



Chart your future business
model with new insights
and connections

Nonprofit Liquidity and Cash Flow: An Urgent Approach to Building Your Operating Runway

November 18, 2025

Nonprofit GPS

A field-driven collaboration led by:

Nonprofit Financial Commons, BDO Nonprofit & Grantmaker Advisory, and Philanthropy New York —
with tools and frameworks from StrongNonprofits.org and insight from regional networks across the nation.



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Assessing the Risk Landscape

Minimal Expected Impact:

Maintain Current Operations

Either no changes to revenue/programs
OR minor funding decreases for some.
Limited risk from internal practices and
procedures.



- Programs are sustained or moderately reduced.
- Focus on minimizing expenses that do not significantly impact mission activities and planning for sustainability.

Significant Areas at Risk:

Business Model Recalibration

Moderate funding decreases from one or
multiple revenue streams or other
critical program impacts.



- Programs may scale down while core services are prioritized.
- Undertake cost reduction strategies.
- Explore new revenue streams and strategies.
- Look into opportunities to collaborate with others or outsource back-office functions.

Existential Redefinition:

Alternative Operating Model or Restructuring

Substantial funding decreases from
primary revenue sources or other
existential threats.



- Dramatic restructuring might include moving to fiscal sponsorship, transferring program(s) to another organization, or merging with another nonprofit.
- Winding down of operations and dissolving the organization might be necessary if other options are not feasible.

Defining Liquidity



Operating Reserves

(aka LUNA – Liquid Unrestricted Net Assets)

**Reserves indicate long term financial health & flexibility -
a safety net and resources to invest in change & growth**

WHAT ARE THEY?

- Reserves are like savings
- Liquid
- Unrestricted

WHY ARE THEY NEEDED?

- Serve the mission during downturn
- Take risks, innovate and grow
- Cover frontloaded expenses

HOW ARE THEY BUILT?

- Annual surpluses
- Fundraising campaign or investment
- Strategic budgeting

Key Liquidity Metrics

Defined

Months of LUNA (Liquid Unrestricted Net Assets)

Reserves:

Portion of unrestricted net assets that could be converted to cash relatively easily

Common Benchmark: 3-6 Months

Unrestricted Net Assets – Illiquid Net Assets = **LUNA**

$$\frac{\text{LUNA}}{\text{Average Monthly Operating Expenses}} = \text{Months of LUNA}$$

Months of Cash

Liquidity:

Number of months that an organization could continue to pay its operating expenses with current cash balances (includes restricted and unrestricted cash).

Common Benchmark: 3-6 Months

$$\frac{\text{Cash and Cash Equivalents}}{\text{Average Monthly Operating Expenses}} = \text{Months of Cash on Hand}$$

Sample Calculations



Statement of Financial Position	
Assets	Jun 30, 2020
Cash	1,103,580
Receivables	563,000
Fixed assets, net	47,875
Total assets	1,714,455
Liabilities and Net Assets	
Liabilities:	
Accounts payable	340,000
Fixed Asset debt	16,000
Total liabilities	356,000
Net assets:	
Without donor restrictions	
Operations	354,455
Board designated	250,000
Total unrestricted	604,455
With donor restrictions	754,000
Total net assets	1,358,455

MONTHS OF CASH

Annual Expenses	2,499,996
÷ Number of Months	12
= Monthly Expense	208,333
Cash	1,103,580
÷ Monthly Expense	208,333
= Months of Cash	5.3

MONTHS OF LUNA

Unrestricted Net Assets	604,455
- Board designated	250,000
- (Fix assets, net-Fixed asset debt)	31,875
= LUNA	322,580
÷ Monthly Expense	208,333
= Months of LUNA	1.5

Months of LUNA vs CASH

Months of LUNA = 1.5

VS

Months of Cash = 5.3

LUNA

Unrestricted net asset
balance that can easily be
converted to cash

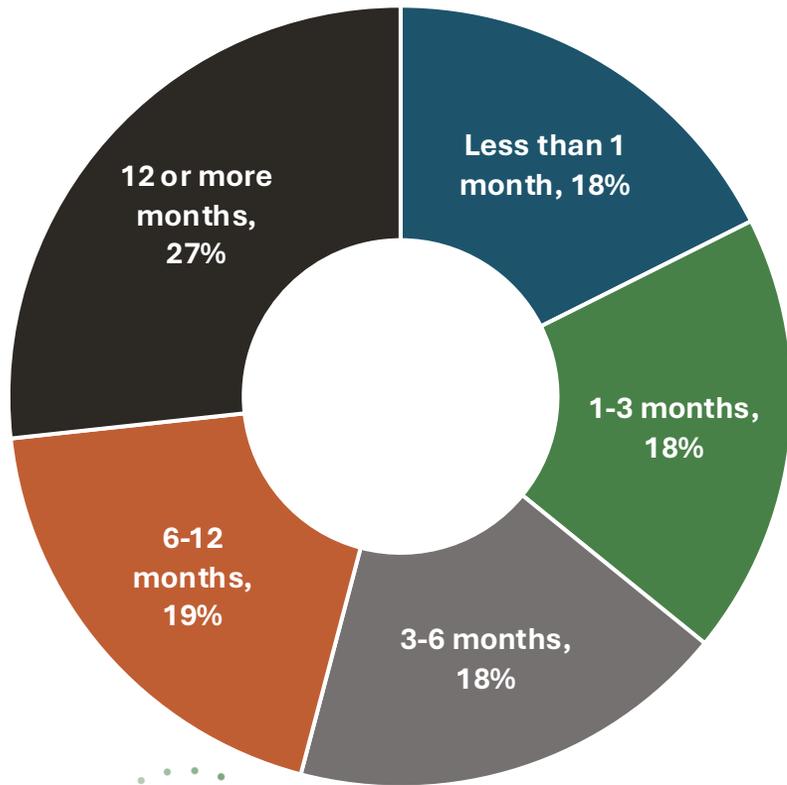
CASH

Asset that may include both
unrestricted and **restricted**
funds as well as debt

