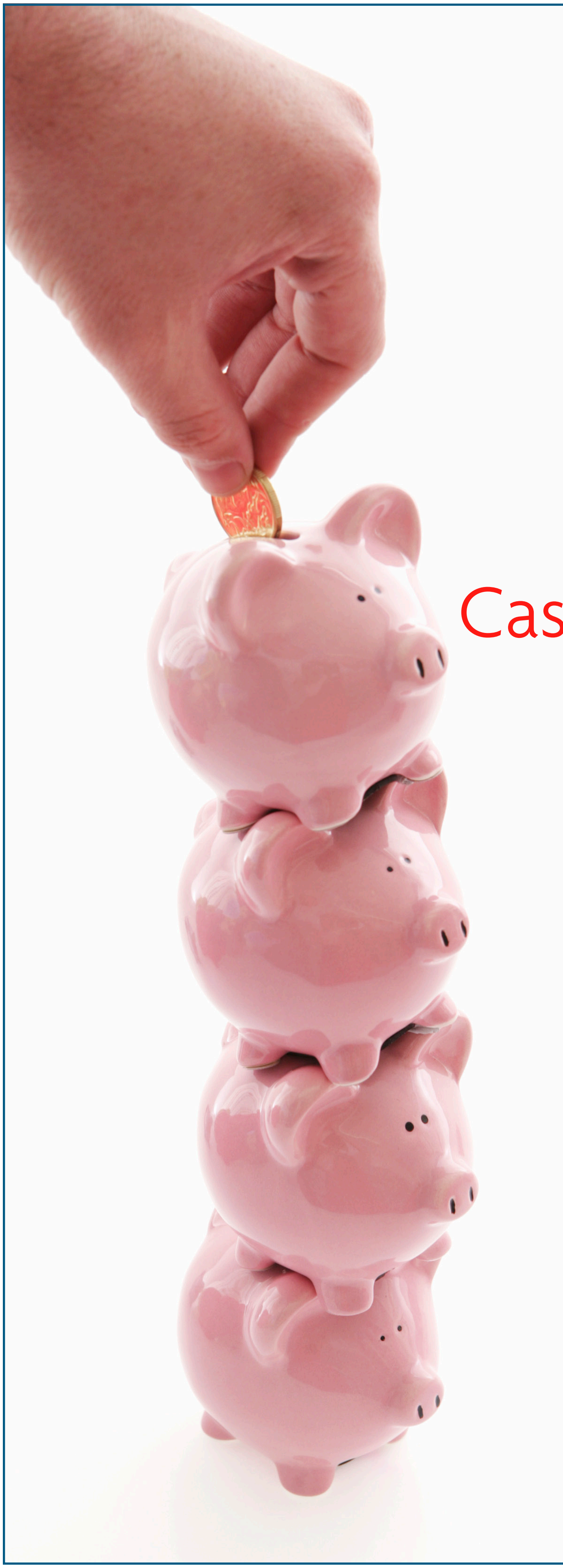

Cashflow Calisthenics

Credits and authors

For Accounting Athletics

David Nanton, CA (2010 version)
Financial Management Consultant, NFP sector
david nanton@shaw.ca

Bill Cox, CA (2007 version)
Partner, BDO Dunwoody
bcox@bdo.ca

For Cashflow Calisthenics and Financial Fitness

Catherine Ludgate
Manager, Community Investment, Vancity
catherine_ludgate@vancity.com

For Enterprising Exercises

Elizabeth Lougheed-Green (2013 version)
Manager, Community Investment, Vancity
elizabeth_lougheedgreen@vancity.com

Cam Brewer (2010 version)
Restraint Consulting
cam@web.ca

For Legal Limberness

Mary Childs, BA, LLB, BCL (2013 version)
Ethos Law Group LLP
mary@ethoslaw.ca

Richard Bridge, BA, LLB (2007 version)
Barrister & Solicitor
richardbridge@ns.sympatico.ca

Editing and content wrangling handled by:

Donna Barker
Principal, Donna Barker Communications
donna@donnabarker.com

Layout and design provided by:

Justin Ho (2010)
justin_ho@shaw.ca

Funding for the Financial Fitness series was originally provided in 2007 by the Community Development and Partnerships Directorate of Human Resources and Social Development (HRSD) Canada. Cashflow Calisthenics was subsequently developed by Vancity and in 2009, with the support of a Shared Success grant from Vancity, the entire suite of workbooks was updated. In 2010, Enterprising Exercises was added to the series. And, in 2013, Accounting Athletics and Legal Limberness were updated to reflect changes in the rules and laws that govern not-for-profit organizations and charities.

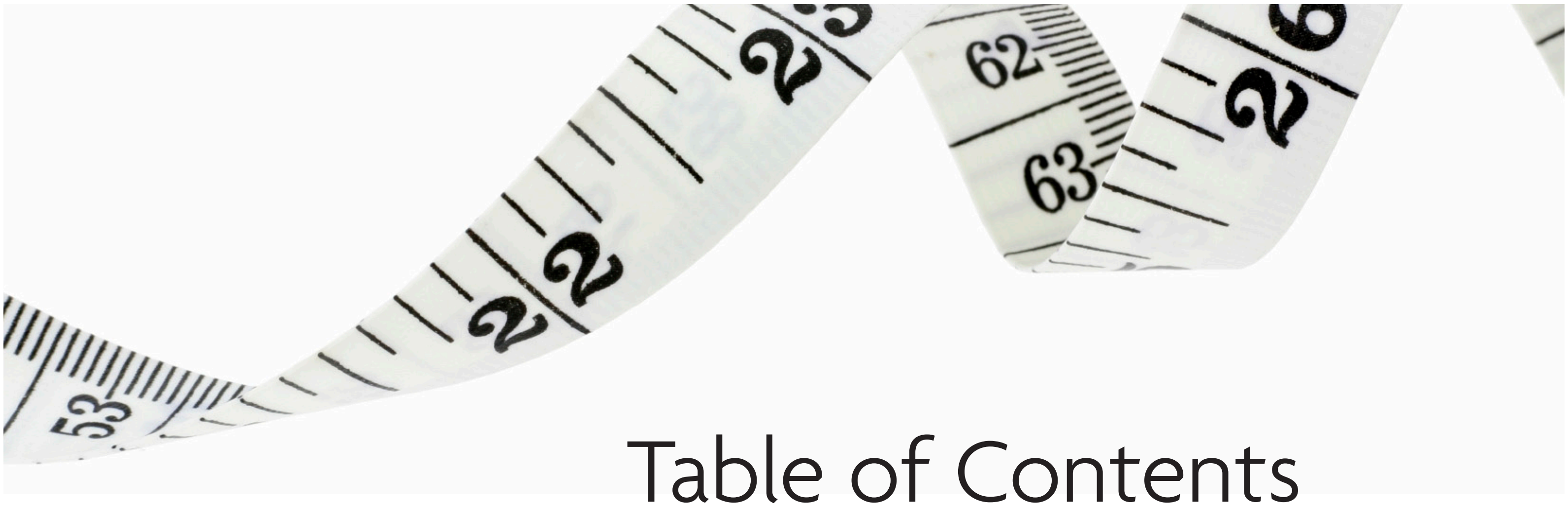

Table of Contents

Financial Fitness by Vancity

The Financial Fitness series was developed by Vancity credit union to assist small and medium-sized not-for-profits and co-operatives to acquaint themselves, or reacquaint themselves, with the basics of operating a financially healthy and resilient organization. Not-for-profits always operate in the arena of change and uncertainty. The Sector Monitor published by Imagine Canada reported in October 2012 that charity leaders generally predicted increased challenges in the year ahead. Research done by the Ontario Trillium Foundation indicates the best way to support not-for-profits is to assist in developing resiliency, so not-for-profits can bounce from moment to moment and opportunity to opportunity.

The goal of the Financial Fitness series is to help with that resiliency, and in particular, to demystify some of the key financial, legal and accounting concepts which sometimes keep not-for-profits from feeling in control of their destinies, or speaking truth to power when dealing with allied professionals and funders.

Legal Limberness addresses the fundamental legal issues, from the duty of care to statutory obligations, for which the Board of Directors and senior staff (Executive Director and program managers) are responsible.

Accounting Athletics addresses the role and responsibilities of the Board and more specifically, the Finance Committee – the Treasurer, Executive Director, Accountant or Bookkeeper – in reading financial statements, what to look for and when to be concerned.

Cashflow Calisthenics focuses primarily on the roles and responsibilities of senior staff to maintain the financial well-being of a not-for-profit organization. It includes advice on cash flow planning and developing "what-if" scenarios, and provides guidance on how to work with allied professionals to improve cash position.

Enterprising Exercises supports the staff and board of organizations that are currently operating a social enterprise. It poses important operational questions, and provides tools and success metrics to help identify areas where a social enterprise could be made stronger or more focused.

Each of these four handbooks fits within the overall framework of Financial Fitness, an introductory course for improving the financial health and resiliency of not-for-profit organizations.

Canada's not-for-profit and voluntary sector is the second largest in the word, according to Imagine Canada. The full charitable and not-for-profit sector (including hospitals and universities) is the 11th largest contributor to Canada's gross domestic product (GDP) and plays a vital role in our country's economy, in addition to providing critical services to people and strengthening communities.

Cashflow Calisthenics
- **Financial goal setting**
- **Budgeting the real cost of operations**
- **Cash management strategies**

In 2007, Statistics Canada changed the way it tracks not-for-profit organizations in Canada, breaking the sector into three industry sectors:

- non-profit institutions serving households (NPISH), about 22% of all not-for-profits by GDP (religious, welfare, arts, entertainment, recreation, educational services and 'other');
- corporate sector, about 13%; and
- government sector, 65% of all not-for-profits (hospitals, universities and colleges).

In 2009, the NPISH sector alone accounted for $22.1 billion of GDP activity and employed almost 529,000 people. Overall, the not-for-profit sector in Canada employs two million people and accounts for $106 billion of the GDP. [1]

That information alone is exceptional, but when layered with the fact that fully 54% of Canadian not-for-profits and charities are run entirely by volunteers – the collective accomplishments of these 161,000 organizations are truly awe-inspiring.

In British Columbia there are over 20,000 not-for-profit organizations, about half of which are also registered charities. Across BC, 1.5 million people volunteer, including on boards.

Common to all organizations are challenges of having stable funding (two-thirds of organizations experience this), planning for the future (55% of organizations experience this) and having enough volunteers, particularly at the board level (50% report this as an issue).

We hope these handbooks help build that core of financial health and resiliency of individual not-for-profits, and contribute to the collective financial fitness of the not-for-profit sector.

The Financial Fitness series is not meant to replace qualified financial, accounting or legal advice from professionals, but we hope these handbooks and the affiliated workshops will contribute to the collective financial fitness of the not-for-profit sector.

