

SINK YOUR NONPROFIT



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HEY THERE!

Would you agree that running a nonprofit has gotten harder over the past few years?

Grant funding is less predictable, donor giving is inconsistent, costs keep climbing, and your board expects clean financials at every meeting.

That can make it feel like you're flying blind — never quite sure if this quarter's numbers will support next quarter's programs.

You may be managing several grants and funding sources at once, each with its own restrictions, reporting deadlines, and rules about what the money can (and can't) be spent on. Keeping all that straight while also running programs, managing staff, and reporting to your board is a lot to carry.

On top of rising costs and donor fatigue, waiting on reimbursement from government and foundation grants can leave your organization short on cash for weeks or months at a time — even when the money is technically "yours."

As a nonprofit leader, you must make dozens of financial decisions every week: how to allocate expenses, when to bill a grant, how much to keep in reserve, how to explain the budget to your board...

And it can be hard to know if you're making the right call.

When was the last time you felt unsure about a financial decision for your organization?

Are you worried a well-intentioned mistake could jeopardize your grant funding or your organization's reputation?

You may be doing important work, but is your organization's money set up to support it long-term?

The truth is a lot of nonprofit leaders I talk with struggle with the financial side of running their organization — and it's not their fault.

A recent Nonprofit Finance Fund survey found that 52% of nonprofits report three months or less of operating cash on hand — up from 39% just a few years earlier. That kind of cash cushion, or lack of one, determines whether your organization can weather a delayed grant payment or a slow fundraising quarter without cutting programs or staff.



If that sounds like you, it's not your fault.

You've spent thousands of hours building programs that change lives in your community. You care deeply about your mission, and I'd bet you're proud of the impact you've made.

But through no fault of your own, you probably haven't gotten the financial guidance you need to build an organization that's not just doing good work, but is financially resilient enough to keep doing it for decades.

After years of experience as an auditor, a Comptroller working directly with government contracts and grant compliance, and a CFO, I've seen many nonprofits struggle with the same handful of issues.

They succeed through passion, grit, and a genuine commitment to their cause — but they also carry far more financial stress and uncertainty than they should, while stretching every dollar further than it needs to be stretched.

In fact, I've found that most nonprofits under \$5M in revenue make seven financial mistakes that — left unaddressed — can quietly drain resources, jeopardize funding, and put the mission at risk.

The good news: every one of these mistakes is fixable, often without adding headcount or overhauling your systems.

So, let's walk through the seven financial mistakes that could sink your nonprofit, and the strategies that will help you fix them.

MISTAKE 01

Misallocating Functional Expenses



7 FINANCIAL MISTAKES THAT COULD SINK YOUR NONPROFIT



MISTAKE

01

Misallocating Functional Expenses

Why This Fatal Flaw Could Undermine Donor Trust and Grant Funding

Functional expense allocation isn't a bookkeeping afterthought — it's how donors, grantors, and watchdog groups like Charity Navigator judge whether your organization is a good steward of its resources. Get this wrong, and you risk misleading your board, your funders, and the public about how efficiently you run your programs.

Example:

Your organization spends \$300,000 on a shared program director's salary. She spends roughly 70% of her time on program delivery and 30% on general administration and fundraising support. If your books allocate 100% of her salary to "management and general" out of convenience, your Form 990 will show a program expense ratio that looks far worse than reality — right when a major funder is reviewing your financials for a renewal decision.

The Domino Effect:

An inaccurate program ratio can cost you grants, damage your standing with rating agencies, and trigger uncomfortable board questions about overhead — even when your actual stewardship of funds is sound.

The Devil's in the Details:

Functional allocation isn't just about salaries. Rent, utilities, technology, and insurance often need to be split across program, management and general, and fundraising categories using a reasonable, documented methodology — time studies, square footage, or another consistent basis.

The Solution:

Build (and document) an allocation methodology: Choose a defensible basis – time studies for payroll, square footage for facilities – and apply it consistently year over year.