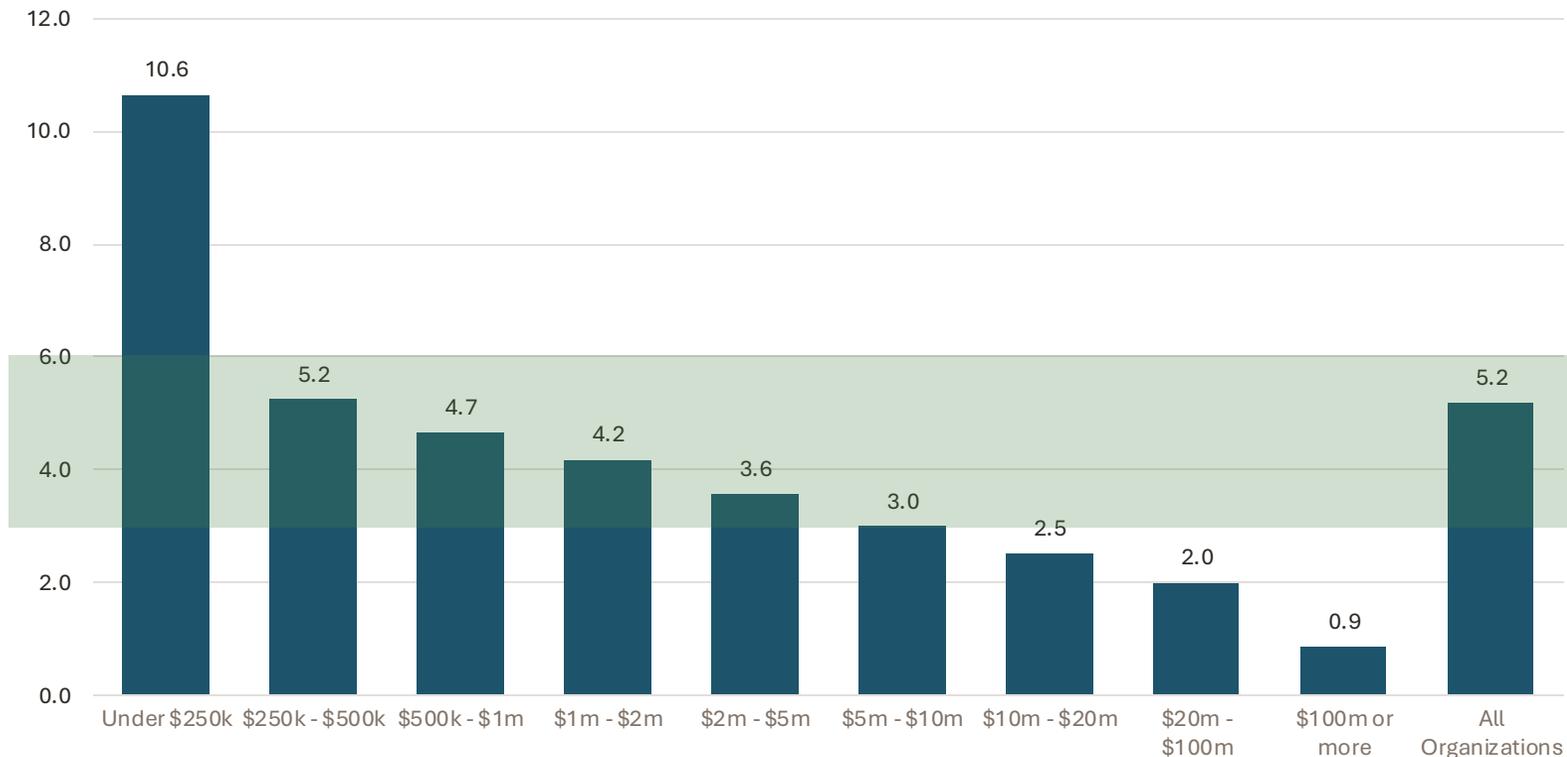
Months of Cash on Hand Across the Sector

46% of organizations have more than 6 months of cash on hand

Smaller organizations have relatively more cash on hand than do larger organizations



