



NONPROFIT RESERVE INVESTMENT POLICY IN TEXAS: A TIERED FRAMEWORK

How DFW boards structure operating cash, board-designated pools, and quasi-endowments under UPMIFA and FASB ASC 958.

Palmer Wealth Group™

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Picture a Fort Worth board meeting near the end of a quarter. The treasurer reports \$6 million in reserves. A director asks where the money is and what it earns. The answer is silence.

No one at the table can say whether those dollars belong in a money market fund, a short-duration bond ladder, or a total-return portfolio built for a twenty-year horizon. That is a governance failure hiding in plain sight.

The Nonprofit Finance Fund's 2025 State of the Nonprofit Sector Survey reports that 52 percent of U.S. nonprofits hold three months or less of cash, and 36 percent ended 2024 in operating deficit. At Palmer Wealth Group™, we work with DFW boards and finance committees on the framework that resolves this problem: a written, tiered nonprofit reserve investment policy Texas boards can actually defend.

WHY "RESERVES" IS THE WRONG WORD FOR A SINGLE BUCKET

Most boards use "reserves" as if it names one pool of money. It does not. Real reserves are several purpose-built pools, each with its own liquidity need, horizon, and investment posture.

"REAL RESERVES ARE SEVERAL PURPOSE-BUILT POOLS, EACH WITH ITS
OWN LIQUIDITY NEED, HORIZON, AND INVESTMENT POSTURE."

The sector data explains the urgency. The share of nonprofits holding three months or less of cash climbed from 39 percent in 2021 to 52 percent in the Nonprofit Finance Fund's 2025 survey. BDO documented the pattern in reverse: the share reporting more than twelve months of reserves fell from 38 percent in 2021 to 27 percent in 2022 as pandemic stimulus depleted.

The North Texas Nonprofit Institute's 2025 report counts more than 45,000 registered nonprofits in North Texas alone, employing roughly one in every 25 private-sector workers. For a companion look at

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how the 2026 tax landscape is reshaping donor behavior, see [Preparing Your Development Calendar for the 2026 Tax Shift: What Every Nonprofit Needs to Know](#).

THE SINGLE-ACCOUNT MISTAKE MOST TEXAS NONPROFITS MAKE

The most common structural error we see is a single operating account holding operating cash, restricted contributions, endowment principal, and long-lived-asset reserves at the same time. The CPA Journal's June 2025 review of not-for-profit accounting misconceptions is direct: endowment cash, long-lived asset cash, and restricted cash should not be lumped with operating cash on the statement of financial position. When they are, boards lose the ability to see how much genuinely spendable liquidity the organization holds.

RESTRICTED, DESIGNATED, AND UNRESTRICTED: THREE CONCEPTS, ONE CONFUSED LABEL

Boards conflate three terms most often. Restricted funds carry donor-imposed conditions and can be released only by the donor or a court. Board-designated funds are internal earmarks the board can reverse. Unrestricted funds are freely spendable general operating dollars.

Practitioner sources including Zeffy, Lathrop and Associates, and Olsen Thielen CPAs identify this confusion as one of the sector's most persistent knowledge gaps. The distinction governs how each dollar is classified, disclosed on Form 990, invested, and spent.

THE FOUR-TIER RESERVE FRAMEWORK FOR TEXAS NONPROFITS

A useful framework treats reserves as four tiers, each defined by purpose, horizon, and required liquidity. Propel Nonprofits identifies categories beyond operating cash; Raffa Advisers structures reserves by when each pool will be used. The BDO Net Operating Reserves framework governs these pools as board-designated unrestricted net assets. Combined with FASB ASC 958, the guidance yields four practical tiers: operating reserve, opportunity or strategic reserve, board-designated funds, and quasi-endowment for long-horizon capital.

OPERATING AND OPPORTUNITY RESERVES: THE NEAR-TERM LIQUIDITY TIERS

Nonprofit operating reserves fund normal expense volatility. The Nonprofit Operating Reserves Initiative workgroup, cited by the National Council of Nonprofits and Propel Nonprofits, sets a floor at 25 percent of annual operating expenses (roughly three months) and identifies three to six months as a common target. Propel recommends a hard low end of at least one full payroll cycle including taxes and a high end that should not exceed two years of operating budget.

