

For example, associations dependant on advertising as their primary source of income will find that their budgeting, cash flow

planning, and cash flow management will be quite different from organisations that collect a greater percentage from membership dues. For instance, there is an association with a three million euro annual budget that receives 70% of its income from a yearly publication. Some income is from advertising and some from sale of the publication. This association has a huge jump in available cash during the 90-day period just after the publication is delivered to its members but needs to borrow money for at least six months of each year. An organisation's major revenue streams will affect every aspect of its financial management system, including the following:

- + Budgeting processes (e.g., cash flow forecasting, operational budgeting, departmental budgeting, capital budgeting)
- + General accounting procedures and practices
- + Billing and collections procedures
- + Internal and external reporting
- + Internal controls
- + Taxation
- + Audit requirements

Some associations count income earned by providing goods or services as a significant revenue stream. This type of income stream may be one of the most complex in terms of cash flow planning and management. These revenue streams will have cash flow considerations that are similar to those of for-profit businesses, yet must incorporate other essential elements unique to the nonprofit operating environment.

For example, associations that generate fees for services must invest in financial management systems that can quickly and accurately perform billing and collections, information management, and reporting and analysis functions. Moreover, organisations that generate program service revenue must be capable of accurately recording collections for individual accounts, tracking associated income and expenses, classifying and reporting income correctly on their annual tax information return, and meeting all audit requirements for their programs.

PLANNING FOR CASH FLOW IMPROVEMENT

A key step in any cash flow improvement effort is proper training and education for those directly involved in the process. All staff, management, and board members need to understand their roles in effective cash flow management. For example, junior staff often is not exposed to cash flow issues; however, their decisions may have direct and profound effects upon cash flow. If an administrator fails to follow proper procurement policies and procedures in making a purchase for the organisation and acts without considering cash flow forecasts, his or her action will affect cash flow negatively. Procedural guidelines that are understood and supported by all staff members help to avert such problems.

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Your budget creation team and your cash flow management team should be broadly representative of your entire organisation. The best budgets and cash flow forecasts are almost always team efforts. When associations and their boards, consultants, finance and management executives, and all involved staff understand the relevant issues and actively participate in ongoing cash flow management, cash flow - and thus the financial health of the organisation - will always be significantly improved.