Median Months of Cash on Hand by Budget Size

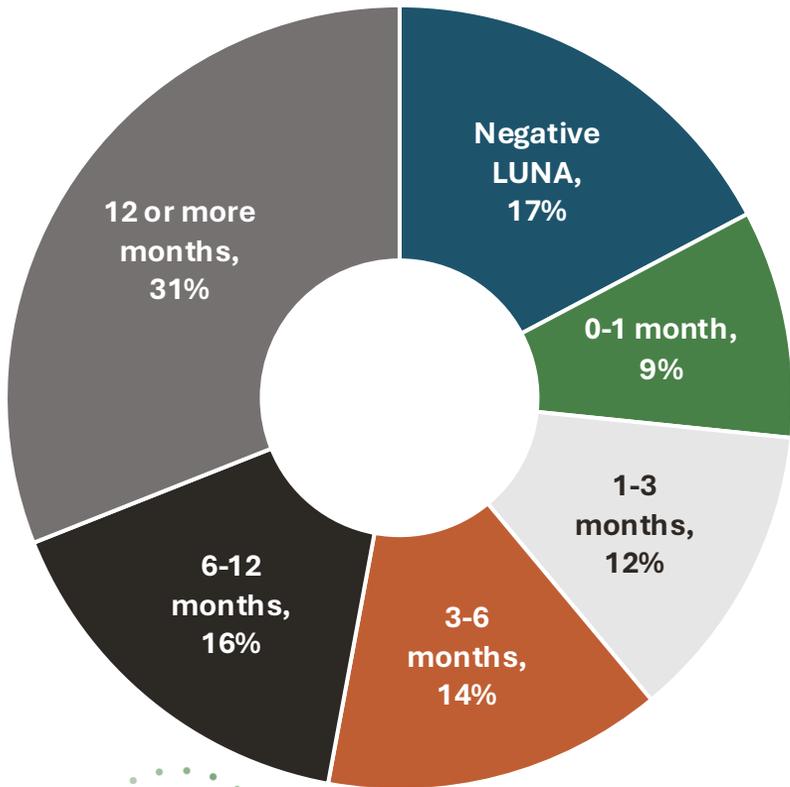


Financial data is drawn from a dataset of IRS Form 990 filings made available by the IRS. This analysis is limited only to those organizations for which IRS Form 990 data is available as of March 25, 2025.

Months of LUNA Across the Sector

39% of organizations have less than 3 months of unrestricted reserves

Smaller organizations have relatively more LUNA than do larger organizations



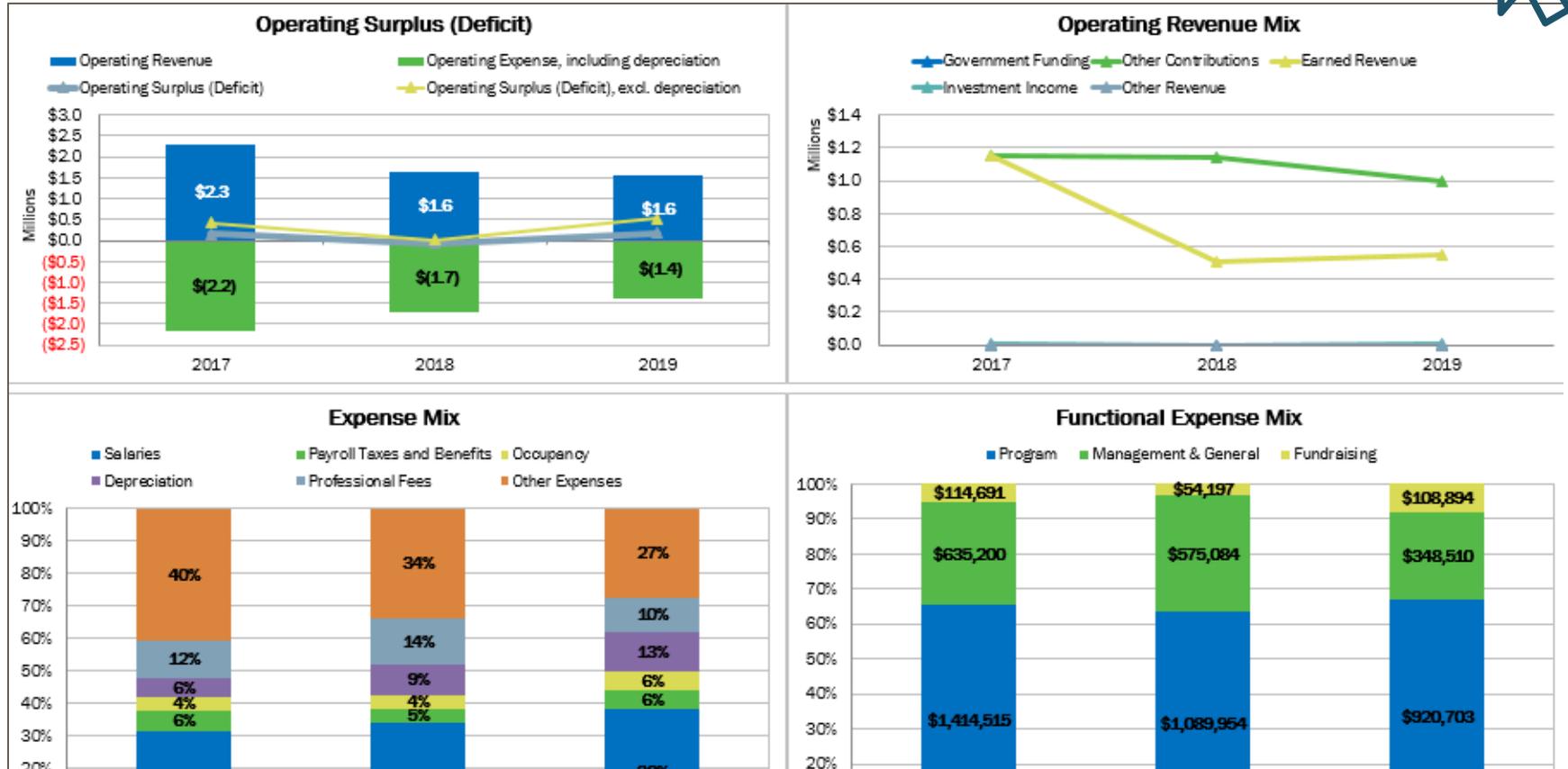
Median Months of LUNA by Budget Size



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Nonprofit Financial Health Assessment

StrongNonprofits.org



Assessing Liquidity Needs



How much cash-on-hand is needed to cover operating expenses?