1 For more information and not-for-profit statistics see, www.hrcouncil.ca/documents/LMI_moving_forward.pdf and www.imaginecanada.ca/node/32

1. Introduction

The old axiom, “If you fail to plan, you plan to fail” couldn’t be more relevant than in the case of financial goal-setting. At a time in history when the economy is soft, granting foundations’ resources have constricted and governments have become even more fiscally conservative, not-for-profit organizations are facing some of the most challenging times we’ve seen in decades. Many organizations that didn’t have a plan for how to handle significant reductions in core funding have suffered devastating consequences to their program delivery.

“If you fail to plan...”

- **Soft economy**
- **Funders’ resources down**
- **Fiscally conservative government**

The organizations that are most likely to survive (and even thrive) in the new economy are the ones that have spent time looking at their long-term, annual, and monthly financial goal-setting. With some thoughtful planning by your Board and senior staff, these times will be survived, and may provide an opportunity to diversify fundraising sources while examining opportunities for expense rationalization (not necessarily cutbacks) and creative partnerships.

Qualities of a healthy NFP

- **Set financial goals**
  Long-term, annual and monthly
- **Plan**
- **Diversify**
- **Rationalize expenses**
- **Develop creative partneship**

One of the first steps in becoming a financially healthy, and financially sustainable, organization is to figure out what it costs your organization to deliver the services you provide to the community. Figuring out what it costs to do your work is challenging – but it is critically important information. Understanding the true cost of service delivery can mean the difference between thriving as an organization and having to close your doors.

One of the astounding conclusions of research done by Lynn Eakin & Associates over the past few years is the cost of doing “business” with government. In a series of interviews with agencies, Eakin discovered that not-for-profits may be underwriting the work they do with government by up to 15%; that is, government-funded projects typically cost 15% more to deliver than government pays for. This begs the question: where does that extra 15% come from? Not-for-profits are either using funds raised from other donors to complete under-funded government projects, or they are over-delivering their human resources by working staff at excess of 100% capacity; neither is sustainable, nor ethical.

Step 1: Determine the true cost of service delivery

- **Not-for-profits may be underwriting work they do with government by up to 15%**

Where does that “extra” 15% come from?

Nor should this be necessary if you invest the time and energy in creating long-term financial goal-setting.

2. Financial goal-setting

Why and how to do long-term financial goal-setting

The why of long-term financial planning is much more straight-forward than the how! Like any kind of goal-setting, be it personal or family, or within your organization's communication or program goal, financial goal-setting serves the same purposes.

Goals help you focus your attention, ensure everyone is clear about where you're headed, give you a timeframe in which to work, and help motivate the team to succeed.

For decades, successful businesses have demonstrated that long-term financial success is less dependent on market conditions than it is on managing what they call "the capital cycle." These are the four questions that business executives with strong finance skills tend to address:

1. What are the organization's strategic objectives?
2. What financial plan requirements need to be met to achieve the identified objectives?
3. What capital structure and combination of debt and equity financing will be needed to achieve the identified objectives?
4. What set of project and technology investments will be needed to achieve the objectives, while still sustaining the financial integrity of the organization?

All of this needs to be measured against the current economic climate, and how you are managing through the ups and downs of that climate. And, depending on your current financial situation, and where you anticipate be-

Long-term goal-setting
- **Focus**
- **Clarity**
- **Timeframe**
- **Motivation**

Manage the "capital cycle"
- **Strategic objectives?**
- **Plan requirements?**
- **Capital, debt and equity?**
- **Investments?**

ing in three years' time, your financial goals may be best focused on any of the following examples – or on others:

- Diversified funding targets
- Programming growth targets
- Expense reduction targets

Although your organization could approach long-term financial planning in any number of ways, there are a few critical steps that you should ensure are followed – and in the right order!

Recommended actions

Goal-setting steps

1. **Team**
2. **Research**
3. **Funder communication**
4. **Organizational needs**
5. **Consider your vision**
6. **Prioritize**
7. **Determine needs**
8. **Identify sources**
9. **SMART assessment**
10. **Mini-plans & targets**
11. **Progress review**

1. Create a team of both staff and Board members who are passionate about visioning, planning and the process of getting from here to there.

2. Do some research about trends around the mission-area in which your organization works. For instance, if your mission is to ensure adequate low-income housing for the needs of your community, what will the housing stock look like in three years; how large will the population who will need that housing be in three years? This kind of research will give you information about whether your own organization should be looking forward to growth or to reducing services.

3. Talk to your government and foundation funders to determine how committed they think they will be to your issue area in three years. If they are trending toward reducing funding to your type of initiatives, this could have a serious impact on your operations – but one that you can prepare for if you see it coming.

4. With this information in hand, determine what your organization needs to remain healthy. This includes operating support, programming support, capital improvement needs, investments in endowment funds, etc.

5. Once you know what your needs are, spend some time doing blue-sky thinking about your desires, which are different than needs in that they are not necessary for you to continue operating, but would make your work more effective, make staff life easier, provide services for expanded mission-work, and so on.

6. Looking at the information you've gathered about future funding in your issue area, prioritize your needs and desires.

7. Starting at the top, with priority number one, determine how much money it will cost to achieve that goal. Use your best judgment to decide whether the increased space you anticipate needing in three years will be achievable as a renovation to your current space,

a lease in a new space, or building a new space from the ground up, for example.

8. With the financial target established, figure out where the funds to make that goal a reality could come from.

9. Write the goal using the SMART method: ensure that each goal is Specific, Measurable, Achievable, Realistic, and Timed. For example, a SMART goal could read: Our organization will reduce overhead costs by 15% within two years. Or: Our organization will diversify our funding base so that 20% of our core support comes from sources other than government contracts and foundation grants in three years.

10. Create mini-plans, following the SMART model, with medium-term and short-term targets for each long-term goal. Staff, Board members and other committed volunteers should take responsibility for moving forward on each target.

11. While working to achieve your organization's financial goals, review progress on an annual basis with an eye for adjusting targets.

Why and how to do annual financial goal-setting

Setting – and reviewing – annual financial goals is both a critical step in any long-term financial strategy and also an effective way to stay on top of current or unexpected changes in your organization's financial position.

Tackling your long-term financial goals as three-year targets is too hard to make meaningful progress towards. Taking each three year goal and breaking it into medium-term goals (twelve to eighteen month targets) and short-term goals (less than one year targets) increases your odds of achieving the goals.

Annual goal-setting
- **Focused session**
- **Long-term and short-term goals**
- **Annual review**

It is important that annual financial goal-setting be treated as seriously as preparing year-end financial statements. If your Board has an annual retreat, perhaps you could schedule part of a day to address where the organization is achieving annual goals, and where there need to be adjustments to the goals or to the strategies to reach the goals. Having senior staff and the full Board participate in the process of annually reviewing and creating financial goals will make it much more likely that your organization will actually achieve those goals.

Another thing that will increase your odds of success is setting monthly financial targets.

Why and how to do monthly financial goal-setting

Monthly goal-setting
- **Maintain focus**
- **Support accountability**
- **Establish systems**

Reviewing your financial goals on a monthly basis, and sharing progress reports with your staff, interested Board members and any other key supporters, will keep everyone focused on whether your strategies are working and when you should adjust your approach or, perhaps, your targets.

In the busy-ness of keeping the day-to-day operations and programs of a not-for-profit organization running, it is all too easy to forget about, or set aside, work that is focused on long-term goals. Having a monthly check-in will help keep people accountable for commitments they've made in support of the long-term financial goals. Establishing systems and practice of managing your cash flow will also be very helpful.

3. Budgeting the real cost of operations

Understanding the flow and flux of cash in your organization should be liberating, not frightening. The better you understand what it costs to deliver your programs, the better you will articulate the financial value of your programming. You will be able to make informed decisions about when to keep delivering a program that may be a “loss leader” for you: a program that has significant social and community returns, adds to your name recognition or brand value, or attracts funds for other programs that do pay for themselves. Knowledge truly is power when it comes to your finances, and knowing where cash is flowing in and out of your organization will strengthen your organization and help you sleep at night.

Real-cost budgeting
- **Understand program costs**
- **Articulate program value**
- **Strengthen organization**

Doing a break-even analysis

The break-even point for a program is when revenue received equals the total costs associated with delivering the program. A break-even point is typically calculated to determine if it would be feasible to undertake a new program or to keep delivering a program if either the deliverables or funding parameters change. Doing a breakeven analysis is a matter of simple math: your program (or organization) breaks even when your total income equals your total expenses. This calculation is critical for any organization that manages government contracts or funder agreements that dictate specific, non-negotiable percentages for overhead costs.

Break-even analysis
Revenue received = Total program costs

- **Does a new program make sense?**
- **Is an existing program still feasible?**
- **Are agreements manageable?**

There are several types of costs to consider when conducting a breakeven analysis. The three most relevant are:

Fixed costs: These are expenses that are the same regardless of whether you run a program or not. Costs such as rent, insurance and computers, are considered fixed costs since you have to make these outlays even if you don’t run a single program.

Variable costs: These are costs that are associated with specific programs and deliverables that change in relation to the number of people supported, services delivered, and if you operate a certain kind of social enterprise, products sold. In the traditional, business model, variable costs are calculated by multiplying the cost per unit by the numbers of units manufactured. The not-for-profit model for determining variable costs is the same, algebraically. How you define a "unit" is what is most different in the not-for-profit model. And, the value or cost that you ascribe to that "unit" may take into account non-traditional, but critically important considerations, such as commonly termed "externalities" like the costs of having a mental health care worker to support your at-risk staff.

Costs to consider
Fixed costs + Variable costs = Total cost

Total cost: Quite simply, the total cost is the sum of your fixed costs and variable costs.

Matching deliverables to program income
This is a critical step to your breakeven analysis and is covered in the following sections.

Budgeting the true cost of an employee

Budgeting employee costs

- **Hourly pay ≠ Hourly cost**

When constructing budgets – and planning – based on hourly rates, it's vitally important that all of the costs of employment (not just salary) are factored into the budget:
vacation entitlement, employer's contribution to CPP and EI, workplace injury insurance, etc.

How do we calculate the true cost of an employee?
Typically, an organization can count on 10.5% on top of salary or hourly pay to cover the basic employer costs of two weeks annual vacation, plus CPP and EI. For every additional week of holiday entitlement for an employee, you must add 2%. If your organization pays for basic and/or extended medical, add an additional 2 to 5% (depending on the cost of the extended care).

As an example, when trying to determine the hourly rate of an employee that earns $40,000 a year, who is entitled to three weeks holiday, and receives basic and extended medical, the figures look like this:

$40,000	Base salary
4,200	10.5% for base costs (including two weeks holiday, CPP and EI)
800	2% for the third week of holiday
2,000	5% for basic and extended medical
$47,000	**Employer costs**

$47,000/52 weeks/35 hours = $25.82 per hour. This is quite different than the figure of $21.98 you would have calculated on the simple base salary of $40,000 a year. It might not seem like a lot on one hour – less than $4 – but if you were budgeting for a large government project that only paid hourly rates and you did not include the extra costs of that employee's time, you could get into financial trouble pretty quickly.

