A Biblical View of Cash Balances

By Don Grassmann, Flexible Financials LLC

Date 2/28/2013

1. Purpose of Document

God wants leaders to manage all aspects of their organization's finances with integrity and wisdom. This means carefully managing income and expenses (statement of operations) as well as assets and liabilities (balance sheet). But Scripture does not specifically address all our questions. As a practical matter, leaders must decide the answers to questions such as:

- How much is enough for the organization's everyday needs? For emergencies? For other goals?
- How can our organization adhere to Biblical wisdom in deciding what to do with surpluses, if and when God provides them?
- What should the organization's process be for vetting and approving major purchases that fall outside the current budget (items like building programs, major benevolence gifts, etc.)?

2. Biblical Principles

To begin with, leaders should learn and acknowledge the following principles found in Scripture:

a. God is the source of our provision

The blessing of the Lord brings wealth, and he adds no trouble to it. Prov. 10:22

But seek first his kingdom and his righteousness, and all these things will be given to you as well. Matt. 6:33

And my God will meet all your needs according to his glorious riches in Christ Jesus. Phil. 4:19

And God is able to make all grace abound to you, so that in all things at all times, having all that you need, you will abound in every good work. As it is written, "He has scattered abroad his gifts to the poor; his righteousness endures forever." Now he who supplies seed to the sower and bread for food will also supply and increase your store of seed and will enlarge the harvest of your righteousness. You will be made rich in every way so that you can be generous on every occasion, and through us your generosity will result in thanksgiving to God. 2 Cor. 9:8-11

b. We are called to share what we have with those in need

Do not withhold good from those who deserve it, when it is in your power to act. Do not say to your neighbor, "Come back later; I'll give it tomorrow" — when you now have it with you. Prov. 3:27-28

And if someone wants to sue you and take your tunic, let him have your cloak as well. Matt. 5:40

Give portions to seven, yes to eight, for you do not know what disaster may come upon the land. Eccl. 11:2

Suppose a brother or sister is without clothes and daily food. If one of you says to him, "Go, I wish you well; keep warm and well fed," but does nothing about his physical needs, what good is it? James 2:15-16

Give, and it will be given to you. A good measure, pressed down, shaken together and running over, will be poured into your lap. For with the measure you use, it will be measured to you. Luke 6:38

c. Saving for future needs is wise

Go to the ant, you sluggard; consider its ways and be wise! It has no commander, no overseer or ruler, yet it stores its provisions in summer and gathers its food at harvest. Prov. 6:6-8

In the house of the wise are stores of choice food and oil, but a foolish man devours all he has. Prov. 21:20

Dishonest money dwindles away, but he who gathers money little by little makes it grow. Prov. 13:11

During the seven years of abundance the land produced plentifully. Joseph collected all the food produced in those seven years of abundance in Egypt and stored it in the cities. In each city he put the food grown in the fields surrounding it. Joseph stored up huge quantities of grain, like the sand of the sea; it was so much that he stopped keeping records because it was beyond measure. Gen. 41:47-49

A good man leaves an inheritance for his children's children, but a sinner's wealth is stored up for the righteous. Prov. 13:22

A prudent man sees danger and takes refuge, but the simple keep going and suffer for it. Prov. 22:3

d. Debt is to be avoided as a means of meeting our needs

The rich rule over the poor, and the borrower is servant to the lender. Prov. 22:7

Let no debt remain outstanding, except the continuing debt to love one another, for he who loves his fellowman has fulfilled the law. Rom. 13:8-9

Others were saying, "We are mortgaging our fields, our vineyards and our homes to get grain during the famine." Neh. 5:3

e. Money must not become an idol on which we place our trust

"Do not store up for yourselves treasures on earth, where moth and rust destroy, and where thieves break in and steal. But store up for yourselves treasures in heaven, where moth and rust do not destroy, and where thieves do not break in and steal. For where your treasure is, there your heart will be also. Matt. 6:19-21