How does the timing of operating revenue and expenses affect cash needs?



What are the organization's long-term goals?



Any policies for cash-on-hand targets to be aware of?

Developing your Reserve Fund Policy

A Template and Guide for Nonprofits

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Part One: Reserve Fund Policy Template

Purpose

The purpose of the Reserve Fund for Name of Organization is to help ensure the long-term ability of the organization to meet its mission. Name of Organization will maintain the reserve to achieve the following objectives:

- To create an internal line of credit to manage cash flow and maintain financial flexibility
- To enable the organization to sustain operations through delays in payments of committed funding
- To pay for one-time, nonrecurring expenses that will build capacity, such as staff development or research and development

The Reserve Fund is not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of Name of Organization for reserves to be used and replenished within a year.

Definitions & Goals

The Reserve Fund is defined as funds set aside by action of the Board of Directors. Its ongoing operation and oversight is delegated to the Executive Committee/Finance Committee.

TARGET MINIMUM AMOUNT

The minimum amount to be designated for the Reserve will be established as an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The target minimum Reserve Fund is equal to \$_____, representing three (3)/six (6)/twelve (12) months of operating expenses on average.

The calculation of average monthly operating expenses includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation.

FUNDING RESERVES

To establish the Reserve Fund, the Name of Organization Board of Directors has designated \$_____ of existing accumulated liquid unrestricted net assets as the beginning balance of the fund. The remaining \$_____ is to be funded over the next _____ years through funding strategies incorporated into annual fundraising and budget planning.

The amount of the Reserve Fund target minimum will be calculated each year as part of the annual budgeting process. This amount will be reported to the Executive Committee/Finance Committee/Board of Directors and included

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Part Two: Reserve Fund Policy Guide

PRO TIP 1
Articulate a clear set of objectives

In the first section of your Reserve Fund Policy, you'll outline the purpose and objectives of the fund. While the purpose language can be general, you'll want to take some time to reflect on why your organization needs an operating reserve and identify a few specific objectives. Here are some sample considerations and related objectives to help guide your thinking. The objectives you choose should reflect the particular considerations of your organization.

Consideration	Objective
Your organization is entrepreneurial and innovative, which from time to time requires it to incur unexpected costs	To pay for one-time, nonrecurring expenses that will build capacity or provide long-term benefits
Your organization faces seasonal shortfalls in revenues/increases in expenses	To provide an internal source of funds during seasonal deficits
Your organization is located in an area that experiences significant natural disasters	To provide an internal source of funds to respond during an unexpected natural disaster

A key first step to building a Reserve Fund is determining the appropriate amount of reserves to have on hand at your organization. Most organizations set the target minimum as a fixed number of months of operating expense or percentage of annual operating expenses. There's no standard formula to determine the right amount, but you can start by evaluating the revenue and spending risk factors that are specific to your organization.

All organizations bear some inherent risk in their business models. Typically those risks relate to revenue streams or spending patterns:

PRO TIP 2
Assess your risks to set your target

- **Revenue risk factors** include any factors that could make your revenue volatile or inconsistent.
- **Spending risk factors** include any factors that could make it difficult for your organization to adjust or scale back expenses.

Follow the three-step instructions on the next page to determine how your organization's business model and inherent risks will inform the target reserve minimum you set.





Ruth McCambridge
Co-Founder and Director of Content
Nonprofit Financial Commons



Beth Baro
Director
WillowTree of Posey County

Creating a Cash Flow Projection

Budget vs. Forecast vs. Projections



Annual Operating Budget

An estimated plan for income and expenditures within a fiscal year



Annual Forecast

A combination of actuals to date and anticipated year-end performance based on your newest and most up-to-date information



Cash Flow Projections

A rolling 6 to 12-month plan for cash disbursements and receipts, month by month, incorporating both operating and capital requirements

Getting Started with Cash Flow Projections



Enter appropriate beginning balance

- Reference balance sheet or bank statement(s)



Customize line items

- Mirror budget structure and/or parent accounts in COA
- Or use pre-populated line items in cash flow tool



Populate tool

- Populate annual cash flow to match budget while making assumptions around when revenue and expenses will hit your bank account

Data Structure and Maintenance



Good Reports Require Good Data

- Set up your financial management systems to work for your business model
- Align data sets across disparate systems
- Incorporate regular staff training on reviewing and communicating financial information
- Institute a clear monthly close process

Cash Flow Projections: Where to Focus

	Current Yr Budgeted	July	Aug	Sep	Oct	Nov	Dec
Total Cash Receipts	\$2,892,560	\$356,422	\$426,701	\$230,383	\$188,433	\$258,953	\$204,699
Total Cash Disbursements	\$2,816,563	\$234,251	\$233,492	\$218,821	\$214,360	\$230,503	\$214,524
Excess (Shortfall) from operations		\$122,171	\$193,209	\$11,562	(\$25,927)	\$28,450	(\$9,825)
CAPITAL AND FINANCING							
<i>Cash Receipts</i>							
Cash received from loans/financing							
Transfers from savings/investments							
<i>Cash Disbursements</i>							
Capital purchases							
Repayment of loan principal	36,442	2,983	2,993	3,002	3,012	3,022	3,032
Transfers to savings/investments							
NET CASH EXCESS (SHORTFALL)		\$119,188	\$190,216	\$8,560	(\$28,939)	\$25,428	(\$12,857)
ROLLING CASH BALANCE		\$374,883	\$565,098	\$573,658	\$544,719	\$570,147	\$557,290