It is important to remember, using this model, that all of the other costs of the employee must be budgeted elsewhere. These include the obvious ones, such as program costs, rent, phone and utilities. They also include costs related to that employee's professional development, accounting, legal, supervision and admin support, research/publications, etc. Just remember that only the bare costs of the employee's wages are calculated above.

Budgeting for overhead costs

Many funders insist that not-for-profits develop project budgets based on paying staff involved their hourly rate (as described above), plus 12% to 15% to cover overhead costs. While on the surface this may seem like adequate financial support for costs such as the rent and phone use of the staff involved, you have many other overhead costs to consider in your budgeting.

The real cost of governance, accounting, legal, and the time that any other support staff might spend working on the project must be carefully considered and calculated to determine if you can actually afford to do the work for 12% to 15% overhead. You might find that this amount is simply not enough to cover the true costs of delivering the service.

Recommended actions

- If you've not already done so, calculate the true cost of each of your employees using the calculation model shown earlier.
- Using your most recent fiscal year-end numbers, calculate your overall overhead costs. Be sure to include the following items:
  - Rent/mortgage
  - Utilities
  - Telecommunication costs (include internet, phone lines, cell phones)
  - All costs related to board meetings (room rental, food, travel and hotel costs for out-of-town members, etc.)
  - All non-staff accounting expenses (auditor, contract accountant)
  - Any non-program staff who support the overall functioning of your organization, such as a receptionist, bookkeeper, communications officer, etc.
  - Other?

Calculating employee costs
$40,000 Base Salary
4,200 + 10.5% for base costs
800 + 2% for 3rd week of holiday
<u>2,000</u> + <u>5% for basic & ext. medical</u>
$47,000 = Employer costs

Budgeting for overhead costs
- **Typically: Staff rate + 12% to 15%**

Does it cover true costs?

- A test of whether you have counted each applicable item will be to work against all the expense categories in your accounting general ledger – test each category to determine that you have appropriately, and completely, counted overhead.
- Review each and every program you deliver and assign an appropriate percentage of the cost of each of your overhead expenses to each program. For instance, if you have one program that uses half of your office space and half of your program staff resources, assign that program 50% of the overhead costs.
- Now you should have a reasonably accurate picture of the true costs of delivering each of your programs. This is a critical piece of information to managing your cash flow.

Creating a cash flow projection

Calculate overhead
Employee costs plus
- **Rent/mortgage**
- **Utilities**
- **Telecomm (internet, phone, cell)**
- **Meeting costs**
- **Accounting expenses**
- **Non-program staff**
- **Other?**

Knowing what an organization's cash flow situation is at any particular moment is the key to good financial management. A cash flow assists in financial planning, inventory purchases and formulating credit and collection policies. It also serves as an early indicator when expenses are getting out of line. It is one of the most important tools a manager or Executive Director has to control her or his organization. If you haven't been in the habit of cash flow planning, with a rolling twelve-month cash flow projection that is updated monthly – develop this habit now.

What is a cash flow and how do we use it?

Cash flow
Assists"
- **Financial planning**
- **Inventory purchases**
- **Credit and collection policies**
- **Early indicator when expenses out of line**

Knowing your organization's cash position allows you to project, monitor and control revenue and expenses. It lets you know immediately when you are off course and allows management to intelligently anticipate and develop strategies for both short-term operations as well as long-term planning.

A cash flow is not an estimate of revenues and expenses (that is a budget), nor should it be confused with an income statement or an annualized month-to-month statement of income and expenses. Cash flow is the actual cash on hand in the bank coupled with the actual cash outflow and the actual cash inflow in a specific (monthly) timeframe.

Cash flow projection
- **Project, monitor and control reenue and expenses**
- **Strategize for the short-term and long-term**
- **Anticipate and manage funding and expense challenges**

Too often organizations only do a cash flow in their heads. Putting the cash flow on paper provides your organization with the following tools and information:

1. A format for planning the most effective use of cash (cash management).
2. A schedule of anticipated cash receipts.
3. A schedule of priorities for the payment of accounts.

4. A measure of the significance of unexpected changes in circumstances, i.e., reduction of sales, fundraising goals not achieved, tight money situations, etc.
5. A list of all the bill paying details.
6. An estimate of the money needed to borrow in order to finance day-to-day operations. This is perhaps the most important aspect of a completed cash flow projection, if a short-term deficit is anticipated in an otherwise cash positive situation.
7. An outline to show potential lenders that the organization has sufficient cash, or will have, to make loan payments borrowed on a term basis.

Why do a cash flow?

When staff and Board are aware of your cash position, the organization is better able to prepare for the possibility of funding shortfalls. And on the positive side, will have the right information to effectively invest surpluses.

Cash flow
Cash flow is not
Budget or income statement

Cash flow is
Cash on hand
- Cash outflow
+ <u>Cash inflow</u>
= Cash balance

It's not uncommon for not-for-profits to run into cash flow challenges. One of the most common situations results from the way government contracts and sometimes foundation grants are paid out: namely, after the work has been completed. This can create significant cash flow challenges when employees must be paid for their time before the money from the funder is received.

A second, common situation for organizations that are diversifying their revenue streams by providing contract services, will be the delay in time between your staff completing a project and rendering an invoice, and the time that the invoice gets paid. While you may be able to confidently project that funds are forthcoming, you may run out of cash in the bank account. And if you are setting up a social enterprise to help diversify your revenue models, that may bring additional cash flow challenges that need to be considered.

Why do a cash flow?
Improve cash management when
- **Funding is paid out after work is completed**
- **Providing contract services**
- **Fundraising objectives were not met**
- **Unexpected payment arises**

If your organization doesn't meet a fundraising objective or has a sudden unexpected payment to make, revising the cash flow will show the effect of the change on your organization's cash position – and give you time to talk to a lender before you are put in a position of having to make hard decisions to cut programs or staff to manage short-term cash flow situations.

How often should we update the cash flow?

Since effective cash management is essential to survival and sustainability, cash flow planning should be a continuous activity, updated at least monthly and more often when cash is tight. It must also be redone every year against new budget statements, and changed cash requirements.

It can also be very enlightening to prepare unique cash flow statements for each of your organization's programs. Preparing a cash flow for any new program you're trying to get funded is a useful process and can help you determine whether or not a grant or contract will be enough to support the desired program or, if it might put your organization into a challenging cash flow situation.

Recommended actions

Cash flow actions

1. **Use a specific timeframe**
2. **Record planned and actual revenues and payables**
3. **Compare and revise continuously**
4. **Prepare unique cash flow for individual programs**

- The first step in preparing a cash flow is to estimate revenue on a monthly basis. Hint: Use revenue from previous years to forecast revenue for the coming year.

- Estimate the amount of revenues that will be cash (from donations or sales) and the amount that will be credit (such as grants, government contracts or credit sales). If last year's revenues were 10% cash and 90% credit, and no change is planned, chances are that the same proportions will occur again this year. For funds paid on credit, it is important to take into account when the organization can expect to collect the accounts receivable, taking into consideration the lag time between submitting invoices and reports to funders and receiving their funds.

- The next step is to plan for accounts payable on a monthly basis, according to revenue projections. For example, if your organization pays invoices on a 30-day basis, then the expenditures for January's purchases will be made in February. Your cash flow projection will then show the purchase as an expense in February.

- Likewise, be thoughtful about accounts receivable. As noted above, there will always between a delay between when you render an invoice for services you performed on a contract, and when you get paid. If you invoice in February for work completed at January 31, chances are good that you won't see payment until March – this introduces a two month payment lag between service provided and payment received.

- Now that total cash collections and total cash payments on goods purchased have been estimated, use the cash flow worksheet to list all cash transactions for the month. Remember: only list the actual cash that is expected to arrive or be spent in the appropriate monthly column.

- It is important that the cash flow is completed and revised on an ongoing basis as your organization's situation changes. Using the model below, following the end of each month, enter the actual cash flow figures next to the projected figures and compare them. If the projected figures vary considerably from the actual figures, it may be necessary to revise the figures for succeeding months. In extreme situations, it may be necessary to rethink particular aspects of your organization's operations.

Sample cash flow

Step One

	January		February		March	
	Budget	Actual	Budget	Actual	Budget	Actual
CASH IN *	$8,000	$8,000	$23,000	$13,000	$33,000	$18,000
REVENUE						
Grants	$50,000	$40,000	$45,000	$38,000	$25,000	$25,000
Subtotal	$58,000	$48,000	$68,000	$51,000	$58,000	$43,000
EXPENSES						
Wages	$35,000	$35,000	$35,000	$33,000	$35,000	$30,000
Subtotal	$35,000	$35,000	$35,000	$33,000	$35,000	$30,000
TOTAL	**$23,000**	**$13,000**	**$33,000**	**$18,000**	**$23,000**	**$13,000**

Step Two

	January		February		March	
	Budget	Actual	Budget	Actual	Budget	Actual
CASH IN *	$8,000	$8,000	$33,000	$20,250	$53,000	$37,750
REVENUE						
Grants	$50,000	$40,000	$45,000	$38,000	$25,000	$25,000
Fee for service	$20,000	$17,250	$20,000	$22,500	$20,000	$14,750
Subtotal	$78,000	$65,250	$98,000	$80,750	$98,000	$77,500
EXPENSES						
Wages	$35,000	$35,000	$35,000	$33,000	$35,000	$30,000
Rent	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Subtotal	$45,000	$45,000	$45,000	$43,000	$45,000	$40,000
TOTAL	**$33,000**	**$20,250**	**$53,000**	**$37,750**	**$53,000**	**$37,500**

Step Three

	January		February		March	
	Budget	Actual	Budget	Actual	Budget	Actual
CASH IN *	$8,000	$8,000	$18,000	$(450)	$50,000	$30,850
REVENUE						
Grants	$50,000	$40,000	$45,000	$38,000	$25,000	$25,000
Fee for service	$20,000	$17,250	$20,000	$22,500	$20,000	$14,750
Donations	$5,000	$1,300	$15,000	$17,300	$3,000	$4,200
Subtotal	$83,000	$66,550	$98,000	$77,350	$98,000	$74,800
EXPENSES						
Wages	$35,000	$35,000	$35,000	$33,000	$35,000	$30,000
Rent	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Subcontractors	$20,000	$22,000	$3,000	$3,500	$7,000	$2,000
Subtotal	$65,000	$67,000	$48,000	$46,500	$52,000	$42,000
TOTAL	**$18,000**	**$(450)**	**$50,000**	**$30,850**	**$46,000**	**$32,800**

Step Four

	January		February		March	
	Budget	Actual	Budget	Actual	Budget	Actual
CASH IN *	$8,000	$8,000	$18,000	$(1,140)	$50,000	$29,340
REVENUE						
Grants	$50,000	$40,000	$45,000	$38,000	$25,000	$25,000
Fee for service	$20,000	$17,250	$20,000	$22,500	$20,000	$14,750
Donations	$5,000	$1,300	$15,000	$17,300	$3,000	$4,200
Interest Income	$1,000	$510	$1,000	$480	$1,000	$460
Subtotal	$84,000	$67,060	$99,000	$77,140	$99,000	$73,750
EXPENSES						
Wages	$35,000	$35,000	$35,000	$33,000	$35,000	$30,000
Rent	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Subcontractors	$20,000	$22,000	$3,000	$3,500	$7,000	$2,000
Phone/Internet	$1,000	$1,200	$1,000	$1,300	$1,000	$900
Subtotal	$66,000	$68,200	$49,000	$47,800	$53,000	$42,900
TOTAL	**$18,000**	**$(1,140)**	**$50,000**	**$29,340**	**$46,000**	**$30,850**

Managing cash collection

It is incredibly frustrating to know that your organization has cash forthcoming, and not have enough money in the bank to cover payroll or other recurring expenses. And, it's a situation that has forced many good not-for-profits to lay off staff and close their doors. The first step to avoiding this situation is to stay on top of your cash flow projection.

