

A Nonprofit Guide to Creating & Managing Endowments

This guide is designed to help nonprofit leaders understand endowments, consider why you might create one, assess your readiness, and develop clear policies for accepting, investing, spending, and overseeing long-term funds. It also explores how an endowment can strengthen fundraising by supporting legacy giving, donor engagement, and long-term sustainability.

It is not legal or investment advice; organizations should review final language with legal counsel, auditors, and investment advisors before adoption.

What Endowments Are and Why Organizations Use Them

An endowment is a pool of funds set aside to support an organization over the long term. Instead of spending the full amount right away, the organization invests the funds and uses a portion of the earnings, or a board-approved distribution, to support its mission. Endowments can help create stability, reduce dependence on annual fundraising, support future planning, and signal long-term commitment to donors and stakeholders.

A **formal endowment**, sometimes called a **permanent endowment**, is created by a donor restriction. The donor gives funds with written instructions that the principal should be preserved permanently or for a specific period of time. Other donors can also contribute to a formal endowment, and legacy gifts are often channeled into it. Because the restriction comes from the donor, the organization has a legal and ethical responsibility to honor the donor's intent.

A **quasi-endowment**, also called a **board-designated endowment**, is created by the board using unrestricted funds. It is managed like an endowment, but because the restriction is internal rather than donor-imposed, the board generally retains the authority to modify, spend down, or release the designation if the organization's needs change.

An organization might create an endowment to generate a reliable source of annual support, protect legacy gifts, fund a specific program or staff position over time, build financial resilience, or prepare for future opportunities and risks. A quasi-endowment can be especially useful when an organization wants the discipline of long-term investment while preserving flexibility. A formal endowment may be appropriate when a donor wants to make a lasting gift tied to a clear purpose.

Key Distinction: Formal Endowment vs. Quasi-Endowment

Type	How It Is Created	Principal	Authority to Change
Formal Endowment	Created by donor restriction, gift agreement, bequest language, or other written donor instruction.	Generally preserved permanently or for the term specified by the donor.	Changes are limited and must comply with donor intent, law, and any applicable court or donor approval process.
Quasi-Endowment	Created by board action using unrestricted funds or funds available for long-term designation.	Invested like an endowment, but principal may usually be accessed by board action.	The board may modify, spend down, or release the designation according to the organization's policy.

Is Your Organization Ready to Start an Endowment?

Before creating an endowment, the board should consider whether the organization has enough financial stability, governance capacity, and strategic clarity to manage long-term funds responsibly. An endowment can be a powerful tool, but it should not come at the expense of immediate operating needs, adequate reserves, or core mission delivery.

- **Mission and strategy:** The organization has a clear mission, strategic direction, and understanding of how long-term funds would support future impact.
- **Financial health:** The organization has reliable financial reporting, a balanced budget or realistic path to stability, and enough operating cash to meet current obligations.
- **Operating reserves:** The organization has accessible six months in reserves for short-term risks before locking funds into a long-term investment strategy.
- **Board capacity:** The board understands its fiduciary responsibilities and is prepared to oversee investment, spending, reporting, and policy compliance.
- **Administrative systems:** Staff or advisors can track restrictions, fund balances, investment activity, distributions, and donor reporting requirements.

- **Donor readiness:** The organization has donors who may be interested in legacy giving, long-term sustainability, or named funds, or it has unrestricted resources that the board may designate.

What an Endowment Policy Should Do

An endowment policy sets the rules for how long-term funds are accepted, invested, spent, monitored, and protected. A strong policy helps preserve donor intent, supports responsible financial stewardship, clarifies board authority, and creates confidence for donors and stakeholders.

Core Decisions to Make Before Drafting

- **Purpose:** Define whether the endowment supports general operations, a specific program, a staff position, leadership continuity, or another long-term priority.
- **Minimum fund size:** Decide whether a gift must meet a minimum threshold to go into the fund.
- **Gift acceptance:** Clarify what types of assets may be accepted and who approves complex gifts.
- **Investment oversight:** Identify who sets the investment strategy, monitors performance, and reports to the board.
- **Spending formula:** Establish how annual distributions will be calculated, commonly as a percentage of a rolling average market value.
- **Underwater funds:** Define how the organization will handle funds whose market value falls below the original gift value.
- **Access to principal:** Specify whether principal may be spent, by whom, and under what conditions.
- **Reporting:** Set expectations for financial reporting to the board and, where appropriate, donors.
- **Policy review:** Determine how often the policy will be reviewed and updated.

Elements of an Endowment Policy

1. Purpose and scope
2. **Definitions**, including formal endowment, term endowment, quasi-endowment, restricted fund, and unrestricted fund
3. **Authority and responsibilities** of the board, finance committee, investment committee, staff, and advisors
4. Gift acceptance and fund establishment
5. Investment objectives and risk tolerance
6. Spending and distribution policy
7. Use of principal
8. Donor restrictions and documentation
9. Reporting and recordkeeping
10. Policy review and amendment

Sample Policy: Formal Donor-Restricted Endowment

Purpose. The purpose of this policy is to establish guidelines for the acceptance, investment, administration, and spending of donor-restricted endowment funds held by [Organization Name]. The policy is intended to preserve donor intent, support the long-term mission of the organization, and promote prudent stewardship of endowed assets.

Definition. A formal endowment is a fund created by a donor through written instruction stating that some or all of the gift must be held permanently or for a specified term. The organization will treat all donor-restricted endowment funds in accordance with donor intent, applicable law, and this policy.

