

How Liquid Are You?

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Liquidity is your nonprofit's ability to meet short-term obligations like paying staff and covering program costs. In today's climate of economic uncertainty, funding delays, and growing community needs, strong liquidity is essential for sustaining your mission.

Why Liquidity Matters

Poor liquidity can lead to delayed payroll, missed funding opportunities, and shaken donor confidence. Strong liquidity, on the other hand, ensures your organization can weather disruptions and seize strategic opportunities when they arise. Maintaining a strong reserve ensures that core programs and services continue uninterrupted, even during funding delays or economic downturns.

Common Challenges

- **Grant Reimbursement Timing:** Delays in receiving funds can strain cash flow and disrupt operations.
- **Restricted vs. Unrestricted Funds:** Not all contributions are immediately usable. Certain funds may be restricted for a specific use or time period designated by the donor, limiting flexibility.
- **Seasonal Fundraising Cycles:** Revenue fluctuations based on the time of year or from certain events can complicate planning and budgeting.

Best Practices

- **Track Liquidity Ratios:** Use metrics like current ratio and months of cash on hand to monitor financial health.
- **Build Operating Reserves:** Maintain reserves that cover at least 3–6 months of operating expenses to provide a safety net during funding delays.
- **Align Budgeting with Cash Flow Projections:** Forecast quarterly and review reserves annually to anticipate shortfalls.
- **Diversify Revenue Streams:** Reduce reliance on any single funding source to provide flexibility if one source is withdrawn.
- **Consider a Line of Credit:** Establish a credit facility as a backup to bridge temporary cash flow gaps without disrupting operations.
- **Engage Your Board in Liquidity Oversight:** Ensure your board is actively involved in reviewing liquidity metrics and approving reserve policies. Their strategic oversight and fiduciary responsibility are essential for maintaining financial resilience and donor confidence.

Financial health is foundational to mission success. By proactively managing liquidity, your organization can remain focused on delivering services to those who need them most. If you have any questions or need assistance, please do not hesitate to contact your advisor at Johnson O'Connor.

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