

TOP TEN CHARITABLE ENDOWMENT QUESTIONS



COMMUNITY FOUNDATION
OF NOVA SCOTIA

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 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 an 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. It should also have an operating reserve that can cover its expenses in an emergency. Once these two conditions are met, an organization 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 is 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. With an endowment fund, the capital cannot be invaded. Often this is best accomplished by placing the endowment outside the reach of the organization.

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

Absolutely not. In fact, an endowment effort should encourage your donors to give more as it demonstrates that your organization has the foresight to take steps today, which will

stabilize its financial health in the future. Experience also demonstrates that dedicated donors do not choose among ways to support their favourite charities, but frequently participate in all of them.

6. Who gives to endowments?

Obviously the best candidates are current board members, committee members, friends of the organization and donors. Approaching them to contribute to your endowment fund, either through current cash gifts or planned gifts, can produce a substantial nest egg upon which to grow your endowment in future years.

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 the 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 that 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 Community Foundation of Nova Scotia, we will work with the organization to identify where the assets should be re-directed.

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

The creation of a new charitable organization to hold an endowment does not provide any greater insurance for the protection of capital than board designation. Directors of separate foundations may invade the capital 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.

Source: Adapted with the permission of the Hamilton Community Foundation.