PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Nonprofit Notes

Quasi-Endowments Supporting Long-Term Sustainability With Flexibility

By Michelle S. O'Reilly, CPA, Partner and Lenore C. Sanchez, CPA, Director

Some not-for-profit (NFP) organizations rely heavily on endowment funds to help support the long-term sustainability of their missions and related programs. But true endowments, funded by external donors, are typically quite inflexible:

- The fund's principal can never be spent (it is legally locked in perpetuity)
- Donor gifts/bequests often come with restrictions on the use of fund earnings
- Endowments are subject to strict accounting rules (e.g., underwater fund disclosures)
- Any changes require a court or donor agreement

Whether or not your NFP relies on endowments as a funding source for long-term support, you might consider a quasi-endowment — internally funded and directed — for the flexibility it can provide your NFP.

What a Quasi-Endowment Is … and Isn't

A quasi-endowment is a pool of funds invested and treated like an endowment. Unlike a true endowment, a quasi-endowment consists of unrestricted funds that a board designates and controls. This allows flexibility to address the changing needs of your organization.

While that flexibility is meaningful, quasi-endowments should not be mistaken as an interim-gap fund or managed with a lack of prudence. Although your board can change the designation or spending approach, a quasi-endowment is still purposed to provide long-term support, based on the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 (Presentation of Financial Statements of Not-for-Profit Entities). Related approvals, policies, procedures and guidelines should therefore be established with the mindset that the designation is a long-term commitment.

The Importance of Governance and Oversight

Good governance and regular oversight by the board of directors and/or trustees are key in all organizations. They help ensure policies and procedures are followed as intended and provide a layer of accountability for management. For a quasi-endowment, board oversight has a significant impact on the following:

- **Approval:** Your board should formally approve establishment of a quasi-endowment and document that approval in meeting minutes. The approval should also include the intended purpose of the fund.

- **Investment Policy:** Endowment funds are made up of financial investments as the vehicles for the long-term growth. An investment policy should identify the purpose and establish guidelines for the long-term goal. Elements of a good investment policy for your quasi-endowment should include:
    - Roles of the board, management and investment advisors
    - Risk tolerance
    - Protocols around monitoring and managing
    - A basic spending-rate framework, with a separate policy for spending terms if desired

Once the policy is in place, investment decisions and actions should be supported within its context. Your management would carry out the actions, while governance would oversee adherence to the policy.

- **Documentation:** Many decisions will be made regarding a quasi-endowment and its policies. Because those in governance roles often rotate, documenting the reasoning behind funding decisions provides a consistent roadmap for anyone in that role. It also creates efficiencies and reduces the need for in-depth reconsideration of why existing provisions are in place.
    - Any board-designated restrictions to the use of funds should be documented or, if there are none, decisions regarding how restrictions will be decided in the future should be detailed.
- **Spending:** A review process should provide guidance on how funds from the quasi-endowment are used. Disbursements should be consistent with the fund's purpose. The more clearly approved spending is outlined, the greater assurance your organization will have that its long-term financial objectives can be met.
    - At the same time, an overly stringent policy can later tie the hands of management. Policies can be updated, but they are intended for the long term.
    - Consider revisiting periodically rather than rewriting as a normal course of action.

More About Sustainable Spending Policies

The spending rate is a significant decision, which should consider the market beyond current-day circumstances. For example, when the market is strong, your spending rate should account for periods when it is not, so the endowment can sustain fluctuations over time. Your spending policy should clearly identify:

- Factors used to determine the spending rate (year-end or average market value)
- Timing of the spending-rate calculation
- Individuals responsible for calculation, review and approval
- Purpose of spending
- Terms of disbursements
    - If as needed, or if any limits are imposed on the number or frequency of distributions (as needed or monthly, quarterly, annually, etc.)
- Amount intended to remain preserved or grow
    - For example, if the intent is for the original amount invested to remain at 100% or grow to 110% before amounts above that level are spent, that should be stated

Note that nothing should be assumed. The basis for decisions, policies and procedures should be cohesive and consistent with your organization's long-term financial objectives.

Fundraising with Flexibility

When fundraising for a quasi-endowment, it is important to structure your campaign so there is flexibility in the use of the funds. The language used in solicitations and the intent of your fundraising are key considerations to keep your funds clear of donor-imposed restrictions — which is the primary goal of a quasi-endowment.

If fundraising efforts result in another type of donor restriction, the contribution may not be available to support the quasi-endowment. Providing transparency to donors about what a quasi-endowment is, its purpose and how it will benefit the organization will better support fundraising efforts.

Fundraising with Purpose

As your board considers the purpose of its quasi-endowment fund, it may include the below (or a combination of these purposes):

- Funding capital needs
- Providing perpetual support
- Stabilizing operations

When more than one purpose is intended, you might consider assigning a range of percentages to each. Your board should also determine the intended term of the fund and the dollar amount to preserve from unrestricted funds.

COMPLIANCE NOTE: Investment and spending decisions should consider the Uniform Prudent Management of Institutional Funds Act (UPMIFA), or applicable state law. This will help you take into account economic conditions, expected investment returns, other organizational resources and the intended duration of your fund.

Recordkeeping and Accounting

A well-defined quasi-endowment policy, supported by proper accounting and recordkeeping, will provide clear guidance for the effective administration of your fund. Accurate recordkeeping is particularly important when assets are pooled with other investments, rather than held in a separate brokerage account. Organizations should track:

- Original and board-designated contributions allocated to the fund
- Investment earnings (including investment income, dividends, interest, realized/unrealized gains, losses and fees)
- Annual spending-policy distributions
- Withdrawals or transfers into and out of the fund
- Documentation of donor intent and any pledge or gift agreement
- Solicitation materials
- Documentation of your board’s designated purpose of the fund through a board resolution

Contact Us

If you have any questions, please contact your PKF O'Connor Davies client service team or:

Michelle S. O'Reilly, CPA
Partner, Not-for-Profit Services
moreilly@pkfod.com | 845.670.7109

Lenore C. Sanchez, CPA
Director, Not-for-Profit Services
lsanchez@pkfod.com | 551.249.1749

This article was originally published on November 5, 2026.

PKF O'Connor Davies provides the information in this e-newsletter for general guidance only and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.