Do not trust in extortion or take pride in stolen goods; though your riches increase, do not set your heart on them. Ps. 62:10

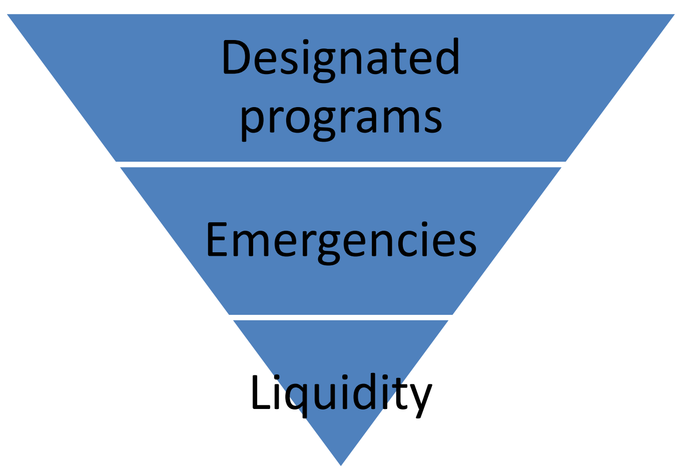
Wealth is worthless in the day of wrath, but righteousness delivers from death. Prov. 11:4

And he told them this parable: "The ground of a certain rich man produced a good crop. He thought to himself, 'What shall I do? I have no place to store my crops.' Then he said, 'This is what I'll do. I will tear down my barns and build bigger ones, and there I will store all my grain and my goods. And I'll say to myself, "You have plenty of good things laid up for many years. Take life easy; eat, drink and be merry." ' "But God said to him, 'You fool! This very night your life will be demanded from you. Then who will get what you have prepared for yourself?' "This is how it will be with anyone who stores up things for himself but is not rich toward God." Luke 12:16-21

3. Designated Needs

Next, leaders should establish the general principal that they will set aside savings for needs specifically permitted by Scripture. Stated another way, leaders can agree that they will not accumulate cash beyond balances needed to meet designated needs. Should God bless the organization with resources beyond those required to meet designated needs, then the leaders will use the resources to bless others in ways that also bring glory to Jesus Christ.

What constitutes a designated need? Biblical principles support savings for the following purposes:



a. Liquidity

This is the base amount an organization needs to pay its employees and vendors on time. It is a fact of life that income and expenses routinely land in different timeframes. Were an organization to operate without a liquidity cushion, it would damage its testimony and even violate the law by paying others when income arrives rather than when obligations are due.

Analysis of historical income and expenses over time will help an organization determine the amount needed for its liquidity cushion. If, for example, routine income and expenses measured by week over the past year have left the organization short as much as $25,000 on a temporary basis, then the organization should set aside undesignated funds of this amount to meet this need going forward. If it helps the organization, these funds may be isolated in a separate but readily available account, like a money market account, linked to the organization's primary checking account.

b. Emergencies

Ecclesiastes 11:2 commands us to take precautionary measures in our finances because we do not know what disaster may come upon the land. There are two critical features built into this command. First, God teaches us to assume future losses are coming because we live in a fallen world. It's not a matter of if disasters will come, but when and how serious they might be. Second, God teaches us to prepare despite our lack of specific foresight concerning what's coming. God knows we can't see into the future the way He does but he still expects action on our part to mitigate whatever disasters await us.

What constitutes a disaster? A disaster is any event occurring outside our control that results in significant loss of property or life. If such an event is sudden or requires an immediate response, we call it an emergency. The phrase "which come upon the land" seems to direct our attention to events that are common to, or experienced by, many in a geographical area.

Obviously the term disaster includes everything in the realm of natural calamities (or "acts of God"). In a broader sense, however, the term might also be argued to include any of those losses associated with living in our fallen world such as economic failures and wars. If we permit the term to become a bit more individualized, then it could also encompass losses emanating from our fallen natures through such events as theft, accident, injury, sickness, lawsuits, mistakes, and moral lapses.