The opportunity reserve funds specific initiatives, such as a program launch or capacity expansion, that would otherwise strain operating cash. Propel is explicit that opportunity reserves are optional and should be established only after core operating reserves are in place.

BOARD-DESIGNATED FUNDS: PURPOSE-BUILT POOLS INSIDE UNRESTRICTED NET ASSETS

Board-designated funds are unrestricted net assets the board earmarks for a specific purpose, such as a facility replacement or an insurance deductible corridor. Under FASB ASC 958, they sit inside net assets without donor restrictions and must be disclosed by both amount and purpose. The BDO/FMA Net Operating Reserves framework is a nonprofit reserve policy template for designation resolutions. Olsen Thielen CPAs and Armanino emphasize that designation is reversible by the same board that established it, which is why the resolution should document purpose, usage conditions, and replenishment.

QUASI-ENDOWMENTS: FUNCTIONING LIKE PERPETUAL, AT BOARD DISCRETION

A quasi-endowment is a board-designated fund the board intends to preserve and grow like a permanent endowment, spending only investment return over time. PwC's Viewpoint and BMF CPAs draw a bright line between quasi-endowments and true (donor-restricted) endowments. A quasi-endowment carries no legal permanence.

“A QUASI-ENDOWMENT CARRIES NO LEGAL PERMANENCE.”

The same board that established it can undesignate it, and Carnegie Investment Counsel and Plentiful Wealth both flag this as a critical distinction for donor communications. It is reported on Form 990 Schedule D as board-designated, with the spending policy summarized in Part XIII. This is the tier where [Alternative Investments and What the \\$5M Threshold Unlocks](#) becomes relevant at scale.

WHAT A TEXAS NONPROFIT RESERVE INVESTMENT POLICY MUST ADDRESS

A written investment policy for nonprofit organizations ties the four tiers to Texas law, GAAP disclosure, and IRS reporting. Boards without one improvise against three overlapping frameworks: Texas Property Code Chapter 163, FASB ASC 958, and IRS Form 990 Schedule D.

TEXAS PROPERTY CODE CHAPTER 163 AND THE PRUDENT-INVESTOR STANDARD

Texas adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2007, codified in Texas Property Code Chapter 163. Section 163.004 sets the standard of conduct: good faith, ordinarily prudent care, a total-portfolio approach, and consideration of general economic conditions, inflation, and the institution's whole economic situation. Section 163.005 governs appropriation for expenditure from an endowment fund under a prudence standard. Section 163.006 permits delegation to external agents and shields the institution when the board prudently selects the agent, defines scope, and reviews performance.

FASB ASC 958 CLASSIFICATION AND DISCLOSURE OBLIGATIONS

FASB Accounting Standards Update 2016-14, now incorporated into ASC 958, collapsed three net-asset classes into two: with and without donor restrictions. Board-designated funds sit within the unrestricted class. The Journal of Accountancy and the CPA Journal note that the standard added required disclosure

of board-designated amounts and purposes, and expanded liquidity and availability disclosures for the coming twelve months. Clark Nuber’s guidance is that if an organization has no board designations, the notes should say so explicitly rather than leave the reader guessing.

WHAT FORM 990 SCHEDULE D MAKES PUBLIC, AND WHAT BOARDS OFTEN MISS

An organization reporting endowment funds triggers Schedule D Part V through a “Yes” on Form 990 Part IV Line 10. Lines 2a through 2c allocate every endowment dollar across board-designated or quasi, permanent, and term categories, summing to 100 percent even when one is zero. Part XIII is the narrative space for spending policy and material items the standard entries do not capture.

As context only, the One Big Beautiful Bill Act signed in July 2025 restructured the Section 4968 endowment excise tax into a tiered rate for private colleges above a 3,000-student threshold. That provision does not apply to typical operating charities, foundations, or DFW-area community foundations; consult qualified tax and legal professionals for organization-specific reporting.

