



# 5 Financial Management Challenges Nonprofits Face During a Construction Project

For many nonprofits, launching a construction project marks a pivotal moment. Whether it's building a new sanctuary, expanding a food bank's warehouse or developing a community center, construction can dramatically increase your organization's capacity to serve. But along with the promise comes financial complexity and potential pitfalls.

Unlike routine operating expenses, construction introduces a host of new financial pressures: complicated budgets, irregular cash flows, donor restrictions and a high level of public scrutiny.

Successfully navigating a project requires more than good intentions; it demands strong financial systems and forward-thinking oversight.

Here are five common financial challenges that can derail a nonprofit construction project - and how to avoid them.



## 1. Cost Overruns and Poor Budget Tracking

The scenario: A church begins a \$500,000 renovation, only to realize it's already \$150,000 over budget with 40% of the work still to go. Construction stops while leadership scrambles to raise emergency funds.

Construction projects are notorious for going over budget, and nonprofits often don't have the financial cushion to absorb the impact. Without real-time budget tracking and alert systems, leadership can miss early warning signs, turning small overruns into major shortfalls.

**The fix:** Implement tools that provide continuous budget visibility and flag deviations as they happen. Staying proactive can mean the difference between staying on track and grinding to a halt.



## 2. Cash Flow Crunches from Misaligned Payments and Pledges

The scenario: A community center has \$800,000 in pledges, but not enough cash in hand to pay contractors \$200,000 for completed work.

Construction halts, and penalty fees pile up.

Most donors don't give in one lump sum, yet construction vendors need to be paid on schedule. The mismatch can put nonprofits in a bind, forcing them to take on short-term debt or delay work.

**The fix:** Accurate cash flow forecasting - built specifically for project needs - can help anticipate timing gaps between funding commitments and actual payments.



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### 3. Misuse of Donor-Restricted Funds

The scenario: A well-meaning staff member uses funds earmarked for a memorial garden to cover electrical wiring costs. The result? Donor outrage and a potential legal challenge.

When projects are funded by a mix of restricted and unrestricted sources, keeping them separate is essential. A single misstep can break donor trust or violate grant agreements.

**The fix:** Use fund accounting tools that automatically track donor restrictions and prevent commingling, helping ensure every dollar goes exactly where it should.



### 4. Lax Oversight of Change Orders and Vendor Costs

The scenario: Multiple staff approve small change orders - none seeming significant on their own - until they add up to \$75,000 in unbudgeted expenses that threaten the entire project.

Construction involves many moving parts and decisions. Without centralized oversight and clear spending authority, costs can spiral from seemingly minor changes.

**The fix:** Set clear approval workflows and enforce spending limits. A digital system that tracks change orders and flags discrepancies keeps decision making transparent and accountable.



### 5. Delayed Reporting and Weak Stakeholder Communication

The scenario: At a quarterly board meeting, financial reports are weeks behind and contain conflicting numbers. Confidence in the project wanes - and so does donor support.

Board members, donors and community stakeholders want clarity, not confusion. Inconsistent or outdated financial updates can quickly erode confidence and stall momentum.

**The fix:** Invest in real-time financial reporting that gives stakeholders consistent, accurate updates—building trust and reinforcing transparency throughout the project lifecycle.

### The Bottom Line

Construction can be transformative for a nonprofit, but only if it's backed by strong financial management. With the right systems in place, your organization can take on construction confidently, completing projects on time, on budget and with your mission fully intact.

**The fix:** **Sage Intacct** offers nonprofit-specific construction tools that help track budgets, forecast cash flow, manage restricted funds, streamline approvals and generate real-time reports.

Learn more at: [www.gggllp.com/nonprofit-construction](http://www.gggllp.com/nonprofit-construction)

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