Managing cash collection
Stay on top of cash flow projections

Handle a cash crunch
- **Line of credit - working capital**
- **Manage receivables**
- **Manage payables**

How to handle a cash flow crunch

As you become used to the ups and downs of cash flow and have the experience and history of knowing that the situation smooths out over time, one of the most useful tools for any organization is to have a small line of credit (working capital) to help with that smoothing. Typically, a not-for-profit that has a good history of financial management will be eligible for one to two month's worth of expenses in a line of credit from its financial institution.

When your cash flow projection indicates a cash crunch is pending, that line of credit can make the difference between not being able to pay your bills and managing through until the organization is more liquid.

If you don't have a line of credit already set up, then in an immediate cash crunch (from which you know you can recover, in time) one of the first things to do is address the way you handle your receivables and if needed, to talk to your own suppliers about adjusting how you pay their receivables, which are your payables.

Are we managing receipts receivable well?

Try to collect on outstanding receivables as soon as possible

Have your bookkeeper provide you with a monthly update of all the money owed to your organization so that you can create a proactive plan to get that money into your account as quickly as possible. Collect all you can and deal with any bad news right away, if something turns out to be uncollectable.

Ask your financial institution to help deal with project holdbacks

Some funded projects will have a large holdback amount that can take a long time to collect. If you don't already have a line of credit set up, you may qualify for short-term assistance. Take your contract or contribution agreement to your credit union or bank and ask them to provide a short-term line of credit against the holdback. With proven pending income, that lender may help you cover any short-term shortfall.

Managing receivables
- **Collect on outstanding amounts**
- **Line of credit to address holdbacks**
- **Evaluate market investments**
- **Adjust fundraising calendar**

Don't sit on market investments

If a donor has given you gifts of stock, even though the stocks may have declined in value, liquidate them and put the funds into a more secure investment (like a term deposit). It is easier to manage with a known quantity than to agonize each day about what if? The gift has already been made; make good use of it now and stop checking the stock reports.

Move your fundraising calendar ahead

By sending five annual appeals throughout the year, rather than two or three, you can improve your return on that fundraising effort, and get cash in the door on a more regular basis. Also, if short-term cash flow is a challenge, try collecting instalment donations early. For example, instead of waiting for each payment of a quarterly gift, contact those donors who are clearly pre-disposed to giving and ask for the remaining donation in advance.

Managing payables

- **Work with partners**
- **Request grace on recurring payables**
- **Consider purchasing terms**

How can we work with partners to manage payables?

Now this may sound drastic but delaying accounts payable is often done in the private sector and many not-for-profits are in a very good position to delay payments with regular suppliers. Why? Typically, not-for-profits have very good payment records; they consistently pay their bills on time.

Ask for a few days grace on recurring payables

Many suppliers are happy to provide terms on their receivables (which are the not-for-profit's payables). This tactic would involve contacting the closest and longest running suppliers (such as the landlord, for example) and requesting a few extra days before payment is made. Replicate this tactic over a number of payables, getting terms when and where possible, and this will lead to keeping more cash in your bank account. The key to the success of this tactic is to ensure that those suppliers who extend credit are actually paid according to the new terms, as promised.

But a caution here is to not simply delay the inevitable, as you still have to pay those bills eventually. Getting some payment flexibility should be a temporary strategy to managing a cash flow crunch.

Ask for different terms on big purchase payables

It is worthwhile to ask for extended payment terms with suppliers who provide your organization with big ticket expenses. For example, you may be able to stretch out the payment of your annual report to the printing company, making three payments over three months as opposed to one big payment as soon as the job is delivered. It is very important, however, to negotiate this in advance, while you are on good terms with a supplier, rather than after the fact, when you are having trouble paying the bill. Many suppliers can be quite willing to extend staged payment schemes to organizations that have a solid history of paying their bills. In this scenario, your supplier may charge you a small premium on this kind of extended payment schedule; in fact, they are offering to finance your purchase (much as a loan from a financial institution would do), so be sure to compare what the cost of extended payments to your supplier would be, versus seeking a patient line of credit from a foundation or a more traditional line of credit from a financial institution.

Developing reserve funds

What are reserve funds?
A reserve fund is simply an account set up to make sure your organization is prepared to meet any unexpected costs or short-term cash shortfalls. In most cases, a reserve fund is a savings account, although some organizations put their reserve savings into other forms of highly liquid assets.

Reserve funds
- **Handle unexpected costs or cash shortfalls**
- **Typically a savings account, or other liquid assets**
- **"Correct" amount depends on different factors**

How much your not-for-profit should hold in reserve depends on a number of things, including anticipated funding or contract holdbacks, payroll increases or your organization's credit worthiness. Some not-for-profits employ a general rule of holding three months worth of payroll in reserve, while a few very strong organizations have built reserve funds equivalent to one or two years' of operating expenses. The amount that is right for your organization is best determined not by looking to what other not-for-profits put aside, but by looking internally and answering questions such as[2]:

How much reserve is needed?
- **Grant timing**
- **Loan options**
- **Funder rules**
- **Dependence on special events**
- **Major changes**
- **Affordability**

- How much do you rely on annual grants for your operating funds? When do you find out how much you will receive and how long does it usually take to receive the funds?

- Can your organization get a loan? If you are mostly government-funded, you may not be able to get a bank loan without a written commitment from your funder as to the amount of the funding that has been approved.

- Do your funders have rules about reserves? Some United Ways, for example, have adopted a three-month reserve policy about organizations they fund – that is, they won't provide funding to an organization that has built up more than three months' of reserve. If you need a six-month reserve, you'll have to have persuasive documentation to convince the United Way to exempt you from their policy, if you are one of their grantees.

- How will the Canada Revenue Agency look at your organization (and your charitable status) if you have a comfortable reserve fund? Recently, we have seen some troubling positions out of CRA about the maximum reserve a charity should have.

- How dependent are you on funds raised from special events or seasonal activities? How vulnerable are those events to shortfalls based on things beyond your control? Although you cannot predict

2 These questions are from Nathan Garber & Associates, www.garberconsulting.com

a catastrophe like by a winter flood or a summer hurricane, you need to plan for worst-case scenarios and then decide on how much risk you are willing to accept. For arts organizations that stage outdoor festivals or performances, uncertain weather can pose a real risk to revenues.

- Are you anticipating any major changes in your expenses? Some organizations, for example, have faced massive increases in insurance premiums and transportation costs, relating to managing their volunteer labour pools. Or, how well have you planned for major equipment replacement or building repairs?
- What is the current state of your reserve fund? Do you have one or are you just starting to create it? How much can you afford to put into your reserve fund this year? How much will your Board and funders allow?

Once your staff and Board have thought through these questions, it's important to write your decisions into a policy on reserves so that the rationale and logic is clear and can be communicated to future Boards of Directors, donors, and funders.

How do we build reserve funds?

Build reserve funds

Easy = simple

Unrestricted funding
Individual donations, special events, fees for services, interest

The answer to this question is easy, but not simple! With most of a not-for-profit's money being tied to delivery of programs, it can be a challenge to ethically move money into a savings account for a rainy day. Revenue from foundation grants and government contracts will most likely not be available for this use. You need to find money that is not tied to specific program goals: unrestricted funding. This can be accumulated from money you raise through individual donations, special events, fees for services you deliver, interest generated on your regular banking accounts, and a number of other sources.

Like personal savings, the way to succeed is to start to look for the opportunities to both reduce expenses (and put the difference into the reserve fund) and create unrestricted income.

Engaging in sensitivity analysis

Just as you may be feeling nervous about what the financial future holds for your organization, many of your funders will be feeling the same. Now is the time to check in with funding partners about what future planning they are doing. This is especially important if you rely on regular or annual contribution agreements from a funder.

What is a sensitivity analysis?

Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different from the way you predicted it would be. Sensitivity analysis is particularly useful when you're facing variables that you aren't fully in control of, like whether or not a funder will be supporting you again next year. By creating a variety of scenarios (full funding, partial funding, no funding, funding for a program not currently operated), you can start to determine how each change in the status quo will impact the health of your organization – and you can be prepared to deal with that outcome.

Sensitivity analysis
Helps predict and prepare for outcomes during uncertainty

Connect with people in control
- **Identify major funding and vendor partners**
- **Ask if they foresee changes**
- **Develop "what-if" scenarios to consider outcomes**

Recommended actions

- The first step in creating a sensitivity analysis is to talk to the people who have some amount of control over the variables that will impact your organization's revenue and expenses.
- Create a list of all of your major funders, contract partners, regular donors (both high value donors and long-standing regular donors), and any other organizations that provide your organization with income.
- Schedule time to talk to everyone on your list and ask if they foresee any changes to your current relationship with them, if they anticipate your funding will be the same next year, etc.
- Create a list of all the organizations your not-for-profit pays money to, such as your landlord, the labour union to which your staff belong, regular contractors such as designers, printers, etc.
- Schedule time to talk to all of your suppliers and contractors to whom you pay money, to see if they anticipate any major changes to their rates in the coming year.
- Then working with best case, status quo, and worst case scenarios, determine what the outcome of the different scenarios could be on your organization. These are often called, "what-if" scenarios.

Developing "what-if" scenarios

What are "what-if" scenarios?
Many organizations have learned from business allies to develop three different cash-flow scenarios:
1. budget shortfalls (worst case);
2. budget as anticipated (normal or status quo); and
3. budget over-achieves (better than anticipated revenue).

"What-if" scenarios
- **Worst case**
- **Expected case**
- **Best case**

The discipline of developing three different cash flows will help you think through the worst "what if" scenarios and give you plenty of time to react, if that day comes.

How do we create "what-if" scenarios?
Start by first creating a one year cash flow based on the actuals from your previous year. Assuming your last year was "normal," this will be the basis of your middle cash flow what-if scenario – the budget as anticipated.