INVESTMENT POSTURE AND BENCHMARKS, TIER BY TIER

In our work with DFW boards, nonprofit investment postures vary by tier. The mission-driven analog of the framework we outlined in [Your Corporate Cash Investment Strategy: What Texas Business Owners Get Wrong](#) applies here: match the horizon to the vehicle. Figures below reflect higher-education endowments and are illustrative only. Past performance does not guarantee future results; investing involves risk, including possible loss of principal.

NEAR-TERM TIERS: CAPITAL PRESERVATION AND LIQUIDITY

Under a nonprofit liquidity policy, operating and opportunity reserves must be spendable within days or weeks. Propel Nonprofits and Raffa Advisers point to money market funds, short-duration Treasury securities, and FDIC-insured deposit arrangements at this tier. Benchmarks are short: three-month Treasury bill rates, money-market fund yields, or a comparable short-duration index. The point is not to reach for yield but to know the money will be there when the organization needs it.

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THE BOARD-DESIGNATED TIER: MATCHING HORIZON TO PURPOSE

Board-designated funds with a defined future use (a facility upgrade in five years, a program expansion in three) sit in a middle horizon. The BDO/FMA nonprofit investment policy template governs purpose, usage conditions, and replenishment through the nonprofit investment policy statement. Raffa recommends documenting each pool’s expected time horizon in the policy to match investment posture accordingly. Shorter horizons call for heavier fixed income and shorter duration; longer horizons support balanced allocations. Benchmarks should reflect the actual mix.

THE QUASI-ENDOWMENT TIER: TOTAL RETURN, BLENDED BENCHMARKS, AND SPENDING POLICY

Long-horizon quasi-endowment capital is where total-return investing lives. The NACUBO-Commonfund Study of Endowments (February 2026) reported a 10-year average annual return of 7.7 percent, a fiscal-year-2025 return of 10.9 percent, and an effective spending rate of 4.9 percent across 657 institutions. Mercer's analysis found an average 86 percent equity and equity-like allocation and 14 percent fixed income, with larger endowments expressing equity risk through private markets.

A common spending policy applies 4 to 5 percent to a trailing market-value average; UPMIFA in several states treats spending above 7 percent as presumptively imprudent. These are sector reference points, not personalized guidance.

WHEN FORMAL DESIGNATION EARNS ITS COMPLEXITY

Not every organization needs four tiers. Propel Nonprofits is explicit that reserve guidance always comes with "it depends," and RSM cautions that rigid frameworks may not fit every risk profile. We recommend a sequencing rule and a governance test before layering complexity.

THE SEQUENCING RULE: BUILD THE OPERATING FLOOR FIRST

Build the 25 percent (roughly three-month) operating reserve first. Add an opportunity reserve when a specific near-term initiative justifies it. Add board-designated funds when the organization has durable surplus and separate-accounting capability.

Reserve the quasi-endowment tier for organizations with sustained operating strength, an investment committee capable of governing long-horizon capital, and often high-net-worth donor or trustee involvement. Many of the trustees we serve occupy these roles across DFW-area foundations, discussed in [The \\$5-30 Million Gap: Why Sub-Ultra High-Net-Worth Clients Are Underserved](#).

GOVERNANCE, DOCUMENTATION, AND REVERSIBILITY: THE PARTS MOST BOARDS SKIP

Every designation should be documented through a formal resolution stating purpose, amount, usage conditions, and reversal process. BMF CPAs, ORBA, and Armanino recommend delegating monitoring to the CFO or finance committee chair and reviewing designations annually. Plentiful Wealth recommends super-majority votes for establishing and dissolving a quasi-endowment.

RSM adds that structured risk assessment should inform reserve sizing rather than rules of thumb. Reversibility is not a weakness of board-designation. It is the feature that distinguishes it from donor restriction, and any nonprofit reserve fund policy should say so plainly.

FREQUENTLY ASKED QUESTIONS

We hear these questions from boards drafting a charity reserve policy or reserve policy for nonprofits.

Q: WHAT IS THE DIFFERENCE BETWEEN RESTRICTED FUNDS AND BOARD-DESIGNATED FUNDS?

Restricted funds carry donor conditions releasable only by the donor or through court action. Board-designated funds are internal earmarks on unrestricted net assets that the same board can reverse at any time. Both appear on the financial statements but classify differently under FASB ASC 958: restricted funds sit in net assets with donor restrictions; board-designated funds sit within net assets without. Getting this right on both the financials and Form 990 is often the difference between a clean audit and a footnote finding.