Establishment of Funds. A donor-restricted endowment may be established through a gift agreement, bequest, beneficiary designation, written donor instruction, or other documentation acceptable to the organization. Each fund shall include a clear statement of purpose, restrictions, minimum funding requirements if applicable, and any terms governing distributions.

Investment Objective. Endowment assets shall be invested with the objective of preserving long-term purchasing power while providing a reasonable and sustainable level of support for the organization's mission. The board may delegate investment oversight to a finance or investment committee, which may work with qualified professional advisors.

Spending Policy. Unless otherwise restricted by the donor, the board may approve an annual distribution based on a prudent spending rate, such as 4% of the fund's average market value over the prior twelve quarters. The board may adjust the spending rate when appropriate to balance current mission needs with the long-term preservation of the fund.

Use of Principal. Principal of a donor-restricted endowment may not be spent unless permitted by the gift instrument, applicable law, donor consent, or other legally authorized process. If a fund becomes impracticable, impossible to administer, or inconsistent with the organization's charitable purposes, the organization will seek appropriate legal guidance before modifying restrictions.

Reporting. The organization shall maintain separate records for each donor-restricted endowment fund and shall provide periodic reports to the board. Donor reports may be provided when required by the gift agreement or when appropriate for donor stewardship.

Review and Amendment. This policy shall be reviewed at least every three years. The board may amend this policy, provided that amendments do not conflict with donor restrictions, applicable law, or existing gift agreements.

Sample Policy: Board-Designated Quasi-Endowment

Purpose. The purpose of this policy is to establish guidelines for creating and managing board-designated funds that function as endowments. These funds are intended to strengthen the organization's long-term financial stability while preserving board flexibility to respond to changing needs.

Definition. A quasi-endowment is a fund designated by the board to be invested and managed like an endowment, even though the fund is not permanently restricted by a donor. Because the designation is made by the board, the board may modify or release the designation in accordance with this policy.

Establishment of Funds. The board may establish a quasi-endowment by formal resolution. The resolution should identify the source of funds, intended purpose, initial amount, investment approach, spending rules, and any conditions for future additions or withdrawals.

Eligible Sources. Quasi-endowments may be created from unrestricted bequests, board-designated reserves, unrestricted surplus, or other funds legally available for board designation. Restricted funds may not be transferred into a quasi-endowment unless the use is consistent with donor intent and applicable restrictions.

Investment and Spending. Quasi-endowment assets shall generally be invested with the organization's long-term investment pool. Unless otherwise approved by the board, annual spending may be calculated using the same formula applied to formal endowment funds.

Access to Principal. The board may authorize use of quasi-endowment principal by majority vote, or by a higher threshold if the board chooses to require one. Before approving a withdrawal, the board should consider the organization's financial condition, the purpose of the fund, long-term sustainability, and the impact on future distributions.

Documentation. The organization shall maintain written documentation of all board actions establishing, modifying, adding to, withdrawing from, or closing a quasi-endowment fund. Documentation should be retained with board minutes and financial records.

Review and Amendment. This policy shall be reviewed at least every three years. The board may amend this policy at any time, provided that changes comply with applicable law and do not violate donor restrictions associated with any funds held by the organization.

Sample Board Resolution for a Quasi-Endowment

Resolved, that the Board of Directors of [Organization Name] hereby designates [\$Amount] from [Source of Funds] as a board-designated quasi-endowment to be known as the [Fund Name]. The fund shall be invested for long-term growth and used to support [Purpose]. Annual distributions shall be made in accordance with the organization's endowment spending policy. The board retains authority to modify or release this designation and to authorize expenditure of principal when it determines that doing so is in the best interest of the organization.

Implementation Checklist

- ☐ Confirm the organization's goals for long-term funds.
- ☐ Review applicable state law and fiduciary requirements with legal counsel.
- ☐ Decide which board committee will oversee endowment administration.
- ☐ Create or update the investment policy statement.
- ☐ Set a spending formula and approval process.
- ☐ Develop gift agreement templates for donor-restricted funds.
- ☐ Create board resolution templates for quasi-endowment designations.
- ☐ Clarify accounting and reporting procedures.
- ☐ Schedule regular policy review and board education.

Using an Endowment to Strengthen Fundraising

A new endowment can become more than a financial tool; it can also be a meaningful part of a nonprofit's fundraising strategy. When communicated clearly, an endowment gives donors a way to invest in the organization's future, make a lasting gift, and connect their generosity to long-term mission impact.

- **Create a clear case for support:** Explain why the endowment matters, what it will protect or make possible, and how annual distributions will support the mission over time.
- **Connect the endowment to legacy giving:** Invite donors to consider bequests, beneficiary designations, retirement assets, life insurance, or other planned gifts as ways to build the endowment.
- **Use the endowment as a donor engagement tool:** Talk with loyal donors about the future they want to help secure, rather than only asking them to meet current annual needs.
- **Create giving opportunities:** Consider named funds, challenge gifts, matching opportunities, or campaign goals to encourage donors to participate.
- **Build board participation:** Encourage present and past board members to make their own commitments and speak confidently to others about why the endowment matters.
- **Steward donors over time:** Share updates on mission impact so donors can see the long-term value of their gifts.
- **Balance current and future needs:** Be clear that endowment giving complements, rather than replaces, annual giving. Donors should understand that the organization still needs annual, unrestricted support while also building for the future.

For organizations just beginning this work, fundraising around an endowment can start simply: identify loyal long-term donors, develop a short legacy giving message, include endowment language in donor conversations and newsletters, and create a basic process for documenting donor intent. Over time, the organization can build a more formal planned giving or endowment campaign as donor interest and internal capacity grow.