Use accounting software that supports “classes” or “locations”: QuickBooks Online (Plus or Advanced) and similar tools let you tag every transaction with a functional category as you enter it, rather than reconstructing it at year-end.

Consult a nonprofit-focused CPA: A generalist accountant may not know that your allocation methodology needs to hold up to both your auditor and a program officer reviewing your grant report. A specialist can build a defensible, board-ready allocation policy.

Bottom line: functional expense allocation isn’t a compliance checkbox – it’s how the outside world judges your organization’s efficiency and trustworthiness. Get it right, and your numbers tell the true story of your impact.



MISTAKE 02

Neglecting a Rolling Cash Forecast



MISTAKE 02 Neglecting a Rolling Cash Flow Forecast

Why You're Lost Without Your Financial GPS

For a nonprofit, a rolling cash flow forecast is your lifeline — especially when much of your revenue arrives after you've already spent the money. It's not a static budget; it's a living picture of your cash position over the next 13, 26, or 52 weeks.

Real Talk: Operating without a forecast means you don't know today whether you can make payroll in six weeks if that state grant reimbursement is running late — and reimbursement delays are common, not rare.

Big Picture Focus: A rolling forecast shows you the gap between when you spend grant dollars and when you get reimbursed, so you can plan a bridge — a line of credit, a reserve draw, or a timed fundraising push — before you're in a bind.

Your Toolbox for Next-Level Forecasting

Software: QuickBooks Online paired with a forecasting tool, or a well-built spreadsheet model, can track cash by funding source.

The 13-Week Cash Flow Model: Project your cash position week by week for the next quarter, broken out by restricted and unrestricted funds. This is the single most useful tool for spotting a squeeze before it happens.

Stuff You Can Do Right Now

Negotiate Faster Reimbursement Cycles: Online paired with a forecasting tool, or a well-built spreadsheet model, can track cash by funding source.

Smart Bill Pay: Time discretionary payments (not payroll or grant-required costs) to align with when reimbursements typically land.

Bottom line: a rolling cash flow forecast is your organization's financial GPS — it shows you the road ahead, so a delayed grant payment doesn't become a payroll crisis.



MISTAKE 03

Failing to Track Restricted Funds and Grant Compliance



MISTAKE 03 Failing to Track

Restricted Funds and Grant Compliance

Why Losing Track of Restrictions Can Cost You the Grant – and the Next One

Every grant and restricted donation comes with rules: what it can be spent on, by when, and what you must report. Losing track of those restrictions is one of the fastest ways to damage a funder relationship.

The Domino Effect: Spending restricted funds outside their intended purpose — even by accident — can force you to repay the funder from unrestricted reserves, trigger a finding on your Single Audit, or disqualify you from renewal. A single finding on a federal award can follow your organization into your next several audits.

Time Is Money: Untangling a restricted-fund mix-up after the fact often takes far more staff time than tracking it correctly from the start — time your small team doesn't have to spare.

Steps for Comprehensive Tracking

Fund/Grant-Level Accounting: Use "classes" or "projects" in your accounting software to track income and expense by individual grant or restriction, not just by total revenue.

Grant Compliance Calendar: Maintain a master calendar of every grant's reporting deadlines, spending deadlines, and allowable-cost rules in one place your whole team can see.

Know Your Single Audit Exposure: If your organization expends \$1 million or more in federal funds in a fiscal year (the threshold rose from \$750,000 for fiscal years beginning on or after October 1, 2024), you'll need a Single Audit. Track your cumulative federal expenditures monthly so you're never caught off guard.

At the end of the day, your funders trust you to steward restricted dollars exactly as promised. Comprehensive tracking isn't red tape – it's what earns you the next grant.



MISTAKE 04

Overlooking Available Cost Recoveries





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Overlooking Available Cost Recoveries

Why Leaving Indirect Costs and Documentation on the Table Is a Cash Flow Miss

You're stretching every dollar to fund your mission, but are you recovering everything you're entitled to? Indirect cost recovery and proper in-kind documentation aren't loopholes — they're funds you've already earned the right to claim.