Then, using the information you've gathered in the work you did around sensitivity analysis, start to input the possible variations to cash flow based on lower than normal income and/or higher than normal expenses (the budget shortfall / worst case scenario).

Don't neglect the last what-if scenario! Make the effort to create a budget that over-achieves cash flow as well. Sometimes seeing the impact of a better-than expected fundraising campaign is just the motivation staff and Board members need to get out and make the big asks.

How do we use the information in our "what-if" scenarios?
If your worst case scenario cash flow projection shows that, six months from now you may be facing two months of cash shortfall, you'll have time to consider all of the options to addressing this shortfall – and not in panic mode. For instance, you might prepare the staff and Board for the potential of a workforce reduction four months from now (two months in advance of the dip in cash).

Using "what-if" scenarios
- **Start with actual information**
- **Add variation**
- **Address results during strategic planning**

Even using your normal, budget-as-anticipated cash flow can help your organization make strategic decisions about contracts or proposals you might be considering taking on. If, for instance, there's an opportunity to respond to a Request for Proposal (RFP) that, if you won it, would require hiring contract staff to help deliver the program, your normal what-if scenario will tell you if the organization will be able to pay the additional staffing expenses in that window between hiring new people and receiving payment from the foundation or government agency. This information, in turn, will allow you and your Board to make an informed decision about whether or not to reply to the RFP, if seeking a short-term loan or increasing your line of credit is in order, and so on.

Using external communications to your advantage

Talking about financial challenges can be risky, there is no doubt. But staying silent can pose as much risk if your donors and stakeholders aren't given the chance to step up and re-commit their support in your time of need.

Whether or not your organization is currently facing financial stresses, now is the time for clear communication with your various stakeholders about what you do and the positive impact you have in your community. People are looking at their own bank statements with an eye to cutting back on expenses – even if the current economic climate hasn't had a direct impact on them. It's just human nature to feel some worry as the world around us swirls in uncertainty. It's your duty to the work you do in the world to give your donors and stakeholders a reason to continue supporting your organization.

How do external communications impact your cash situation?
Assuming you are facing challenging times, speak positively and with confidence about your situation. You've undoubtedly been through tough times before and have survived. An air of confidence about what you contribute to community and the impact you make will help others stay confident in your ability to manage through tough times. Since everyone is feeling uncertain, being positive will be an attractor to your organization.

External communications
- **Promote the positive**
- **Maintain stakeholder relationships**
- **Transparency when addressing challenges**

Which external communications should you pay closest attention to?
Every organization is different and you know best how to reach and influence your donors and stakeholders. A few ideas that you shouldn't overlook include:

- Update your website home page with a success story about your work.
- Send out an email newsletter to your donors and members telling them about a project you are working on – and succeeding in accomplishing your mission.
- Invite your Board members to spend an evening calling your donors
- to tell them why they continue to support your organization.
- Brainstorm other ideas with your Board and some trusted donors for new ways to share your organization's story.

4. Cash management strategies

Whether your organization is in a healthy financial situation today, or is feeling the stress of potential or current cash flow shortfalls, the strategies described in this next section are good advice and could be considered as "recommended actions:"

- Take inventory of spending
- Check discretionary spending
- Review staffing issues
- Reduce spending on overhead
- Diversify your funding sources
- Seek advice from outside advisors
- Streamline banking
- Borrow the right kind of money

Cash management strategies
- **Do a spending inventory**
- **Check discretionary spending**
- **Check staffing issues**
- **Reduce overhead**
- **Diversify funding sources**
- **Use outside advisors**
- **Streamline banking**
- **Consider loans**

Take inventory of spending

Take inventory of all your regular committed costs, from your monthly rent, to your leases on equipment, to your staff costs. And then take a deep breath. If cash flow is an issue – or your cash flow what-if scenario suggests it might become an issue – before you consider cutting staff, look for other ways to cut expenses. It's easy to replace equipment or premises; it's hard to replace people.

Spending inventory
- **Leasing vs. buying**
- **Borrow to buy**
- **Rent to own**

Do you have leases for big-ticket items like photocopiers or printers that are coming up for renewal, or that you could bring to an end, without much of a penalty? Leases on equipment can be huge cash sinks. Perhaps there is another not-for-profit in your building that would be interested in sharing the costs of equipment.

Likewise, look at your physical premises. Do you really need all the room you are occupying? Can you share a boardroom or equipment room with another organization? It may not seem like you spend too much on that extra meeting room, but it adds up, and the $500 or $1000 a month you can save might help with cash pressures.

Leasing versus buying

When buying new equipment, many people tend to think first about how much money they have on-hand. There are, however, a number of other finance options available that can ease the burden of up-front purchasing.

When it comes to buying equipment – including everything from vans to computers, not-for-profit organizations have many of the same needs as a for-profit business. However, because not-for-profit organizations don't have the same tax status as for-profits, different criteria may influence the way you finance this equipment.

Leasing or renting can ease cash flow problems by spreading payments over months or years and can be structured to match your organization's pattern of income, easing stress on cash for needs like rent and payroll. Asking your accountant to analyze the full costs of leasing versus renting versus buying is a smart strategy.

Lease

When taking out a lease, the company providing the lease remains the legal owner of the item and the not-for-profit becomes responsible for monthly payments of the capital cost, depreciation and borrowing cost for that leased item. It's important to analyze the contract life cost of the lease since some contracts (such as for photocopiers) can be very expensive and ultimately cost more than the value of the service provided.

It's also very important to involve the Board in any decision to lease equipment since the contract will have a long-term impact on the organization an the Board is ultimately responsible for any debt incurred due to the lease. Your organization may also have a policy about leases – be sure to check before making any commitments.

Borrow (to buy)

Using a commercial loan to acquire an asset may entitle the organization to depreciate the equipment right from the start. Borrowing from a credit union or bank may be less expensive than a lease agreement, and at the end of the loan period, the asset will belong to you (although it may have depreciated significantly). Depending on the item to be leased/ bought, reviewing the standard depreciation for that kind of item should be considered: photocopiers and computers depreciate quickly, while buildings, for instance, often appreciate in value.

Commercial rental purchase (rent to own)
In this situation the financier buys the goods and rents them back to the borrower as the customer, who owns the asset at the end of the agreement. Since each payment instalment builds equity in the equipment, this is a reasonable option for items with long lifespans and high resale value. But check the cost of financing here; it may be cheaper to borrow from the bank or credit union to buy the goods outright than to have someone else finance it.

Again, be sure to check with your Board and review any policies that your organization may have related to big ticket item purchases.

Check discretionary spending

Discretionary spending refers to all the things your organization spends money on that aren't core to delivering your programming. If cash flow looks like it might become a challenge, cutting back on discretionary spending and trimming back to essentials is the very first place to start.

Discretionary spending
- **Not core to program delivery**
- **Multiple, small decreases**
- **Pool resources**

A thorough examination of discretionary costs may show lots of small ways to trim back. Make time to take a hard look at all your expenses for the last three months, and determine where you can cut back, without affecting programming. Are there conferences, or subscriptions, or travel that you can say no to, or no for right now? Do you celebrate staff birthdays by taking everyone out for lunch? Could you make it pot-luck instead?

Invite staff to help identify ways to save money in their departments and through your organization; they will certainly have ideas. Consider small incentives – that don't cost much – as a reward for the best ideas. Some places where savings might be achieved: don't order supplies until the cupboard is empty, do two-sided photocopying and encourage paperless meetings, have a virtual Board meeting to save travel costs.

Consider joining the United Community Services Co-op. The Co-op provides bulk purchasing opportunities on services from telephone service to equipment to office supplies, and also has an arrangement with Vancity for pooling of bank accounts to earn greater interest on any savings you might have.

Review staffing issues

When you are in a cash crunch, be cautious about making impulsive decisions about personnel. Look at all the costs associated with staff and see if there are places where you can reduce expenses without cutting staff.

Staffing issues

- **Review programs**
- **Review organizational structure**
- **Plan for staff training**
- **Budget for earned holidays**
- **Overtime**
- **Replace staff who leave**
- **Review employee benefits**

For instance, perhaps you offer a great staff benefit that you could scale back, for the short-term. While it won't be popular to reduce contributions to a staff savings plan, for example, if it means the difference between that and losing a staff position, it would be worth considering. Following are several staff-related ideas to consider to keep your organization on a stable financial footing.

Program review

Many organizations fall into the trap of continuing to deliver programs that have lived past their useful date, or are no longer relevant to the intended user. In other cases, organizations don't understand the true cost of delivering a program, so are unwittingly subsidizing a program that isn't fully funded. Annual program reviews – based on achievements, successes, and costs – are critical to ensuring the financial health of your organization.

One of the positive results of reviewing your programming commitments can be finding that you could continue to meet your obligations to funders and the community with fewer staff hours. In this situation, it would be worthwhile to ask staff if any would be interested in a reduced work week. Cutting back from full-time to a four-day work week would save your organization up to 20% on that position alone.

That said, before you consider reducing the hours of, or eliminating a position in your organization, make sure you understand the legal rights of the affected employee(s). It's wise to consult with legal counsel to ensure you treat your employees with all the rights and support they deserve, and to which they are entitled.

Reviewing organizational structure

When any organization grows, it's common to keep adding staff and programs without necessarily re-examining the model and delivery methods. Have a good hard look at how your organization is currently structured; is everyone is in the right role, doing the right job, for the right outcome? You may be able to achieve greater program results (and thereby attract new funding support) by simply reorganizing some of your people talents in different ways. Encourage staff to imagine a different way of delivering your services and programs, and the role they would ideally play.

Planning for staff training

It's vital to be strategic in budgeting and planning for staff training. Proper training is essential for maintained and increased productivity, and is a key factor in maintaining employee satisfaction, which leads to employee retention. And since keeping existing staff is usually more financially beneficial than having to replace them, the impact of eliminating staff training to reduce costs in tough times should be carefully considered.

Additionally, new staff will not be fully productive contributors as soon as they start: an organization must allow for a reasonable ramp-up time for new staff to grasp their role and responsibilities. Proper training requires time which has a financial impact on the organization. The same thinking applies to retraining of staff who have been given new tasks or upgrading the skills of staff.

Budgeting for earned holidays

Vacation time has to be recorded on an accrual basis, since that time is a liability that will one day be claimed. It's important that management and Board are aware of how many staff days have been accrued in holiday time since it can have a significant impact on operations, if one or more employees have accrued several weeks of time away from the office. And, if an employee leaves or is terminated, this will become a financial obligation to pay out, so it's important to keep your vacation accruals down, to avoid carrying a large outstanding potential payable. The Board must develop good policies around vacation time that are fair to both the employee and the health of the organization.

Overtime

Discourage staff working overtime, if overtime is paid in your organization. Paid overtime brings a couple of challenges: it is hard to budget for, and it can be very expensive. Encourage your staff to work a reasonable workweek and put limits on overtime authorization. If you don't have an overtime policy, develop one.

