

THE 10 MOST FREQUENTLY ASKED ENDOWMENT QUESTIONS

#1 What is the legal definition of endowment?

There is no legal definition. The commonly accepted meaning for endowment is a fund which is kept in perpetuity to provide interest and dividend earnings for the benefit of a charitable cause.

#2 Should all organizations have an endowment?

No. Organizations that are formed in support of short-term causes or particular events do not need endowments. Similarly, organizations that are in financial crisis, do not have a donor base, or lack any credible record of accomplishments are unlikely candidates for an endowment.

#3 How does endowment fit into an overall organizational financial plan?

To be healthy and stable, an organization needs to meet its current operating budget. In addition, an organization should have an operating reserve account that covers somewhere between half and all of its expenses in an emergency. Then, the organization is ready to consider endowment fundraising.

#4 What's the difference between an endowment and an operating reserve?

An operating reserve is a Board-designated fund that may act like an endowment because an organization chooses not to touch the principal. Principal is, in fact, available to meet emergency needs should the Board choose to extend it. Usually operating reserves are managed and invested by the organization's staff and Board. An endowment, on the other hand, is a fund that has a corpus the organization is not able to invade. Sometimes this can be accomplished only by placing the endowment in an outside organization like the Community Foundation.

#5 Will having an endowment conflict with current donors' giving?

Absolutely not. In fact, the addition of an endowment option, presented to your current donors, will show them that the organization has the foresight to stabilize its financial future. Experience demonstrates that dedicated donors do not choose among ways to support their favorite charities, but frequently participate at various levels.

#6 Who gives to endowments?

Obviously, the best candidates are current board members, committee members, and donors. Approaching them for consideration of endowment giving, either current cash gifts or planned gifts, does not annoy them and, in fact, successfully raises endowment support.

#7 Should we set up our own foundation to hold the endowment?

Establishing an additional Foundation to manage your endowed fund adds costs and requires unique skills that your organization may not hold. The Community Foundation has extensive experience managing these accounts in a very cost effective manner. We are happy to review your needs and help you determine your best course of action.