



## BROWARD COLLEGE FOUNDATION

# Endowments: Frequently Asked Questions

### 1. Why are endowments important?

An endowment is a gift that will last in perpetuity, ensuring the benefactor's legacy will be remembered for generations.

Endowments help student success by making it financially feasible to attend college; they allow us to provide scholarships to deserving students so that they don't incur an unreasonable amount of student loan debt. Through an endowed teaching chair program, endowments fund and recognize excellence in teaching, while attracting and retaining the best instructors at Broward College. Endowments are a source of funding for construction and maintaining capital facilities as state appropriations have significantly decreased in recent years.

### 2. What is the relationship between Broward College and the Broward College Foundation?

The Broward College Foundation, as a direct support organization to Broward College, was established to solicit, manage and distribute funds for educational purposes, primarily scholarships, program support and capital facilities for Broward College.

While Broward College and the Broward College Foundation are separate legal entities, each with its own federal tax I.D. number, the foundation exists solely to support the college. The Broward College Foundation is incorporated under the laws of the state of Florida as a nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported charitable organization under Sections 509(a)(1) and 170(b)(1)(A)(vi). The foundation is officially designated as a conduit for contributing private financial support to the college.

### 3. What is a true endowment?

An endowment is a long-term investment in Broward College that provides benefits to students, faculty and programs year after year, generation after generation, in perpetuity.

A true endowment is a fund made up of gifts (including realized will bequests) that are subject to a donor requirement that the corpus be maintained and invested to create a stream of income. Only a portion of the average investment earnings are expended to carry out the specified purpose of the endowment. To guard against the eroding consequences of inflation, the remaining portion of investment return is reinvested to help ensure that the endowment maintains its purchasing power over time to support future generations.

### 4. What is the 2.25% administrative fee?

The administrative operations of the foundation, excluding investment manager fees, are partially supported through a 2.25% administrative fee based on the three-year quarterly rolling average of the fair market value of the endowed and quasi-endowed funds. This annual fee is assessed quarterly providing there are sufficient funds in the respective earnings account. The college supports all overhead costs in excess of the 2.25% fee.

## 5. What is the corpus?

The corpus represents the total amount of donor gifts to a true endowment plus returns to principal, if applicable.

## 6. What is a quasi-endowment?

A quasi-endowment is created when the donor and the college agree that both the investment earnings and corpus (principal) may be used to further the purpose of the donation. The donor may allow use of corpus dollars and stipulate a limit on what percentage may be utilized.

## 7. How are endowment investments managed by the Broward College Foundation?

The foundation's Finance and Investment Committee, under the direction of the Board of Directors of the Broward College Foundation, is a fiduciary and is responsible for directing and monitoring the investment management of the endowment.

The committee is responsible for adopting the provisions of the Investment Policy Statement. This responsibility includes approving investment strategy; hiring and firing of investment managers, custodians, and investment consultants; monitoring performance on a regular basis (at least quarterly); and maintaining sufficient knowledge about the endowment and its managers to be reasonably assured of their compliance with the Investment Policy Statement.

The Finance and Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include but are not limited to:

**Investment Consultant.** The investment consultant may assist the Finance and Investment Committee in: establishing investment policy, objectives, and guidelines; conducting asset allocation reviews; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

**Investment Manager.** The investment manager has discretion to purchase, sell or hold the specific securities that will be used to meet the endowment's investment objectives, within the investment strategy approved by the Finance and Investment Committee.

## 8. What is asset allocation?

Asset allocation is the manner in which endowment funds are distributed among the various long-term investment asset classes. Asset allocation is a major factor in maximizing portfolio return taking into consideration an acceptable risk level. The objective of an endowment, and thus the allocation decision, is to provide "generational neutrality." In other words, endowment management seeks to provide at least the same level of inflation-adjusted support to future generations as the current beneficiaries receive. The Broward College Foundation's asset allocation strategy for the endowment is as follows:

Global Equity – the allocation consists of public and private equity-oriented funds managed by external investment firms. This is the highest risk and highest return asset category. The allocation is diversified by factors including security, sector, geography, market capitalization, and manager style.

Global Fixed Income – The allocation consists of three broad categories (1) interest rate sensitive, (2) credit/distressed, and (3) emerging market debt. The rate sensitive bonds provide equity risk mitigation, deflation protection and liquidity to the portfolio. The credit/distress allocation provides investment opportunities to generate a substantial real return. Emerging market debt provides elements of both interest rate and credit sensitivity, as well as having currency risk.

Real Assets – the allocation consists primarily of real estate and natural resources. These investments are expected to provide inflation protection as well as generate positive real rates of return.

Diversifying Strategies – the allocation will consist of investments whose primary source of risk and return is not a constant allocation to one of the above three asset classes. This includes but is not limited to absolute return hedge funds and multi-strategy funds.

## 9. What is the spending policy?

The foundation's spending policy focuses on protecting the corpus and establishing spending levels necessary to support programs and scholarships funded by the foundation. The policy is a three-pronged approach to determining the endowment's spending distribution.

Hibernation – The endowment must generate earnings for one year before spending is distributed.

Spending limitations – Four percent (4%) of the three-year rolling average of the quarterly portfolio market value may be granted annually, provided there are sufficient funds in the respective earnings account.

Prohibition – The fund receives no spending distribution on endowments with a total balance less than the original gift's fair market value.

## 10. What happens to any “excess returns” in the endowment?

Earnings beyond the amount needed for spending are referred to as “excess returns” and are added back to principal and reinvested in the long-term pool to promote growth and protect against inflation for future programs. These excess returns are also used to provide funding for future spending budgets in down investment performance periods.

## 11. What is an “underwater” endowment?

This is an endowment that, through declining market performance, has used all accumulated earnings and appreciation and has eroded the original gift value, or corpus. The foundation's spending policy prohibits spending distribution on endowments with a total balance less than the original gift's fair market value, unless the donor agrees in writing to invade the corpus, or the donor elects to contribute to the endowment earnings fund to allow for a spending distribution.

## 12. Can an endowment be designated for a specific purpose?

Yes. As with any gift to the Broward College Foundation, an endowed gift offers alumni and friends the opportunity to have their names, or the name of a loved one, linked to an area of the college in which they have a special interest.

- Some donors create unrestricted endowments, recognizing that the needs and challenges of the future will differ from those of today. Unrestricted gifts are used for the highest priority needs on campus and provide the most flexibility as these needs change.
- Many donors create scholarships to aid deserving students.
- Broward College and the Broward College Foundation strictly adhere to IRS regulations and Council for Advancement and Support of Education guidelines in terms of establishing scholarship criteria.
- Some donors choose to support an Endowed Teaching Chair.
- Other donors choose to direct their gifts to areas or programs of special interest to them, knowing that these additional funds provide an opportunity for those programs to grow and continue to excel.

## 13. What is the minimum amount for establishment of an endowment?

The Broward College Foundation's minimum to establish a named scholarship or program endowment is \$25,000.

Donors may specify an endowment level greater than the foundation's minimum in their endowment agreement.

## 14. How can an endowment be established with the Broward College Foundation?

Contact a member of our Advancement team.

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