Scripture suggests a number of ways God's people can prepare for these events. The Ecclesiastes passage directs us to give to others ("seven, yes to eight") as a way of securing future reciprocation when we face our own times of need. This could describe arrangements associated with charitable giving, but it also could be argued to describe our modern day system of insurance. Scripture further advocates our setting aside savings in times of plenty to offset shortfalls in times of need.

Note that God does not argue for putting blind faith in His later provision as a holy alternative. Again, future disasters are assumed so our failure to proactively prepare ahead of time despite God's clear command to do so is tantamount to putting God to the test (Matthew 4:7).

Most organizations maintain insurance policies to protect themselves against common business risks. However, other risks (like the loss of income associated with an economic downturn) are uninsurable. Moreover, even in cases where there is insurance protection the organization retains responsibility for certain payments like deductibles, coinsurance, and incidentals.

The result is that leaders must utilize a combination of insurance, savings, and prudent fiscal policies to manage emergencies that one might reasonably anticipate. In this context, the primary role of an emergency fund is to cover uninsured losses and to allow the organization to carry on its mission while managing the effects of the disaster.

One might assume that determining the amount of an emergency fund requires wild guesses fueled by fits of paranoia. But that would be wrong. Most leaders can easily tell you which risks pose the most likely scenarios for a major financial hardship.

For example, if an organization is reliant on a handful of donors, one risk of that particular organization might be the loss of a major donor. The words “might be” indicate that the organization’s leaders must assess the likelihood of the risk in their particular circumstances. Where donor concentration is involved, for example, the actual risk may vary based on factors such as the type and history of donor relationships, the stability of the environment in which the organization operates, and the perceived availability of alternatives from donors’ perspectives, to name a few.

As another example, if the organization’s reputation relies on the daily involvement of a particular individual, then a significant risk might be the temporary loss of that individual due to sickness, family emergency, or the like. Other risks might involve:

- Physical or geographical threats (e.g., flooding, or displacement by a landlord)
- Regulatory changes in critical areas (e.g., student-teacher ratios, licensing requirements)
- Separation of a related business segment on which the organization relies for resources (e.g., shared client transportation network)

For each risk, the amount needed for an emergency fund isn’t necessarily what the total value of the loss might be in the foreseeable future. Instead, it is more likely to be the amount needed to tide the organization over until it can arrive at a new equilibrium.

For example, let’s say an organization relies on two or three donors for half its income, and donors are free to join or leave the organization at any time. Let’s further assume that while the relationships with these donors are good today, other major donors have left the organization on rare occasions over the past decade.

This organization needs to include a provision for losing a major donor in its emergency fund. For sake of discussion, let’s say the organization has analyzed its likely response to such a loss and determined it would need to lay off 10% of its staff were any one of these donors to leave. Furthermore, let’s say the organization determined it would need three months to take the necessary steps to identify the staff affected and to complete the layoffs. And let's say the organization determines that the likely severance payments in addition to normal salaries paid during the layoff period would be $30,000.

The emergency fund needed in this case would be 10% of the staff salaries for the three months of transition plus $30,000. Note the organization is presumed to take timely action and to utilize the emergency funds for the designated purpose. It is not setting aside emergency funds to carry the organization forward for an indefinite period while trying to figure out what to do, or setting aside funds for some undesignated "rainy day." These funds have a purpose and a plan, and they will keep the organization from self-destructing in a circumstance which is remote but altogether likely to occur based on history.