Cash Flow Projection Template

Cash Flow Projections

Cash Flow Projection Template + Online Tutorial

www.StrongNonprofits.org



	Prior Year Carryover	Current Yr Budget	Spread Evenly?	Jan	Feb	Mar	Apr	May	Jun	Jul
CASH RECEIPTS										
<i>Contributions & Support</i>										
Foundations										
Corporations										
Individual contributions										
[additional line item]										
<i>Government Contracts</i>										
Federal										
State/Local										
[additional line item]										
<i>Other Revenue</i>										
Investment income										
Program service fees										
Special events										
Miscellaneous										
<i>Prior Year Receivables</i>										
Foundation grants receivable										
Collection of other receivables										
Total Cash Receipts	\$0	\$0		\$0	\$0	\$0	\$0	\$0	\$0	\$0
CASH DISBURSEMENTS										
<i>Personnel</i>										
Salaries & wages										
Payroll taxes										
Medical benefits										



Monitoring and Using a Cash Flow Projection

Monitoring and Using the Information



Actualize monthly

- Reference P&L report in cash basis and bank statements



Reproject forward

- Use in collaboration with AP and AR reports to inform projections
- Stay informed about major changes in programming, hiring, etc.



Inform decision-making

- Share with Finance Committee, Board Treasurer, and Executive Leadership monthly or as needed

Cash Flow Discussions

What to Consider in a Cash Crunch

Increase Cash Receipts



Focus on **receivables** collections



Liquidate short-term investments



Negotiate with **funders** on payment timing

Minimize Cash Disbursements



Delay or **eliminate** controllable expenses



Delay non-critical vendor payments

Access Financing



Use your **line of credit**

Financing Options

Line of Credit

- Can be used to smooth out **unevenly matched cash inflows and outflows** over the course of a year.
- Outstanding balances will **incur interest** that must be paid monthly and other fees.
- Not intended to be used to fund an **operating deficit**.
- May require **board approval** to draw down.
- **May have terms attached including:**
 - Fees for non-use
 - Periodic “clean up” provision.
 - Financial reporting requirements and covenants.

Credit Card

- Used for **ease of staff purchases**.
- Requires monthly **payment of a portion of principal and interest**.
- Ideally **paid down in full monthly**, following review and approval of purchases, in order to avoid costly interest charges.
- **Does not require Board approval** for use.

Other

- If terms are favorable, **explore leasing or rental arrangements**, instead of outright purchases, in order to spread cash outflows over time.
- Explore **bridge-loans**, possibly available from philanthropic organizations or other sources.

What Not to Do in a Cash Crunch

- Delay payment of payroll, payroll taxes, and/or benefits
- Delay payments to vendors that will impact the quality of programming
- Rely on personal loans from board members or others without adequate documentation & board approval





Ruth McCambridge
Co-Founder and Director of Content
Nonprofit Financial Commons



Jerome Underwood
President & CEO
Action for a Better Community, Inc.

Q&A



Mark Hager
Moderator
Nonprofit Financial Commons



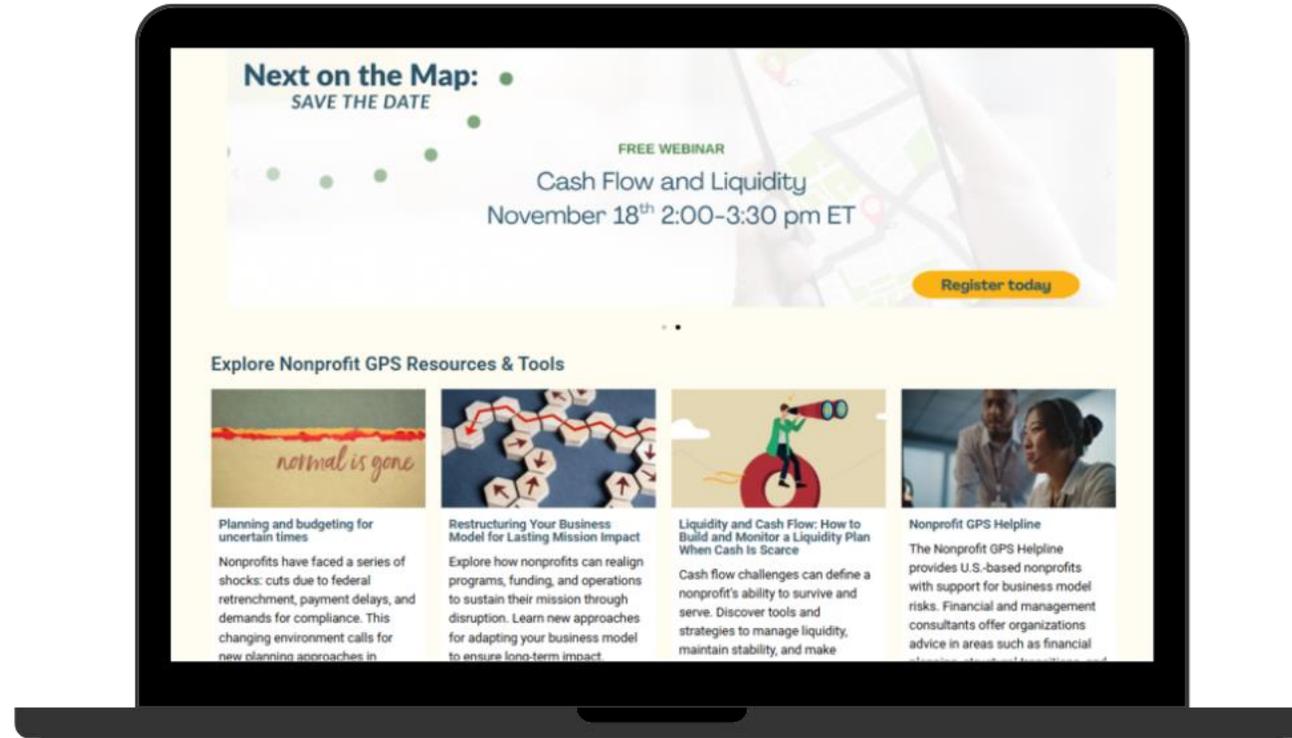
Respond in the CHAT

What key takeaway from the webinar are you most excited to act on?