Replacing staff who leave

If someone in your staff team leaves, don't rush to replace that position. See this as an opportunity to reconsider how the work that was being done might otherwise be handled. If your staff accountant leaves, for example, consider the benefits of moving your payroll services to a group like ADP, and jobbing out accounting services to a contract bookkeeper.

Reviewing employee benefits

Because not-for-profits often have trouble competing for staff with the private sector on a pure wage basis, sometimes other benefits are used to help level the playing field. This has both a positive impact on not-for-profits (attracting better staff) but also has a direct financial impact which may be detrimental in challenging times. When analysing the true cost of each employee, and when looking for ways to reduce expenses without eliminating staff, reviewing the cost of every benefit is a sound strategy. The following benefits can create a significant liability for your organization and should be carefully reviewed:

1. Professional development opportunities, such as attending conferences
2. Bonuses
3. Additional, non-earned holidays, such as the days between

Christmas and New Year
4. Employer contributions to savings plans
5. Extended medical insurance
6. Extended sick leave
7. Compassionate leave
8. Jury duty

Reduce spending on overhead

Reduce overhead
- **Barter**
- **Network**
- **Buy wholesale and bulk**
- **Borrow or rent**
- **Buy used**

When cash flow is tight there are many places an organization can look to reduce overhead costs before looking at reducing staff. In addition to reducing discretionary spending, as previously discussed, involving your staff in identifying places where savings can be found serves many purposes: it mines the brain-trust of the whole organization; it empowers staff to feel like part of the cost-saving solution; and, it reduces anxiety that cuts to staff time are the only option to get through tough times. Following are some ideas that might lead to new ways of keeping more money in your account.

Barter with other businesses or organizations
Identify services (perhaps a bit of available time your staff bookkeeper has each month) or tools (such as a colour copier) that you have that have value to others and see what services or tools they have that you could barter.

Network with other organizations or businesses
If you have a solid database of supporters and a like-minded organization has a service that would be of interest to your supporters, consider trading mailing lists. For instance, an environmental organization might trade lists with a maker of locally produced, organic teas. Or, a barter could be set-up in which donors who sign-up with a monthly gift of $10 or more receive a free package of tea, which is given to your organization by the tea company for free in exchange for the promotion their product receives to a strong target audience – your donors.

Buy wholesale and bulk
Since you don't want to have too much of your money sitting on a shelf in the form of a crate of paper, look at the opportunities to partner with organization in your building to buy bulk purchases that you all use regularly. And, consider joining the United Community Services Co-op to take advantage of the bulk buying power membership provides.

Borrow or rent
There are some items that an organization needs on a recurring but irregular basis, like tables or a cash register for special events. Rather than buying and having to pay for storage space for this kind of item, borrow the equipment

from another organization or rent the equipment from a “rent-all” store.

If you work in a building, or neighbourhood that houses several not-for-profits, it could be a useful exercise to have a summer student visit all of the local organizations and build a list of items that they would be willing to share with others (a tool library), either for a small rental fee or in exchange for the opportunity to borrow items they need on an irregular basis.

Buy used
If your business equipment and supplies don’t need to be new, buy them used. Craigslist is a great source for used equipment and it’s not uncommon to find office equipment and furniture offered for free to not-for-profits who are willing to pick up the items. And, there may also be opportunities to have equipment and furniture donated by businesses in your area, as they upgrade their own and have surplus of same.

Diversify your funding sources

Diversify funding sources

- **Develop monthly giving program**
- **Deepen relationship with current donors**

People will keep giving to not-for-profits in hard times as in good, and some will feel compelled to start giving or to give more. By nature, people are generous and want to help support others who are less well-off in their communities; your organization could be the vehicle by which folks begin to express or increase their commitment to giving.

Consider diversifying your funding sources, while you continue to steward your current donors. This may not be the time to add a development officer to your staff, but do consider hiring a skilled and well-respected fundraiser for a consultation about steps you can take right now. Ask friends at other not-for-profits if they know a good, experienced fundraising consultant, or check with the Association of Fundraising Professionals.

Develop a monthly giving program
Develop a monthly giving campaign. Monthly donors have an average lifetime value to a not-for-profit of seven years. Imagine the difference between an annual gift this year of a generous $250, or a monthly gift of $10 for seven years ($840). For most donors, a small monthly gift is much easier to give than a large annual gift, and for the not-for-profit, it can provide a reliable stream of monthly income to offset a regular monthly cost (like a staff salary or the rent). For the next appeal, ask your current members and donors if they will consider signing up for the “Friends of XYZ” monthly giving club. It’s never been a better time to ask.

The first people to ask to become monthly donors are all of your own staff and Board. Even if some only donate $5 a month (giving at this amount is only recommended for staff, as it is expensive to administer with donors who are further away than your colleague at the next desk) it is very good for relationship-building to be able to tell current and potential donors (and even your funders) that your whole staff and Board have committed to the monthly giving program.

Work with your accountant and your bank account manager to determine the most efficient way to take staff donations: Pre-Authorized Payment or right off their paycheques.

Deepen your relationship with current donors
With a Board member, visit your high value donors, and ask them if they will commit to increasing their gift to your organization. A request from a volunteer Board member will be much better received than a request from a salaried staffer alone. And, ensure that both the staff person and Board member making the request make their own contribution, so that you can truthfully say you are also investing in the organization.

Have you developed a planned giving campaign? With your Board chair, you could ask long-time donors to take out insurance policies with your organization named as a beneficiary. Or, you could request that a beloved donor name your organization in his or her will.

Another way long-time donors could contribute to the health of your organization is to ask them to lead a giving circle. If a handful of your committed donors were to invite three or four of their friends each into a giving circle, think of how this could improve the amount of unrestricted funds your organization generated. This may also be a way for donors who have to cut back a bit to contribute in other ways.

Seek advice from outside advisors

Use outside advisors
- **Banker**
- **Auditor**
- **Key funders**
- **Potential allies and partners**

Banker
Set up a meeting with the account manager at your financial institution (aka, your banker). It is always better to develop your relationship with your financial institution (whether a credit union or a bank) before a cash crunch. Ask your banker for ideas around how to better manage your funds, from setting up lines of credit for short-term shortfalls, to having them provide investment advice. Also ask them what they could do better for you: better interest on your savings account; a reduction in fees on your chequing account; setting up online banking or electronic funds transfer for regular payments to suppliers.

"Cash management" is banking language for products and services that will make an organization's handling of the cash more efficient, effective and timely which ultimately means maximizing the revenue potential of each dollar received. All of these products are available at most banks and credit unions across Canada. Working with your bookkeeper or accountant, determine cash management strategies that could benefit your organization or simply identify areas on which you need advice. Then, schedule a meeting with your banker from your financial institution to solicit their advice on establishing the best suite of services for your needs, and make it a habit to ask for an annual review of those services, to ensure they continue to meet your needs.

See the section "Streamline banking," which follows, for detailed ideas about this topic.

Auditor

Set up a meeting with the auditor who prepared your organization's last financial annual review. Ask for advice now about where you could better manage expenses or investments. Also, ask them about any liability issues they might be aware of for your organization. For instance, not-quite-current payments; penalties for late payments to government agencies like the Receiver General or Worksafe BC can add up quickly.

Key funders

Set up meetings now with your regular funders to find out what they are thinking for next year and beyond. It's important for you to understand what challenges foundations, government agencies and other grantmakers are facing, and for them to understand how they can best continue to support you. Foundations and other grant makers still have to give money away each year, to meet the charitable rules. The question is: how much?

Talk to your funders about current funding arrangements you have with them. You may have programs in place that have holdbacks that could be collected earlier than your contract stipulates. Perhaps your funder would consider allowing you to change budget items to put more money toward staff overhead if hard costs for the program are lower than you anticipated and budgeted. It doesn't hurt to ask, and the sooner you involve your funders, the more likely they can accommodate changes. Remember, they are interested in your success – they've already invested in you.

Ask funders if they have other programs you haven't made use of yet. They may have programs to support internships or second staff to your organization. They may have a discretionary granting fund exactly for hard times. They may be able to make a program-related investment into your organization. Don't be afraid to ask – just don't beg!

Potential allies and partners

Consider opportunities to meet some of your programming goals by finding a partner to work with, who can help you meet those goals, by different means. Look around to see who else is doing similar or complementary work to your organization's and have a meeting to see if they're open to working together to meet shared objectives. Think outside of the regular suspects to organizations or companies that could offer additional value to your programming, or maybe help you meet other needs.

A great example of this kind of "odd bedfellows" relationship is the partnership between Megaphone Magazine, a street newspaper sold by people who are homeless and have a low income, and The UPS Store in downtown Vancouver. The UPS Store agreed to be a central location for the magazine's vendors to purchase their copies of Megaphone, which they then resell to the public for a profit.

Brainstorm all of the services that your organization uses: legal, accounting, office space, meeting space, copying, etc. Then brainstorm companies that have shown an interest in the mission your organization supports. Do some relationship mapping to see who is already in your universe that could help on a pro bono or reduced fee basis.

Streamline banking

Streamline banking

- **Daily operating accounts**
- **Short-term investments**
- **Internet banking**
- **Electronic Funds Transfer**
- **Credit card services**
- **Government payment and filing**
- **Direct deposit**
- **Merchant electronic bill payments**
- **Pre-authorized payments**
- **Inter-branch banking**
- **Payroll services**
- **Shared savings pool**

Working with your bookkeeper or accountant, look at all of the ways you could streamline your regular banking to reduce staff time and save money. Once you have a clear sense of where time, energy and money may be wasted, have a meeting with your bank account manager to discuss the cash management options that will work for your organization. Descriptions of many of the options your financial institution should offer follow.
But make no mistake: every financial institution will need to make some money off your transactions with them – a free chequing account will be compensated for by other fees (such as an annual account review, or audit proofs at year-end).

Daily operating accounts
Daily operating accounts are chequing accounts that may earn interest, or may offer a package of services (a certain number of "free" cheques) but no interest. Consider all your needs when you open this kind of account: if you accept a no-interest account here, you'll need to set up a savings account for any cash balances. Or, see the section below on the shared savings pool that the United Community Services Co-op holds with Vancity.

Short-term investments
On the opposite side to daily interest accounts are short-term investments. These are easy to understand and the rate of return is known. They do require monitoring, an investment policy developed prior to the maturity of the term, and are subject to interest rate risk – the risk of being tied into a lower paying interest rate that the current market is paying.

Internet banking
Internet banking has come a long way in the past decade, since it was first widely available. Standard features include the ability to get real-time

account information, order cheques and stop payments. Another valuable benefit of internet banking is the user-defined reconciliation of month-end statements.

Systems are quite sophisticated and allow clients to customize their own permissions and access levels for different users to control security, transfer funds, etc. Additionally, these systems have highly sophisticated audit trail management reports available to allow for dual signature authorization options. This kind of tool can help minimize internal fraud. (For more on minimizing fraud, see the Accounting Athletics handbook).