This addresses one risk, but what about multiple risks? Leaders should look across the portfolio of risks and determine the likelihood of simultaneous losses. All that may be needed in an emergency fund is the amount needed to cover the greatest loss if:

- The risks identified are truly independent from a statistical standpoint (e.g., a key staff member leaving would never have anything to do with losing a major donor), and
- There is a remote risk of simultaneous losses during any period of time (e.g., a flood isn't likely while replacing a key individual). Note that the relevant period of time here is not just the duration of the actual emergency. It's also the time needed to implement an organizational response to reach a new equilibrium PLUS the time needed to replenish the emergency fund.

c. Designated Programs

Sometimes leaders find that their organizational mission cannot be accomplished without bringing new capital to the table. For example, donors willing to invest large sums to support a particular mission may insist that the organization supply some "seed money" or equity of its own. Moreover, it's not unusual for the most impactful initiatives to require more capital than the organization can reasonably generate in a single year's budget.

New capital campaigns are one response. However, some leaders choose to begin regularly setting aside funds for designated purposes well in advance of the actual need. Where this eventually enables the organization to multiply its impact well above current levels, then there's nothing unscriptural about choosing to save vs. releasing funds to meet more immediate needs. Yet even in these circumstances, prudence dictates that the organization meets its needs for liquidity and emergencies first before setting aside funds for other purposes.

4. Model Policy

An organization's leadership may wish to consider a policy such as the following:

a. Balances

The Leadership Team will periodically evaluate cash requirements for liquidity, emergencies, and designated gifts to ensure that targeted levels are appropriate relative to the organization's annual budget and anticipated risks.

b. Accounts

The Leadership Team will maintain separate bank accounts for liquidity, emergency funds, and every project identified as a designated program under this policy.

c. Authorization

Nothing in this policy alters the approval requirements for expenditures as set forth in the organization's other procedures as defined. Expenditures from bank accounts listed herein are subject to the same approval requirements as any other expenditure. The Leadership Team views bank accounts covered by this policy as resources permitting our organization to meet all its Biblically mandated fiscal requirements, not just ones that might be funded from current operations.

d. Replenishment

Liquidity Account. Assuming the Leadership Team passes a balanced budget (that is, one where income equals expenses), and assuming the organization operates within that budget, then normal business activity should replenish funds withdrawn from the Liquidity Account over time. Should accounting staff see what appears to be a permanent drawdown of the Liquidity Account, or should the Liquidity Account prove inadequate for its intended use, then it will analyze the account and report on reasons for additional funding. Thereafter, the Leadership Team will authorize a current period expenditure to replenish the Liquidity Account back to necessary levels.

Emergency Account. Funds withdrawn from the Emergency Account shall be replenished as quickly as possible. Specifically, the Leadership Team must authorize any instance where the organization wishes to direct undesignated gifts to a Designated Program before fully replenishing its Emergency Account.

Designated Programs. Funds drawn from a Designated Program account are presumed to be for approved purposes only. Such withdrawals are not subject to replenishment unless parameters surrounding the designation require the organization to do so.

e. Loans

No funds should be borrowed from any account for any purpose other than the account's designated purpose. Questions as to definition shall be resolved by a vote of the full Leadership Team.

Appendix – Estimating the Size of an Appropriate Emergency Fund

In a disaster, there are three phases during which the organization may experience unplanned cash outflows:

1. Identification phase – the interval of time when leadership is recognizing a loss and researching its likely effects. Note that this also involves taking time to come up with an appropriate set of recommendations.
2. Decision phase – the time needed for leadership to agree upon and authorize the best course of action.
3. Implementation phase --- the time needed for all actions taken to fully conclude, including the payout of all residual obligations.

In these cases, an emergency fund helps in the following ways:

- It buys time for leadership to assess the situation and prayerfully consider alternatives.
- It allows the organization to treat staff and vendors fairly by not exposing them to immediate economic harm.
- It allows time for leadership to pursue God in prayer and to see whether the situation might right itself through His providence.
- Most importantly, *it provides funding during the transitional period when the organization is returning to equilibrium, that is, when it is making adjustments needed to bring income and expenses back into alignment.*

Leaders can incorporate these intervals in our planning to estimate the consequent demands on an emergency fund. Following are two examples.