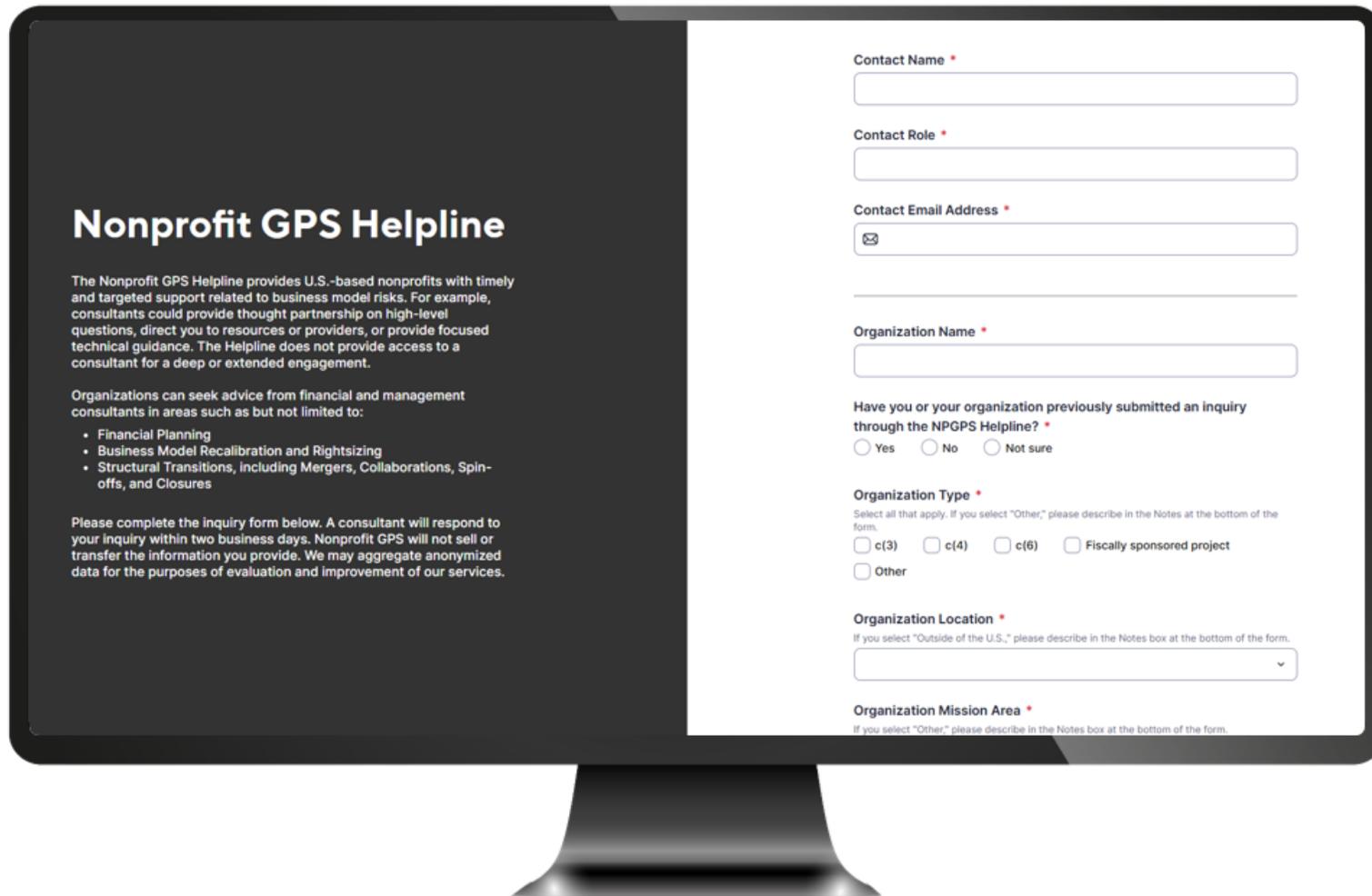


NonprofitGPS

Chart your future business model with new insights and connections



Nonprofit GPS Helpline



Nonprofit GPS Helpline

The Nonprofit GPS Helpline provides U.S.-based nonprofits with timely and targeted support related to business model risks. For example, consultants could provide thought partnership on high-level questions, direct you to resources or providers, or provide focused technical guidance. The Helpline does not provide access to a consultant for a deep or extended engagement.

Organizations can seek advice from financial and management consultants in areas such as but not limited to:

- Financial Planning
- Business Model Recalibration and Rightsizing
- Structural Transitions, including Mergers, Collaborations, Spin-offs, and Closures

Please complete the inquiry form below. A consultant will respond to your inquiry within two business days. Nonprofit GPS will not sell or transfer the information you provide. We may aggregate anonymized data for the purposes of evaluation and improvement of our services.

