Is Your Nonprofit Prepared for a Cash Flow Disruption?

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A practical framework for protecting programs, meeting obligations, and responding when expected funding does not arrive on schedule.

A nonprofit can have a healthy bank balance and still be vulnerable to a cash flow disruption. Some cash may be restricted for a specific purpose, while payroll, program costs, debt payments, or other commitments may already be competing for the remaining funds. A delayed grant reimbursement, pledge payment, contract renewal, or fundraising event can quickly create pressure if the organization does not have enough flexible resources available.

Why preparation matters

Positive net assets do not necessarily prevent a short-term cash shortage. The more important question is whether the organization has enough accessible financial capacity to continue operating if a significant receipt is delayed or an unexpected cost occurs. Planning ahead gives management and the board time to make thoughtful decisions rather than reacting after cash becomes constrained.

Four areas to watch

1. **Timing:** Collection delays on reimbursement grants, pledges, contracts, and other expected receipts.
2. **Availability:** The portion of cash and investments that is unrestricted and available for general expenditures, considering donor restrictions, board designations, and other limitations on use.
3. **Concentration:** Dependence on a major funder, event, contract, or campaign.
4. **Commitments:** Payroll, leases, debt service, grants payable, and other near-term obligations that cannot easily be deferred.

How to prepare for a disruption

Maintain a focused dashboard that includes days or months of available operating cash, available unrestricted resources, operating cash-flow trends, and expected receivable collection dates.

Maintain a rolling 13-week cash forecast that highlights the lowest projected cash point, not only the ending balance.

Run stress scenarios that assume a major receipt is delayed by 30, 60, or 90 days and identify the actions management would take at each stage.

Establish warning thresholds that prompt additional monitoring or board discussion before liquidity reaches a critical level.

Maintain an operating-reserve target based on the organization's funding cycle, fixed costs, seasonality, and access to credit.

Consider establising a line of credit or other backup source of liquidity while the organization is financially strong, rather than waiting until cash is already constrained.

Questions for management and the board

- How much of our reported cash is available for general operations today?
- When is our lowest projected cash point?

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- Which expected receipts create the greatest timing risk?
- What expenses could be delayed or reduced with the least impact on programs, staff, and essential operations?
- Who has authority to use reserves or access a line of credit during a disruption?
- How quickly could we respond if a major receipt were delayed?
- Does our operating reserve policy clearly define when reserves may be used, who can authorize their use, and how reserves will be replenished?

Cash flow disruptions are not always avoidable, but their impact can be managed. Regular forecasting, clear decision points, and access to flexible resources can help an organization continue serving its mission while navigating uncertainty.

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