Q: CAN A NONPROFIT BOARD REVERSE A BOARD DESIGNATION?

Yes. The board that establishes a designation can undesignate the same funds through a formal resolution; this reversibility fundamentally distinguishes board-designated funds from donor-restricted funds. Olsen Thielen CPAs and Armanino recommend documenting the original designation with clear language on purpose, usage conditions, and reversal process. If the designation established a quasi-endowment, Plentiful Wealth recommends a super-majority vote to both establish and dissolve.

Q: WHAT IS THE DIFFERENCE BETWEEN OPERATING RESERVES AND A QUASI-ENDOWMENT?

Operating reserves are short-horizon liquidity for shortfalls, invested for capital preservation and sized at three to six months of expenses. A quasi-endowment is long-horizon capital the board intends to grow like a permanent endowment, invested for total return and spent through a policy tied to performance. Both sit within net assets without donor restrictions under FASB ASC 958 but answer different balance-sheet questions. Operating reserves protect the mission next month; the quasi-endowment protects it across a generation.

Q: CAN A TEXAS NONPROFIT SPEND FROM AN UNDERWATER ENDOWMENT?

Yes, generally. Texas UPMIFA (Property Code Chapter 163, adopted 2007) eliminated the older “historic dollar value” floor that prevented spending when market value dipped below the original gift. The board may spend from a temporarily underwater donor-restricted endowment if the expenditure is prudent under Section 163.005. Only donor-restricted endowments can be underwater; board-designated quasi-endowments cannot. Consult qualified legal counsel before adopting a spending decision.

Q: HOW MUCH MONEY CAN A NONPROFIT HAVE IN RESERVE?

How much reserve should a nonprofit have? The most cited benchmark is three to six months of operating expenses, drawn from the Nonprofit Operating Reserves Initiative workgroup and echoed by the National Council of Nonprofits and Propel Nonprofits. Propel identifies a 25 percent floor (three months), at least one full payroll cycle as the low end, and two years of budget as the ceiling. The right target depends on

revenue volatility, expense flexibility, program mix, and credit access. These are benchmarks, not personalized recommendations.

START THE CONVERSATION

Building a tiered reserve investment policy touches the board, the audit, the tax filing, and the portfolio at once. If your finance committee is drafting or refreshing yours, a 30-minute conversation can help you sequence the work.

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IMPORTANT DISCLOSURES

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Regulatory References. Regulatory thresholds, statutory provisions, GAAP standards, and IRS reporting requirements referenced in this article are current as of the publication date and are subject to change. Interpretation and application of Texas Property Code Chapter 163 (UPMIFA), FASB ASC 958, Form 990 Schedule D reporting, and Internal Revenue Code Section 4968 depend on organizational facts and circumstances.

Performance Data. Historical performance figures referenced in this article, including NACUBO-Commonfund Study of Endowments data, reflect higher-education endowments and are presented as illustrative sector benchmarks only. Past performance does not guarantee future results. All investing involves risk, including the possible loss of principal.

Not Personalized Guidance. Any allocation ranges, spending policy percentages, or reserve-sizing benchmarks referenced in this article are general sector reference points and do not constitute personalized allocation guidance or investment recommendations for any specific organization.

Third-Party Sources. Data, frameworks, and interpretations attributed to third parties are drawn from the sources listed in the References section. Palmer Wealth Group™ has not independently verified all underlying data.

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Legal Authorities

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IRS Materials

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Federal Legislation

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State Statutes

Texas Property Code, Chapter 163 — Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted 2007. Sections 163.004 (standard of conduct), 163.005 (appropriation for expenditure), and 163.006 (delegation of investment management).

Research Methodology: This article was prepared with the assistance of AI tools that supported research synthesis and initial drafting. AI tools do not exercise professional judgment and may have gaps in current regulatory or market information. All content was independently reviewed by qualified Palmer Wealth Group™ professionals. The analysis and guidance expressed here represent the professional judgment of Palmer Wealth Group™, not AI outputs. Palmer Wealth Group™ assumes full editorial and compliance responsibility for this content.

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