Contact Name *

Contact Role *

Contact Email Address *

Organization Name *

Have you or your organization previously submitted an inquiry through the NPGPS Helpline? *

Yes No Not sure

Organization Type *

Select all that apply. If you select "Other," please describe in the Notes at the bottom of the form.

c(3) c(4) c(6) Fiscally sponsored project

Other

Organization Location *

If you select "Outside of the U.S.," please describe in the Notes box at the bottom of the form.

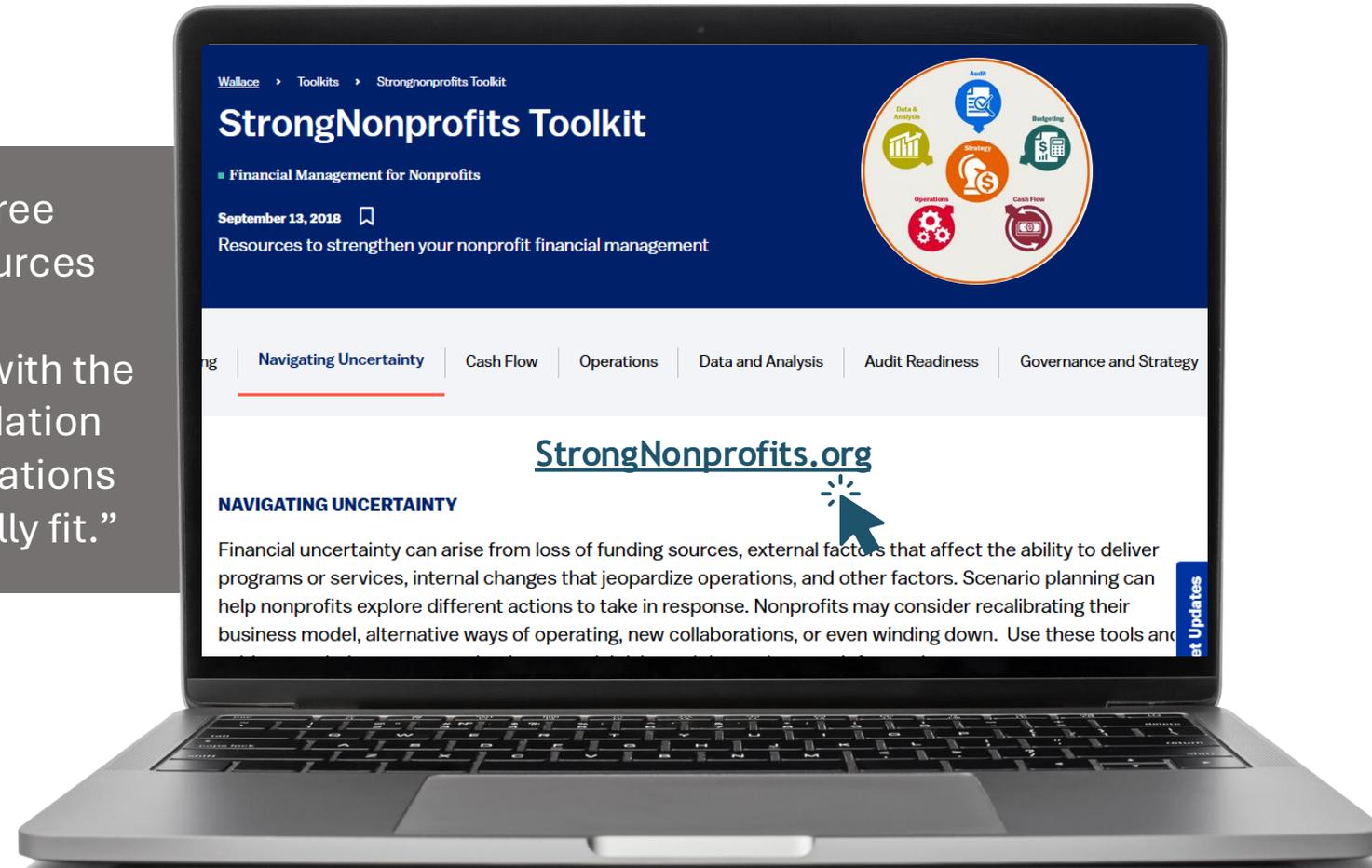
Organization Mission Area *

If you select "Other" please describe in the Notes box at the bottom of the form.

Nonprofit finance consultants are available to support nonprofit leaders in navigating business model risks through a public helpline.

Financial Management Resources

This library of free tools and resources was created in collaboration with the Wallace Foundation to help organizations become “fiscally fit.”