De minimis Indirect Cost Rate:

If you don't have a negotiated indirect cost rate with a federal agency, you can now claim a de minimis rate of up to 15% of modified total direct costs on federal awards — up from 10% before the 2024 Uniform Guidance revision. Many small nonprofits still aren't claiming this.

In-Kind Donation Documentation:

Donated space, professional services, and goods often qualify as in-kind revenue and expense on your financials and toward grant match requirements — but only if you document fair market value and get it on the books. Skipping this understates your organization's true impact and can leave matching requirements unmet on paper, even when you've met them in practice.



Tap Into Hidden Recovery

Between a properly claimed indirect cost rate and accurately captured in-kind support, a mod-sized nonprofit can often recover tens of thousands of dollars a year in costs it was already incurring but not claiming

Take Action to Keep that Cash

Regular Check-ins: Grant rules change. Consistent communication with a nonprofit CPA or outsourced CFO ensures you're claiming everything you're entitled to.

Reinvest the Recovery: Use recovered indirect costs to fund the administrative capacity your organization needs to grow — without asking your board to raise overhead spending.

Bottom Line: cost recovery isn't just a year-end exercise — it's a year-round opportunity to fund your mission with dollars you've already earned.



MISTAKE 05

Not Having An Automated Grant Billing and Donor Receipting Process





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Why Your Billing Strategy Can Make or Break Your Cash Flow

Cash is oxygen for a nonprofit. No cash, no programs. What's often choking your cash flow? A manual, inconsistent process for drawing down grants and processing donations.

Don't Just React, Act:

Automate Grant Drawdowns: Build a repeatable monthly or quarterly process for submitting reimbursement requests the moment you're eligible — don't wait until cash gets tight to remember you're owed money.

Automate Donor Receipting: Use donor management software that automatically sends tax receipts and pledge reminders. Manual receipting delays donor trust and your own reporting.

Milestone-Based Funding: A Custom Fit

Government Grants: Reimbursement usually requires detailed backup documentation and comes after expenses are incurred — plan your cash accordingly.

Foundation Grants: Often paid upfront or in installments tied to reporting milestones – track those milestones closely

Individual and Major Donors: Pledges may be paid overtime; a documented pledge-tracking process prevents revenue from slipping through the cracks

Importance of Documentation

Clear Processes: Document how billing and receipting work for each funding type – written down and standardized, not just tribal knowledge held by one staff member.

Backup All Claims: Keep time sheets, receipts, and other backup ready before a funder or auditor asks for it.

Bottom line: get your grant billing and donor receipting tight, and you free up staff time while protecting the cash flow your programs depend on.

MISTAKE 06

Under-Funding Your Operating Reserve





MISTAKE.

06

Under-Funding

Your Operating Reserve

Cash Is Your Organization's Financial Backbone – Don't Let It Run Dry

Without a healthy operating reserve, your nonprofit can't weather a late grant payment, a canceled event, or an unexpected expense without cutting programs or staff.

The Danger of Running on Empty

More than half of nonprofits surveyed recently reported three months or less of operating cash on hand — up sharply from a few years ago. That means a single delayed payment can turn into a payroll crisis for many organizations in the sector.

Reserve-Building Wisdom

Target Range: Most nonprofit finance experts recommend a minimum of three months of operating expenses in reserve, with six months as a healthier target for organizations with concentrated or seasonal revenue.

Keep It Separate: Hold reserve funds in a separate account so they aren't accidentally treated as available operating cash.

Board-Approved Policy: Adopt a written reserve policy your board approves — this protects the reserve from being spent down informally and gives you language to explain it to donors who ask about "excess" cash.

**Master Your Revenue
Concentration:**

Diversify Funding Sources: Relying heavily on one grant or one major donor is the single biggest driver of reserve depletion when that funding is delayed or lost.