Example 1

Consider the case where an organization experiences an economic downtown and a gradual drop in giving. Assume the impact stabilizes at a total reduction of 20% reached over five months.

- During phase 1, it might take the Leadership Team two months to determine that drops of 4% per month are not seasonal or temporary, and that the likely result will be a permanent drop of 20%.
- In phase 2, it might take another month to determine that discretionary cuts will be insufficient to address the problem, and to identify and announce specific staff cuts.
- In phase 3, the organization needs to continue paying health and severance benefits for two more months after its announced layoffs.

Assuming a $1.2 million annual budget ($100K/month), the impact is estimated as follows:

		Original Budget			Revised Reality		
	Month	Income	Expense	Net	Income	Expense	Net
Phase 1	1	100,000	100,000	-	96,000	100,000	(4,000)
	2	100,000	100,000	-	92,000	100,000	(8,000)
Phase 2	3	100,000	100,000	-	88,000	100,000	(12,000)
Phase 3	4	100,000	100,000	-	84,000	100,000	(16,000)
	5	100,000	100,000	-	80,000	100,000	(20,000)
	6	100,000	100,000	-	80,000	80,000	-
	7	100,000	100,000	-	80,000	80,000	-
	8	100,000	100,000	-	80,000	80,000	-
	9	100,000	100,000	-	80,000	80,000	-
	10	100,000	100,000	-	80,000	80,000	-
	11	100,000	100,000	-	80,000	80,000	-
	12	100,000	100,000	-	80,000	80,000	-
	Total	1,200,000	1,200,000	-	1,000,000	1,060,000	(60,000)

In this case, the organization would need an emergency fund of $60,000 to avoid borrowing funds or making more drastic cuts than would otherwise be necessary.

Example 2

Consider the case where an organization loses a major donor providing 20% of the annual income.

- During phase 1, it might take the Leadership Team one month to determine that the individual is no longer contributing, to hear from the individual that there will be a change in status, or to ascertain that the drop in giving is not a matter of timing.
- In phase 2, it might take another month to determine that discretionary cuts will be insufficient to address the problem, and to identify and announce specific staff cuts.

- In phase 3, the organization may need to continue paying health and severance benefits for two more months after announced layoffs.

Assuming a $1.2 million annual budget, the impact would be estimated as follows:

		Original Budget			Revised Reality		
	Month	Income	Expense	Net	Income	Expense	Net
Phase 1	1	100,000	100,000	-	80,000	100,000	(20,000)
Phase 2	2	100,000	100,000	-	80,000	100,000	(20,000)
Phase 3	3	100,000	100,000	-	80,000	100,000	(20,000)
	4	100,000	100,000	-	80,000	100,000	(20,000)
	5	100,000	100,000	-	80,000	80,000	-
	6	100,000	100,000	-	80,000	80,000	-
	7	100,000	100,000	-	80,000	80,000	-
	8	100,000	100,000	-	80,000	80,000	-
	9	100,000	100,000	-	80,000	80,000	-
	10	100,000	100,000	-	80,000	80,000	-
	11	100,000	100,000	-	80,000	80,000	-
	12	100,000	100,000	-	80,000	80,000	-
	Total	1,200,000	1,200,000	-	960,000	1,040,000	(80,000)

In this case, the organization would need an emergency fund of $80,000 to avoid borrowing funds or making more drastic cuts than would otherwise be necessary.

Consolidated Plan

Let's say that these are the two most likely risks the organization deems that it might ever face. Furthermore, let's say the Leadership Team determines that the risk of facing a simultaneous occurrence of these risks is remote. Then the aggregate risk might be summarized as follows:

Organization budget 1,200,000

Risk	Economic Loss	Immediate or Gradual	Assumed Interval (Months) Phase 1	Phase 2	Phase 3	Emergency Fund
Economic downturn	20%	Gradual	2	1	2	60,000
Loss of major giver	20%	Immediate	1	1	2	80,000
Overall Emergency Fund Needed						80,000