Electronic Funds Transfer services
Electronic Funds Transfer Services are an easy alternative to handling individual cheques. This service can be web- or PC-based and can be used for in-house payroll or donation collection. It is typically inexpensive, easy-to-use, efficient and the timing is controlled by the user.

Credit card services
One beneficial use of credit cards, when cash is tight, is that payments can be delayed for up to a month after a purchase. A key discussion point for Board and management around credit cards is the potential personal liability that comes from using a personal credit card for business use. If the organization opts to provide certain staff with organizational credit cards, policies should be developed to address issues such as who is allowed to the use bonus benefits (such as travel points), how misuse of the card will be handled, and whether delays in payments that cause interest to accumulate will be tolerated.

Government payment and filing service
Government Payment and Filing Service saves staff time and organizational money by allowing you to pay and file your employment-related taxes online. By scheduling your payments, you receive refunds faster and you are more likely to not miss a deadline, thereby avoiding late payment penalty fees.

Direct deposit
Direct Deposit is a way to simplify your payroll by making all of your payments electronically. Automatic payments to your employees and suppliers save staff time and reduce overhead.

Merchant electronic bill payments
Merchant electronic bill payments allow you to receive your payments quickly by providing multiple payment options.

Pre-authorized payments

Pre-authorized payments or PAP allow you to set-up recurring payments from your donors who want to make a monthly gift to your organization. This is most commonly used for those organizations that have a large donor base, but small donation amounts. PAP automates all of these donations, saving time and providing an efficient fund-raising tool for on-going donor maintenance. And a piece of advice on setting up PAPs from donors: it is better to do this by collecting a "void" cheque from a donor than it is to collect on a donor's credit card. Credit cards have expiry dates, and your flow of donations will stop when the card expires and you'll have to ask your donor to sign up again. Keep PAPs to being collected from void cheques, and the funds only stop when the donor decides to cancel the PAP.

Inter-branch banking

Inter-branch banking or "deposit acceleration" allows you to consolidate your funds in your central account overnight, no matter where in Canada your money is deposited - with detailed reporting of every deposit. This is a great option for organizations with national exposure.

Payroll services

In Canada, there are two commercial payroll services: ADP and Ceridian. Out-sourcing to these suppliers could eliminate or reduce the need to operate your own payroll department. For small to medium-sized organizations, it may be more cost effective to use a payroll service than to administer this internally. In addition to providing payroll, these services also ensure the correct payroll deductions to the appropriate ceilings, remit the same, and also produce timely and accurate T4 forms at year-end.

Cash management pools

If you are a member of the United Community Services Co-op, you can ask to have the cash in your operating accounts aggregated into the shared savings pool. This pool, held at Vancity, treats the total volume of cash from all the members as if the funds were invested into term deposits, and pays a much better rate of interest than you will get on your stand-alone operating account.

Borrow the right kind of money

When used properly, a loan can be a tool for effective financial management, to help a not-for-profit grow and succeed. Typically, there are six types of loans that, in banking, are sometimes referred to as "extending credit." In addition to this there are a variety of product names used for similar types of loans with "line of credit" and a "mortgage" as the most common terms used.

It's important that your organization not jump to a product before first identifying what your exact needs are, the danger being that once a request is made it will slot you into a product or decision process which may not be in your organization's best interest (and may come with an annual fee).

The following matrix can help you figure out what the best kind of loan for your needs would be:

Types of Loans:

Need / Indicator	Additional requirements	Options/ product names	Attributes
1. The Board is concerned that the organization have sufficient reserves to cover one month's payroll	• Should be low cost • Should always be available	• Overdraft • Line of Credit • Standby Credit	• Considered a short-term loan
2. Government contract stipulates that you must have established credit with your financial institution	• Only required during life of contract • Will never be used	• Line of Credit • Standby credit	• Considered a short-term loan
3. Union contract requires that you post a bond for staff wages	• Must be guaranteed by a financial institution	• Letter of Credit	• Specialty Product
4. Large government contract includes holdback and you need to cover the shortfall on a monthly basis while you await monthly submissions to be reimbursed	• Will be used frequently	• Operating Loan • Line of Credit	• Considered a short-term loan
5. Need to acquire assets to support a short-term contract	• Need to preserve cash flow	• Lease	• Considered a short-term loan
6. Need to acquire assets to hold for general programs (vehicle, leasehold improvements, etc)	• Will become asset of the organization	• Term Loans	• Considered a short-term loan • If loan exceeds 5 years, then it is a long-term loan
7. Need to purchase a building	• Long-term investment • Will become focal point for sustainability	• Term Loan • Mortgage	• Up to 75% of the value of the asset may be financed; in special circumstances, even more financing may be available • Up to 25 year amortization periods (or longer in special circumstances) available • Has significant finance costs
8. Need to finance a fund-raising campaign	• Should be low cost • Maximum amount required dependent upon outcome of the campaign	• Demand Loan • Term Loan • Line of Credit	• Flexible • Available in drawdowns
9. Need to finance the start-up of a new line of business within the organization.	• Should not impede general operations of the organization	• Term Loan • Line of Credit	• Flexible

Five 'C's of credit

The traditional, time-tested checklist of the five Cs of credit are character, capacity, collateral, conditions and capital. Understanding what each of these mean, and how your organization rates in the eyes of your financial institution, will help you anticipate how to make a compelling case for a loan.

It is important to know that if your organization has been operating with a persistent deficit, a loan is not the appropriate tool to fill the gap and pay ongoing operating expenses. Adding debt on top of accumulating losses is a step towards bankruptcy.

When approaching a lender, be prepared to describe your needs, have support from the Board in place and have pertinent information available for the lender to make an informed decision; pertinent information related to the five Cs of credit.

Consider loans

- **Loans based on need**
- **Five "C's" of credit:**
  1. **Character**
  2. **Capacity**
  3. **Capital**
  4. **Collateral**
  5. **Conditions**

Character

Character is the integrity of the leadership of the organization. For a financial institution to make a fair judgment of an organization, having developed a relationship in advance of needing to request a loan is extremely helpful.

Capacity

Capacity is sufficient cash flow to service a new loan obligation. Your financial institution will understand that your cash flow goes up and down, so capacity is based on a long-term view of whether your organization will be able to service the debt it has incurred (also known as debt service coverage).

Capital

Capital refers to the net worth of the organization. In a not-for-profit organization, capital may be examined from a few points of view: both any retained earnings that lead to positive net worth of the organization, as well as any intangible assets that the organization may have, including the strength and history of its operations, and the need (which is fundable) in the community.

Collateral

Collateral are the assets the organization uses to secure the debt. In other words, if the borrower defaults on a loan, this is what the bank would take, or have the organization sell, to meet the debt payments. Common collateral used by not-for-profits are property, liquid investments, accounts receivable, etc.

Conditions

Conditions refers to both the condition of the organization and the condition of the overall economy. A financial institution's ability to lend money was significantly strained in the economic downturn of 2008 and 2009, and while your organization might have been credit worthy, your financial institution may have had concerns about the sector overall and had its own capital challenges that combined to keep it from lending money.

Glossary of Terms

Accountability	The responsibility of a foundation/organization to publicly disclose information on their activities, particularly justification for financial activities and the decisions surrounding them. It is also the capacity to account for one's actions; or as a representative of one's organization, to account for either your actions or the actions of your organization.
Accounts payable	Amounts owed by an organization, e.g. unpaid bills for purchases, monthly obligations, loan repayments.
Accounts Receivable	Amounts owed to an organization services or programs that the organization has delivered prior to receiving the income or provided for on credit.
Amortization	a) allocation of cost over the useful life of the asset in a rational and systematic manner. b) allocation of revenue (deferred contributions) over a number of periods to match expenses related to the revenue.
Annual General Meeting (AGM)	Typically the most important meeting an organization has each year. The governing Board, executive Director, and the general membership are normally present at an AGM.
Annual report	A report issued by the organization that provides financial statements and descriptions of its activities. Annual reports vary in format from simple typewritten documents to detailed publications that provide substantial information about the organization's programs, activities, services, plans, etc.
Arm's Length Transaction	A transaction that is conducted as though the parties were unrelated, thus avoiding any conflict of interest.
Articles of incorporation	A document filed with provincial or federal governments by persons establishing a corporation. This is the first legal step in forming a non-profit corporation.
Assets	What the organization owns or is owed to them as a result of past transactions or events. Can be hard, intangible, human, technical, proprietary, reputation, social.
Audit	Independent verification of economic events.
Auditor	A firm of Chartered Accountants hired to give an independent opinion on the organization's financial statements.
Auditor's Report	In an annual report, the auditor's opinion on the organization's financial data and supporting evidence.
Balance sheet	An accounting statement of an organization's financial condition as of a certain date, generally at the end of its fiscal quarter or year.
Basis Price	1/100th of 1% in yield; hence 50 basis points is 1/2 of 1%.
Bearish	An attitude or indication implying that prices are likely to experience a substantial decline.
Board of Directors	A group of volunteers chosen to govern the affairs of a non-profit organization.
Bonds	Marketable and non-marketable securities issued in Canadian or foreign currency with an original term to maturity in excess of one year.

Breakeven Analysis	The break-even point for a product is the point where total revenue received equals the total costs associated with the sale of the product ($T_R = T_C$).[1] A break-even point is typically calculated in order for businesses to determine if it would be profitable to sell a proposed product, as opposed to attempting to modify an existing product instead so it can be made lucrative. Break even analysis can also be used to analyze the potential profitability of an expenditure in a sales-based business. (Wikipedia)
Budget	A financial report containing estimates of income and expenses.
Bullish	The attitude of someone who is anticipating a bull market, or the description of an event that is supposed to cause market prices to rise.
By laws	Rules governing the operation of a non-profit corporation. By laws often provide the methods for the election of Directors, the appointment of officers and the description of their duties, the creation of committees, and the conduct of meetings, etc.
CA	Chartered Accountant
Capacity Building	The process of building the potential for not-for-profit organizations to respond to the needs of the community they serve.
Capital Gain	The profit you get when you sell an asset, like an investment, for more than you paid for it.
Capital Loss	When the sale price of an asset is lower than its purchase price, you have a capital loss.
Capital reserve	Monies set aside for capital purposes.
Cash flow	The flow of monies into (receipts) and out of (disbursements) the organization.
Cash flow forecast	An estimate of when and how much money will be received and paid out of a business. It usually records cash flow on a month-by-month basis for a period of two years.
CGA	Certified General Accountant
Charity	As a noun, refers to a kind of non-profit organization that solicits and is able to accept donations or gifts from individual and corporate donors. A registered charity is a charity which has successfully applied to the federal government under the Income Tax Act for charitable status. An organization benefits from obtaining charitable status because it possesses the privilege of issuing official receipts to donors for their monetary contribution. This donor can, in turn, submit the receipt to Revenue Canada for a tax exemption. Receipts can be issued for the eligible amount of the donation which can be either monetary or gifts-in-kind.
CMA	Certified Management Accountant
Collaborative	A formal or semi-permanent partnership created between two or more organizations in order to better achieve mutually desired objectives.
Collateral	Property (real, personal or otherwise) pledged as security for a loan. Also, any supplementary promise of payment, such as a guarantee.

