

## TEN 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 which are formed in support of short-term causes or particular events do not need endowments. Similarly, organizations which are in financial crisis, do not have a donor base, or lack any credible record of accomplishments are unlikely candidates for an endowment. With these exceptions, however, most other organizations will benefit from an endowment fund and should have one.

**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 with specific strategies and in addition, an organization should have an operating reserve account which can cover its expenses in an emergency. Then, based on some fundamental criteria for definition of endowment donors, it is ready to consider endowment fundraising as an option. Endowment fund income can in turn, be used for annual operating costs, thereby reducing stress on the organization and freeing up resources for new programs.

**4. What’s the difference between an endowment and an operating reserve?**

An operating reserve is a board designated fund which may act like an endowment because an organization chooses not to touch the capital. Capital is, in fact, available to meet emergency needs should the board choose to expend it. Usually operating reserves are managed and invested by the organization’s staff and board. An endowment, on the other hand, is a fund which by definition the capital cannot be invaded. Often this is best accomplished only by placing the endowment outside the reach of the organization.

**5. Will having an endowment conflict with current donor’s giving?**

Absolutely not. In fact, the addition of an endowment effort presented to your current donors will encourage them with the foresight of an organization which is planning to stabilize its financial future. Experience demonstrates that dedicated donors do not choose among ways to support their favourite charities, but frequently participate in all of them.

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**6. Who gives to endowments?**

Obviously the best candidates are current board members, committee members, friends of the organization and donors. Approaching them for consideration of endowment giving, either current cash gifts or planned gifts, can successfully raise endowment support.

**7. 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 which invade principal with full intention of repaying it but which most often do not work. Endowment capital should not be touched regardless of the depth of the emergency.

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

For endowments which are held and managed by the board of the organization, it is unlikely that if the organization fails the endowment will survive. For endowments which are inaccessible because they are held in trust through an independent charitable foundation, such as the Hamilton Community Foundation, the assets will be re-directed to the most nearly similar cause that can be found.

**9. Should we set up our own foundation to hold the endowment?**

The creation of a new charitable organization to hold an endowment appears to solve the problem, but in fact does not provide any greater insurance for the protection of capital than board designation. Directors of separate foundations may invade corpus when emergencies arise. In addition, the costs involved in maintaining two separate charitable entities may erode a good portion of the earnings which would otherwise be directed toward the charitable activity.

**10. Is an endowment program the same as a planned giving program?**

Many use the terms interchangeably, but they really are two separate things. Endowment is the pot of money you build as a nest egg for your organization. Many gifts that go into the pot will be planned gifts, loosely defined as out-of-the-ordinary gifts that require careful estate and financial planning on the part of the donor.