Watch Your Burn Rate: Review your monthly spending pace against incoming cash regularly, and adjust before a shortfall becomes urgent

By Building a real reserve, you're not hoarding donor dollars – you're making sure your mission can survive the inevitable bumps in funding.



MISTAKE 07

Skipping a Nonprofit- Specialist CPA





MISTAKE

07

Skipping a

Nonprofit-Specialist CPA

Pick the Right Pro for Your Mission

You wouldn't take a general practitioner's advice on a specialized medical issue — you'd see a specialist. The same logic applies to your organization's finances.

A CPA firm that specializes in nonprofits understands functional expense allocation, restricted fund accounting, Single Audit requirements, and Form 990 nuances that a generalist accountant may only see once every few years.

Year-Round Game Plan

Nonprofit financial oversight isn't a once-a-year event — it's ongoing. A specialist will want regular check-ins throughout the year, not just when the audit or the 990 is due.

Strategies for Teaming Up with an Expert:

Mission Alignment: Choose an advisor who understands and respects your mission, not just your numbers.

Regular Check-ins: Monthly or quarterly financial reviews keep your board informed and your organization audit-ready year-round.

ROI on Point: A specialized CPA or outsourced CFO costs money upfront, but the payoff — recovered indirect costs, avoided audit findings, stronger grant relationships — typically pays for itself many times over.

By getting the right financial advice, you're not just protecting your organization — you're freeing up your time and energy to focus on the mission that brought you to this work in the first place

Quit Losing Sleep Over Your Books and Start Building Financial Resilience

Would you like to strengthen your nonprofit's cash flow and financial stability while staying fully compliant with your funders and your board?

If you read this guide and recognized one or more of these seven mistakes in your own organization, don't lose hope.

We specialize in helping nonprofit leaders like you fix these issues and build a financially resilient organization that can sustain its mission for the long haul...

We care about the nonprofit community in Florida and beyond, and we're here to help.

I'd like to offer you a free 30-minute Nonprofit Discovery Call to see how these strategies could apply to your organization.

There's no obligation, and I won't hold anything back.

By the end of our call, you'll have a clear picture of where your organization stands financially and what to prioritize next.

Best case: I help you recover thousands of dollars in unclaimed costs and hours of staff time every month.

Worst case: you confirm your financial house is already in order. Either way, you walk away with clarity.

You can book your free Non-profit Discovery Call with me here:

<https://calendly.com/yourdesiredadvisors/fractional-cfo-discovery-call-nonprofit>

On this call, I'll review your functional expense allocation, restricted fund tracking, and financial reporting to help you stay compliant, funder-ready, and financially resilient...

Talk soon,

MERREWILNED NICHOLS, CPA, MBA

About The Author

Hi there! My name is

MERREWILNED NICHOLS

And I'm a CPA, MBA, and fractional CFO who helps nonprofit leaders like you build the financial infrastructure to sustain your mission for the long haul.

With nearly two decades of controller-level experience – including time as an auditor, a Comptroller working directly with government contracts and grant compliance, and a CFO – I've seen firsthand how easy it is for well-run nonprofits to lose funding or staff time to preventable financial mistakes

I'm excited to speak with you and help you get clarity on your organization's cash flow, grant compliance, and financial reporting

If you've ever worried about a restricted-fund mix-up, an upcoming audit, or whether your board really understands your financials....

I might be able to save you thousands of dollars in unclaimed costs and dozens of hours of staff time in a 30-minute call.

This complimentary Nonprofit Discovery Call comes with no obligation, and I'll hold nothing back

After discussing your organization and goals, you'll have complete clarity about where you stand and where you're headed

If you'd like support putting the plan into action, I'd be glad to discuss working together – but you don't have to become a client to get real value from our conversation



If you want to build a more financially resilient nonprofit, you can book your free Nonprofit Discovery Call here:

You can book your free Non-Profit Discovery Call

<https://calendly.com/yourdesiredadvisors/fractional-cfo-discovery-call-nonprofit>