Cash Flow Projections

Cash Flow Projection Template + Online Tutorial

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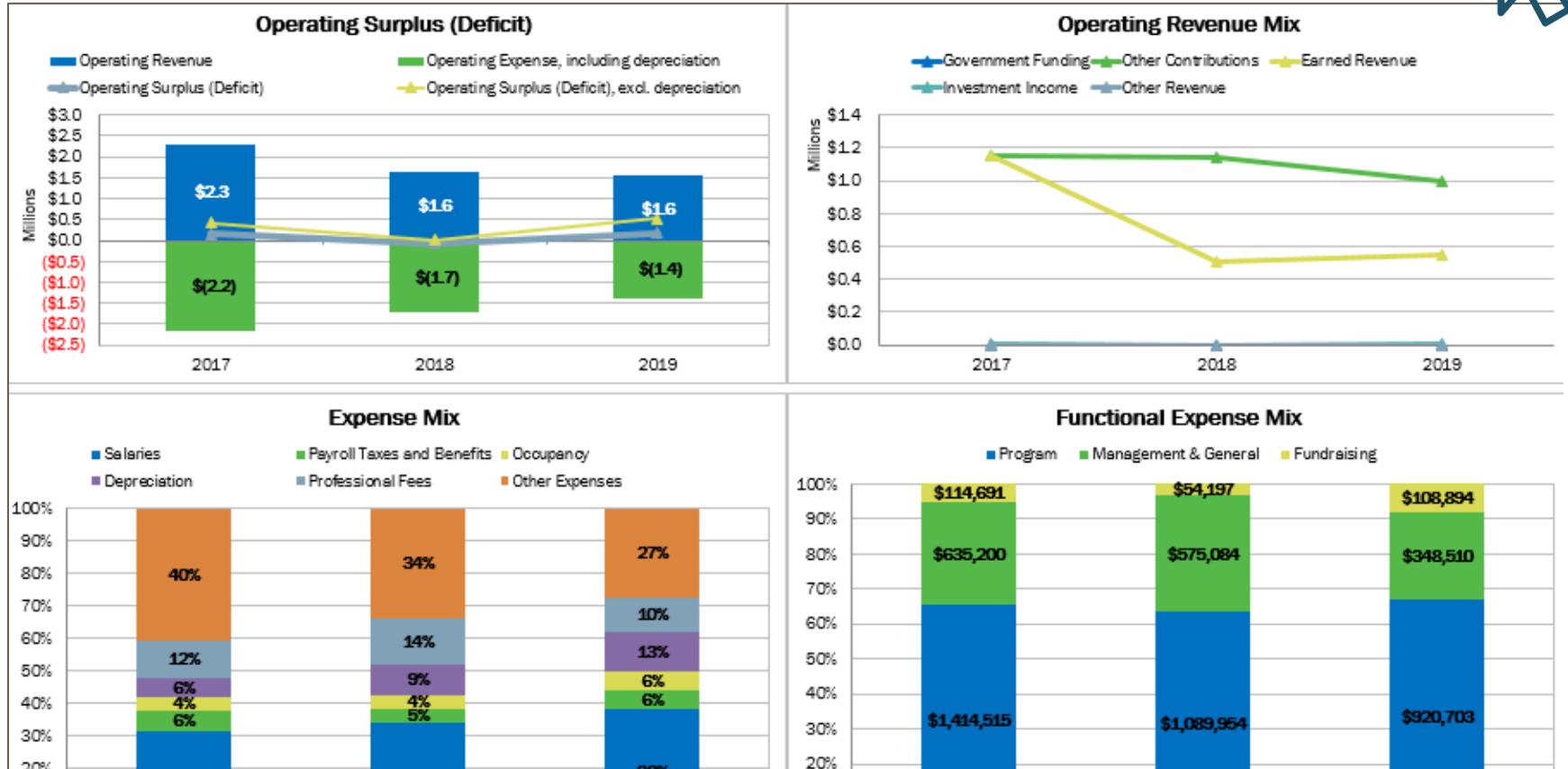
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Nonprofit Financial Health Assessment

StrongNonprofits.org



References and Resources

Assessing your Banking Relationships

- [“Nonprofit Banking: 5 Things Every Nonprofit Should Know”](#) – Donorbox Blog
- [“What is a CDFI?”](#) – Opportunity Finance Network
- [“Where We Bank Matters”](#) – Leap Ambassadors
- [“How to Check Your Bank’s Financial Health”](#) – Troy Barrow, LUTCF via LinkedIn

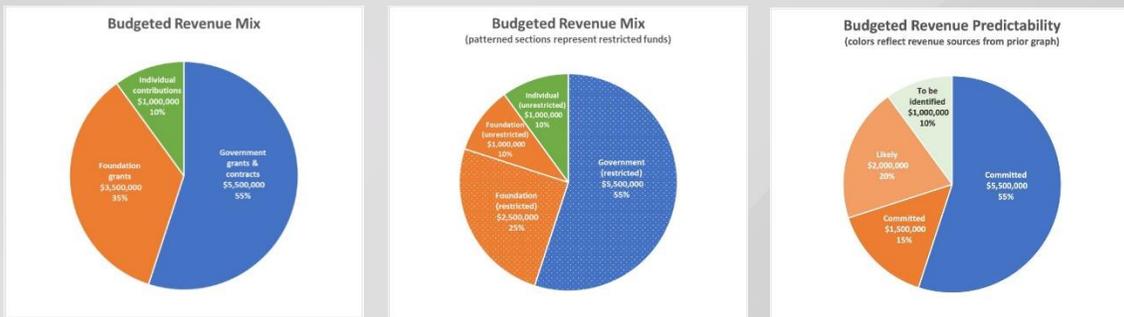
Strategies for Cash Management

- [“Where Should My Nonprofit Keep Its Operating Cash?”](#) - Amy Silver O'Leary, Council of Nonprofits
- [“Short-Term Investments: Definition, How They Work, and Examples”](#) - Troy Segal, Investopedia
- [“What is CDARS”](#) - American Deposit Management Company
- [“What SIPC Protects”](#) - SIPC



Articles Related to the Risk Spectrum

[A Three-Dimensional Approach to Revenue Planning,](#)
Nonprofit Financial Commons,
Flannery Berg & Hilda Polanco, March 2025



[Financial Risk Assessment: A 3-Level Model for Nonprofits in 2025,](#)

Nonprofit Financial Commons,
Hilda Polanco & Sarah Walker, May 2025

Minimal Expected Impact:
Maintain Current Operations

Significant Areas at Risk:
Business Model Recalibration

Existential Redefinition:
Rightsizing or Alternative Operating Model

Upcoming Sessions

