

Chapter 5

Cash Management in Non-Profit Organizations

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ABSTRACT

This chapter tries to contribute to the discussion about nonprofit organizations in the cash management area. The leaders of non-profit organizations are mostly concerned with their primary aim such as charity or such as the eradication of fluorocarbons. Usually, nonprofits' leaders ignore the subject of financial management. However, this ignorance may lead business failure. The cash management, which is an important subject of financial management, is vital for non-profit organizations because these organizations are usually poor in cash and their cash flow fluctuates throughout the year. The finance managers have to plan the cash flow periodically in order to pay current bills on at the appropriate time with an appropriate cost. In this chapter, the cash inflow characteristics of non-profit organizations, the basic concepts of cash flow management such as cash flow statement, cash flow budgeting, cash flow analysis based on financial ratios and cash flow problems and its possible solutions are tried to be explained.

INTRODUCTION

Financial management of nonprofit organizations is similar to that of profit organizations. But in some aspects, profit and nonprofit organizations differ. The most visible difference is on their main goals. A profit organization focuses on profitability and maximizing shareholder value, whereas a nonprofit organization focuses on providing some socially desirable activities. Besides the aim of social responsibility, a nonprofit organization also has to create a value as a profit organization in order to continue its charity activities. For example, a public hospital has to create a value in order to continue giving health services to poor people. Therefore, a nonprofit organization has to give importance to the implications of good financial management. One of the most important areas of financial management is cash flow management. Cash is ready money in the bank or in the business. Cash can be used to pay expenses such as salaries, payment of credits, tax or rent. Cash management is vital for business survival because businesses must have enough cash to pay current bills. The company may have current assets such as accounts receivable or inventory. These current assets may be converted into cash but it takes a time

DOI: 10.4018/978-1-5225-0731-4.ch005

to convert current assets to into cash. So an organization has to plan the cash flow accurately. Without enough cash reserve, a business cannot pay the debt, bank credit or salaries. Poor cash management is probably the most important problem for businesses. Understanding the basic concepts of cash management will help businesses to preserve enough cash to continue its activities.

In the first part of the chapter, the characteristics of non-profit organizations will be introduced. In this part, differences of non-profit organizations from profit organizations on the basis of financial management and the cash inflow resources of nonprofit organizations are defined. In the second part, how to practice a good cash flow management is explained. Cash flow statement and key financial ratios for cash management are also explained in this part. Financial ratios make cash flow management more understandable. An organization's ability to manage cash can be controlled with the help of financial ratios such as current ratio, cash ratio, the number of days cash on hand, and net liquid balance. These ratios show what's going on the cash management of the organization. Cash flow budgeting is also be profiled in the second part. One of the biggest challenges of a nonprofit organization is to make sure that the business has enough cash to pay current bills. Nonprofits can manage cash flow by examining a cash flow budget. The starting point for a good cash flow budget is to forecast cash inflow and cash outflow position. In the end of part 2, the cash flow problems and its possible solutions are discussed.

This chapter will be helpful for nonprofit organizations in establishing their policies for cash management. The chapter may add value for the nonprofit organizations to pay attention to their cash reserves, cash liabilities and the cash balance of the organization.

CHARACTERISTICS OF NON-PROFIT ORGANIZATIONS

Non- profit organizations are 'cash poor' organizations, so managing cash flow management is very important for the survival of a nonprofit organization. The objective of cash flow management is to have enough cash to pay necessary payments at the appropriate time (Ritchie & Kolondisky, 2003). Cash flow management helps organizations to be prepared for cash surpluses and cash deficits by observing the actual and the projected cash flow of the organization (Matan & Harnett, 2012). In this part, firstly differences of non-profit organizations from profits organizations on the basis of financial management area is explained, and then the cash inflow resources of non-profit organizations are presented.

Differences of Non-Profit Organization from Profit Organizations on the Basis of Financial Management

Although the profit organizations aim to make a profit for shareholders, Non-profit organizations are initiated to enrich the public welfare. Non-profit organizations are often exempt from taxes and some of them can receive tax-deductible contributions.

In a technical point of view, nonprofit financial management resembles to profit organizations (Jegers, 2011). Some of the researchers (Jegers & Verschuere, 2006; Eldenburg *et al.*, 2011; Leone & Van Horn, 2005; Jegers, 2011) stated that this point of view is only partially right and modified a non-profit organization financial management theory from this perspective. The main purpose of a profit organization is maximizing the profit and sharing it with stakeholders. On the other hand, the main aim of a non-profit organization is the realization of the mission with an effective financial position. In return, the donors support the organization for realizing that mission.

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