ARKANSAS community foundation

Frequently Asked Endowment Questions

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.

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.

How does endowment fit into an overall organizational financial plan?

To be healthy and stable, an organization needs to meet its current operating budget without exerting 100% of its energy. 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 fund raising.

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 outside the reach of the organization.

Will having an endowment conflict with current donors' giving?

Absolutely not. In fact, the addition of an endowment effort 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.

Who gives to endowments?

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.

What happens if we have an emergency and need the endowment money?

In a true endowment the emergency must be solved with other financial resources. If it is a board-designated endowment, there are countless historic examples of "borrowing" and other creative accounting techniques that invade principal. Although board members have the full intention of repaying it, ultimately this does not happen. The Community Foundation has a fiduciary obligation to protect and preserve the endowment even from future boards of the organization.

What happens to our endowment if our organization goes out of existence?

For endowments that are held and managed by boards, it is unlikely that if the organization is failing the endowment will have survived. For endowments that are inaccessible because they are held in other organizations, such as the Community Foundation, the charitable earnings will be redirected to the most nearly similar cause that can be found.

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