

# Stay in the Money: Keep Cash Flow Problems from Derailing Your Organization

Cash flow needs to be carefully managed. Here's how.

**E**very nonprofit leader knows the trouble that comes with managing the ins and outs (pun intended!) of cash flow. Problems with cash flow can sneak up on you, especially in a rocky economy, says Tage Tracy, coauthor with John A. Tracy of *Cash Flow for Dummies*. Read on to learn how to make this the year of cash flow reboot for your organization.

## Respect and understand financial statements.

Make an effort to prepare, review, and understand your financial statements — especially the statement of cash flows. An abundance of information is available from your cash flow statement, although it's commonly overlooked and mismanaged.

Be sure your board members have the proper training to understand financial statements and provide cash-flow oversight. If they don't already have financial expertise, arrange educational and training opportunities for them.

## Focus on capital and cash—the lifeblood of your organization.

One of the most common reasons nonprofit organizations fail is that they lack adequate cash or capital, not only to survive difficult times but also to prosper during growth opportunities.

“Make this the year of cash flow reboot for your organization.”

The greatest loss to an organization is that of missed opportunity, explains Tracy. Lost opportunity has its roots in being unprepared to capitalize on market opportunities. It lurks in the torturous thought, *Imagine what I could have achieved!*

## Manage your disbursements cycle.

You can leverage your disbursement cycle (managing expenditures and cash payments to vendors, employees, and other creditors) to be a primary source of cash for your organization. “Invoke what's called the matching principle,” advises Tracy. Match cash inflows and outflows the same way you match revenues and expenses.

## Be creative to generate cash.

Here are three ways to improve cash flow:

- 1. Turn your assets over more quickly.** The faster you can turn over assets, the faster they turn into cash. It's as simple as that.
- 2. Leverage your vendors, suppliers, and financing sources.** They don't want to lose your business, so placing just the right amount of leverage on these groups can result in enhanced cash flows because liabilities offer a source of cash.
- 3. Manage external sources of cash.** Proactively manage your relationships with banks, leasing companies, and the government to ensure that cash is made available when needed.

## Balance the balance sheet.

Many organizations overlook the importance of managing the financial structure of their balance sheet. Make sure your assets are financed or supported with your liabilities. Be certain that long-term assets are financed or supported with long-term sources of capital such as a five-year note payable or equity. Strive to maintain solvency (the ability to pay all just debts) and liquidity (the ability to access cash quickly).

## Understand external markets.

When it comes to external capital markets, think well ahead. In today's economic climate, it takes a long time to identify and secure sources of capital. Plan ahead to ensure you'll have cash available when needed. It's not a process you can rush.

## Remember CART.

CART equals complete, accurate, reliable, and timely. Your organization's financial and accounting information system needs to produce complete, accurate, reliable, and timely financial information and reports, which management can use to make informed business decisions.

“Be sure your board members have the proper training.”

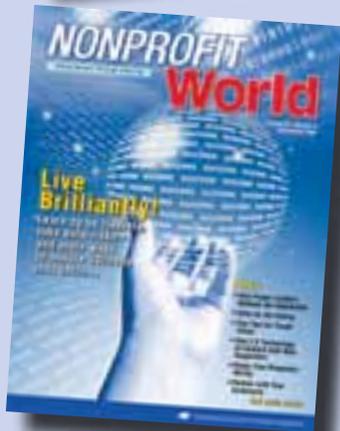


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## Protect cash at all times.

Cash has a unique characteristic that makes it highly susceptible to risk of loss: Cash is an extremely liquid and marketable asset. Always keep a close eye on it. 

*This article is based on an interview with Tage Tracy, principal owner of TMK & Associates, an accounting, financial, and strategic planning consulting firm. His book, Cash Flow for Dummies is available at bookstores nationwide or directly from the publisher (Wiley) by calling 877-762-2974.*



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