

Why partner with Arkansas Community Foundation for an Organizational Endowment?

Permanence – Organizations choose the Community Foundation for the option of a true and permanent endowment. Organizations, and their donors interested in permanent stewardship that will continue through governance and management transitions, rely on the Community Foundation for a perpetual home for their lasting legacies.

Acceptance of Complicated Gifts – Many organizations, despite having a strong development department, are not prepared to accept complicated gifts such as stock, real estate or other appreciated assets. The Community Foundation is adept at processing various types of gifts that a prospective donor might wish to give to benefit their favorite nonprofit.

Freedom from Internal Politics – Many organizations have donors who want to build endowment to shore up the organization’s long-term future. Endowments at the Community Foundation are firmly set in purpose and cannot be changed from board to board, CEO to CEO. Fund management is handled by the Community Foundation eliminating the distraction of “who will manage the money” from board discussions.

Investment Performance – The Community Foundation’s highly experienced board members, financial advisor and managers oversee an investment strategy designed to maximize total return within acceptable risk tolerances, relieving the organization and its board of significant investment responsibility and worry.

Cost effectiveness – The Community Foundation’s assets include many individual funds, keeping administrative costs low for fund services and management.

Impact – No matter who an organization chooses as their investment manager, there will be a fee associated with managing that fund. As a nonprofit grantmaking organization (rather than a for profit investment firm) our “shareholders” are Arkansans themselves! The fee collected by Arkansas Community Foundation is directly turned around and re-invested in our state through foundation-directed grants and initiatives.

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?

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.

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.

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

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

Is an endowment program the same as a planned giving program?

Many use the terms interchangeably, but they really are two separate things. Endowment gifts may be current gifts from donors or planned gifts. Planned gifts are defined as out-of-the-ordinary gifts that require careful estate and financial planning on the part of the donor.