



## Using Allocated Funds

If funds are earmarked for a specific purpose, can you use them for anything else?

**Q** Is it illegal for a charity to use money allocated to a building fund for general operating expenses?

**A** I am not sure what you mean by “allocated” and who made the allocation. If a donor gave money for the specific purpose of the building fund, a restricted gift, you should get the donor’s approval if you intend to use it for anything else. The president of the Allegheny Health, Education and Research Foundation found out that it was a crime

when he used funds given for scholarships and research purposes for general costs before going into bankruptcy. If the donor isn’t available to give consent, you may need approval from your state attorney general or a court. If the funds have been allocated by your own board, you can get the board to change the purpose. ■

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## How Much Money Should You Put in Reserve?

**Q** What’s the difference between an endowment fund and a cash reserve? What percentage of our income should we put in such a reserve fund? (Our annual income is \$500,000.) Will the IRS revoke our tax-exempt status if we put too much money in our reserve fund?

**A** An endowment fund is money set aside for the long term and used to generate interest or dividend income for the organization. A cash reserve is just that—cash held in reserve for short-term needs, such as when your main funder’s check doesn’t show up.

When starting a reserve fund, plan to set aside about a tenth of 1% of your budget. If your annual budget is \$500,000, begin with \$500, and work up from there. If you can start with more, great! The important thing is to budget a set amount each year. Make sure staff and

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board members understand that this is part of your financial empowerment plan.

As far as the IRS is concerned, there is no limit to how much money you can put in your reserve fund. The only exception would be if a huge percentage (50% or more) of your reserves come from activities unrelated to your mission.

Remember that Harvard is a nonprofit and has an endowment of hundreds of millions of dollars. They’ve kept their tax-exempt status, as have hundreds of other universities, colleges, and hospitals with large cash reserves. ■

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