Collateral Mortgage	A loan backed up by a promissory note and the security of a mortgage on a property. The money borrowed may be used for the purchase of the property itself or for another purpose, such as a transitional house, group home, etc.
Constitution	A system, often a written document, which establishes the rules and principles by which an organization is governed.
Contingency planning	Allowing for financial flexibility in preparing a budget in order to meet unanticipated events.
Corporate giving program	A grantmaking program established and administered within a profit-making company. Gifts or grants go directly to charitable organizations from the corporation. Corporate giving programs do not have a separate endowment; their expense is planned as part of the company's annual budgeting process and usually is funded with a determined percentage of pre-tax income.
Corporate Sponsorship	Group sponsorship, normally from the business community. Corporate sponsorship is often done in exchange for publicity.
Cost	The amount paid or charged for something.
Credit Rating	Every piece of credit history information in your credit file is assigned a rating by the credit grantor. The most common ratings are "R" ratings. These are known as North American Standard Account Ratings and are the most frequently used. The "R" indicates that the item being described involves revolving credit. If you always pay on time, it will be coded an R1. If an amount was written off because you never paid it back, it is coded R9. The R ratings are a coding system that translates "on time", "one month late", "two months late", etc., into two-digit codes
Credit Risk	The risk of loss one assumes under a financial contract that a borrower or a counterparty to a loan or other credit-related contract may default or fail to perform its obligations.
Debt	Money owed.
Default	A borrower defaults on his obligations when he fails to make a required payment of principal or interest at a specified time.
Deferred Revenue	Income for which the cash has been collected by the organization, but has yet to be "earned".
Deficit	A deficiency in amount - an excess of expenditures over revenue.
Deliverables	Measurable outputs or change produced by a given program or activity. For example, the number of girls attending school in a given community increased by 50%, or the air pollution in a given area decreases by 30%.
Demand Loan	A loan that must be repaid in full, on demand.
Depreciation	The amount of expense charged against earnings by an organization to write off the cost of a plant or machine over its useful live, giving consideration to wear and tear, obsolescence, and salvage value.
Direct deposit	If you receive money on a regular basis (i.e. from a job, pension, allowance), your employer, the government or person paying the allowance can deposit the money directly into your account.
Disbursement	Payment.

Disbursement quota	The amount that a registered charity must spend each fiscal period on charitable activities or as gifts to qualified donees to keep its charitable registration.
Discretionary funds	Funds distributed at the discretion of one or more trustees or staff, which usually do not require prior approval by the full Board of Directors.
Donor	A person, group or organization that gives or donates something, usually funding, to a charity. A volunteer can "donate" services or time to help solicit further funding from sponsors.
Due Diligence	Process of investigating all risks associated with an organization or grantee.
Economic Development	Any effort or undertaking which aids in the growth of the economy.
EFT/POS	Electronic funds transfer (EFT) at the point of sale (POS). A payment option which allows consumers to pay for purchases by transferring funds directly from their accounts to a merchant's accounts.
Electronic Funds Transfer (EFT)	A system that transfers funds through electronic messages instead of by traditional means, such as cash or cheques.
Executive Director	A person employed by a non-profit organization to oversee operations and management and implement the policy decisions of the Board of Directors.
Expenditure	Actual expenses incurred at the end of a reporting period or a fiscal year.
Expense	A cost, e.g. stationery and supplies, printing and duplicating, postage and telephone.
Fiduciary duty	The legal duty of acting wisely (such as in the case of investing money) on behalf of another. fiduciary responsibilities relates to holding a position of trust that requires a Board member to act honestly, in good faith, and in the best interests of the organization.
Financial Disclosure	Any and all information that affects the full understanding of an organization's financial statements. Some items may not affect the ledger accounts directly. These would be included in the form of accompanying notes, the financial disclosure. Examples of such items are outstanding lawsuits or tax disputes.
Financial report	An accounting statement detailing financial data, including income for all sources, expenses, assets and liabilities. A financial report may also be an itemized accounting that shows how funds were used by an organization.
Fiscal year	The accounting year of an organization, which may or may not be the same as the calendar year.
Fixed assets	Assets like machinery, land, buildings, or property used in operating a business that will not be consumed or converted into cash during the current accounting period.
Fixed expenses	Fixed operational costs that do not change with the volume of activities, such as rent for business premises, insurance payments, utilities, etc.
Form T3010A	The form required from all charities by the Federal Government detailing their activities and expenditure through the year. Charities are required to submit this form within six months of the end of their fiscal year.

Foundation	A foundation is a corporation or a trust constituted and operated exclusively for charitable purposes. Foundations can either carry on their own charitable activities and/or fund qualified donees.
Four Pillars	A term used to describe the main types of financial institutions: banking, trust, insurance and securities
Fund	A sum of money or resources intended for a special purpose.
Funding cycle	A chronological pattern of proposal review, decision-making and applicant notification. Some donor organizations make grants at set intervals (quarterly, semi-annually, etc.) while others operate under an annual cycle.
GAAP	Generally Accepted Accounting Principles: A set of rules and guidelines for reporting financial information. Each country may have its own GAAP.
GIC	Guaranteed Investment Certificate: An investment in which you deposit money, over a fixed period of time, and are paid a set rate of interest.
Gifts in-kind	Donations made to an organization in some form other than money. Some examples of gifts in-kind include land, food, clothing, furniture, and advertising. Gifts in-kind may also be called in-kind donations.
Governance	Refers to the actions of the volunteer Board of Directors of an organization with respect to establishing and monitoring the long-term direction of that organization's values and goals through policy and procedures.
Grant	A sum of money given by a donor to support the work of a Not-for-Profit Organization.
Infrastructure	Base or foundation of a world system (i.e. economy, society, organization). It is the basic equipment required for a particular system to function.
Insurance	Coverage by contract whereby one party agrees to indemnify or guarantee another against loss by a specified contingent event or peril.
Internal control	All measures taken to safeguard assets; check the accuracy and reliability of accounting data; promote operating efficiency; and ensure compliance with the organization's policies and legislation.
Investment	Using money to provide income or profit.
Investment Income	This is income earned on investments you make. Investment income includes interest, dividends and capital gains.
Invoice	Bill for goods or services received or provided.
Journal	A record of transactions, can be manual or computerized.
Lease	An agreement to rent for a period of time at an agreed price.
Letter of Credit	A written undertaking from a bank guaranteeing payment.
Leverage	The use of borrowed money to buy more of an asset than would otherwise be possible in order to increase the potential profit earned on that asset. Used in fundraising as a small, initial investment by an organization in order to create tools to attract and raise additional funds.
Line of Credit	An agreement negotiated between a borrower and a lender establishing the maximum amount of money a borrower may draw. The agreement also sets out other conditions, e.g., how and when money is to be repaid.

Liquidity	Has to do with how easy it is to turn your investments quickly into cash, without a major penalty. Some investments, such as mutual funds, let you cash out on short notice. With others, it depends on how easy it is to find a buyer on the open market. Note: Law or the contract terms may stop you from reselling some securities for months or even years.
Long-term liabilities	Money that you owe over a period longer than 12 months, such as mortgages, bank loans and other obligations.
Minimum monthly balance	The least amount of money that has been in a bank account during the whole month.
Mission Statement	A brief statement outlining the specific task(s) for which a group has charged itself.
Money Markets	The part of the capital market where government Treasury bills, commercial paper, bankers' acceptances and other short-term obligations are bought and sold
Mutual Fund	An investment product in which your money is pooled with the money of many other investors. A professional manager(s) uses the pooled money to buy a portfolio of investments or securities, and monitors each of the investments on an ongoing basis. There are many varieties of mutual funds, each with specific objectives. By investing in a mutual fund, you purchase units of that fund. The value of your units can go up or down depending on the type and performance of the mutual fund
Notes and Disclosures	A detailed set of notes immediately following the financial statements contained in the annual report that expands upon and/or explains in some depth the information contained in the financial statements.
N.S.F. Cheque	Not Sufficient Funds. If a cheque is returned for this reason, it means that there was not enough money in your bank account to cover the amount of the cheque. There is a fee to you if this situation occurs
Operating Loan	A loan intended for short-term financing, supplying cash flow support or to cover day-to-day operating expenses.
Operating Expenses	All of the elements of an organization's cost of doing business, such as salaries, rent, depreciation, and others. Some of these expenses are fixed and some are variable.
Overdraft	The withdrawal from a bank account of an amount greater than the positive balance in the account. Often used to refer to a negative balance in one's account.
Policy	A course or principle of action adopted by a government, party, business or individual.
Prime Lending Rate	The rate of interest charged on loans by credit unions, banks, trust companies to their most creditworthy customers.
Promissory Note	1) An unconditional promise to pay on demand or by a fixed date a certain amount of money. 2) A written promise to pay money or money's worth usually for goods and/ or services received.
Ratio	Comparison of two figures used to evaluate business performance, such as debt/equity ratio and return on investment.

Reconciliation Checking all bank account papers to make sure that the bank's records and your records agree.

Request for Proposal (RFP) An RFP is similar to a job posting, but for a contractor for a specific project. It lists project specifications and application procedures.

Return Any increase in value or in income you earn on an investment.

Risk Tolerance Your comfort level with accepting possible losses from your investments.

Rule of 72 A simple formula that tells you roughly how long it will take to double your money. Formula: Divide 72 by the interest rate or the rate you expect your money to grow in an investment. Example: an investment growing at a rate of 8% per annum could be expected to double in value in approximately nine years.

Securities Investments such as stocks and bonds.

Sponsor A person or organization, usually a business, that supports an activity by pledging money in advance.

Statement A computer printout which lists all the transactions in a bank account for a period of time. Statements are usually given once a month.

Stocks Traded on a stock exchange, these are shares in a company. Essentially, you purchase shares in exchange for owning a part of that company.

Strategic Plan A future-oriented perspective where organization's decisions are made based on an analysis of external and internal trends and data.

Sustainability The ability to meet the needs of today's people and environment without compromising that of subsequent generations. When a program seeks to create sustainability, it aims to create an environment that can renew itself without damage to future stakeholders.

Term deposit An investment in which you deposit money, over a fixed period of time, and are paid a set rate of interest.

Term Loan A loan intended for medium-term or long-term financing to supply cash to purchase fixed assets such as machinery, land or buildings or to renovate business premises.

Treasury Bills (T-Bills) Short-term government obligations that are payable to the bearer and sold on a discount basis; the difference between a T-bill's market or discounted price and its face or redemption value is effectively interest if the T-bill is held to maturity.

Variable expenses Costs of doing business that vary with the volume of business, such as advertising costs, manufacturing costs and bad debts.

Venture Capital Commonly refers to funds that are invested by a third party in a start-up business either as equity or as a form of secondary debt.