

Maintaining Proper Cash Levels in Your Business

Every business has unique working capital needs, and the business owner has the strongest understanding of how much cash is necessary for the business to run smoothly. In addition, every business owner has his or her own set of personal expenses that need to be met. If the cash generated from the business exceeds working capital needs, then distributions should be made from the business for personal needs and to diversify your investments. Conversely, if personal cash needs conflict with the needs of the business, it can create additional stress and challenges for a business owner.

There is no specific formula used to calculate how much cash is needed within a business at any given time. However, we have compiled some general guidelines to consider when evaluating if you should distribute or contribute cash from or to your business.

Considerations for taking distributions from your business:

- Evaluate cash flow projections for the next quarter, year, or business cycle to determine if they are sufficient to meet the needs of the business.
- Allocate capital for the growth and expansion of the business, as necessary.
- Set aside cash for a “rainy day fund” that will allow the business to survive a business cycle that falls short of expectations.
- If applicable, ensure that you have paid all of your corporate Federal and State income taxes before making a distribution.
- Evaluate whether short term borrowings and Lines of Credit which are not necessary for day-to-day operations of the business should be paid off.
- Excess cash that is held in the business may be subject to business creditors, lawsuits, or accumulated earnings tax (for C Corps).

Considerations for contributing cash to your business:

- If commercial lenders require a personal guarantee or high interest rates to lend to the business, then it may be beneficial to use personal funds to meet capital needs instead of borrowing from a third party.
- Evaluate if contributions should be considered a loan or capital contribution from a tax and legal perspective.
- Understand the different risk characteristics between your business and personal assets and recognize that risks taken by the business may impact your ability to meet your personal financial goals.
- If you have taken too much cash out of the business, then contributions may be necessary to ensure the future success of the business.

About Balasa Dinverno Foltz LLC

BDF is a fee-only, independent wealth management firm managing in excess of \$3.0 billion of investment assets for approximately 850 clients¹.

Our Business Owner Team is dedicated to helping you identify issues that impact your business and personal finances. Our Business Owner Assessment™ tool looks at your entire financial picture through a business lens, making sure your wealth management plan reflects all aspects of your personal and professional life, and that you have the right experts onboard to help you get the most from your business — and your life.

Our team includes former estate planning attorneys, Certified Public Accountants, MBAs, Certified Financial Planner™ professionals, Chartered Financial Analysts®, and Certified Divorce Financial Analysts.

We serve business owners, financially responsible women, individuals and families, and institutions.

BDF constructs and manages globally-diversified portfolios tailored to each client's unique needs, financial plan, time horizon, and risk tolerance.

BDF, a Registered Investment Advisor, acts in a fiduciary capacity and puts clients' interests first.

To learn more about our Business Owner Team

- ✓ Watch our video at <http://bdfllc.com/who-we-serve/business-owners/>
- ✓ Read our blogs <http://bdfllc.com/how-we-think/blog/>
- ✓ Visit our website or call us any time

¹ as of September 19, 2014

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