

COMMUNITY FOUNDATION OF ST. JOSEPH COUNTY SCHOLARSHIP FUND

POLICY

I. INTRODUCTION

The Community Foundation of St. Joseph County recognizes the value and importance of education and offers donors the option of creating their permanent legacy through the establishment of a scholarship fund.

Scholarship funds may be established for a variety of reasons: to honor or memorialize an individual in our community; to provide the hope of education to someone; or to fill a need in a particular area in our community. Reasons for beginning a scholarship fund are personal to each donor, and our goal is to ensure the intent of each donor is appropriately carried out.

Of the various types of Community Foundation funds, scholarship funds are unique with regard to the potential complexity of their administration and the level of staff effort required. In addition, scholarship programs are subject to specific Internal Revenue Service regulations.

This scholarship policy was established to guide individuals interested in establishing a scholarship fund and to explain the framework the Foundation works within to ensure appropriate management of these funds.

II. ESTABLISHING A SCHOLARSHIP FUND

Scholarship funds may be established through a variety of means that include, but are not limited to: cash, marketable securities, real estate, bequests, and life insurance.

Minimum Commitment. The minimum required commitment to establish a separate, named scholarship is \$25,000, payable at once or in regular installments over a period not to exceed five years, toward a goal of supporting a scholarship of \$1,000 annually. A portion of the annual contribution may be used to initiate the scholarship prior to full funding of the endowment, providing there is a plan in place for the endowment to reach a size sufficient to sustain the scholarship at that level within five years. Annual distributions from the endowed fund may not exceed the Foundation's Spending Policy.

If the donor(s) fails to honor the original commitment for any reason within a five year period, the Community Foundation of St. Joseph County retains the right to transfer the assets from the fund to another existing scholarship fund, using appropriate judgment with respect to the donor's original intention.

Renewability. Renewable and consistent scholarships tend to meet the needs of students better than one-time or variable awards. They allow students and their families to develop financial plans and also provide incentive for students to maintain the eligibility goals set forth by a particular scholarship program. Therefore in the case of a typical post-secondary scholarship, we encourage donors to establish renewable awards that encourage completion within a typical four-year time period. For example, based on a \$25,000 scholarship fund, a \$1,000 award would be given to the same student for four years before an additional award is

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made to another student. As the fund grows over time, additional students can be added or award amounts can be increased.

III. DESIGNING THE SCHOLARSHIP PROGRAM

Community Foundation staff will work with a donor to design a scholarship program that reflects the donor's goals and intentions. This includes:

Statement of Purpose: to describe why the scholarship was established, who it is trying to help, and for what purpose;

Eligibility Criteria: to define the basis on which a student is eligible to apply;

Selection Criteria: to define the basis on which one or more students will be selected to receive a scholarship;

Selection Process: to define the process through which the student(s) are selected.

Typically, one of the following Selection Processes is used:

1. Selection can be performed by an appropriate school or entity that complies with the overall goal and purpose of the scholarship fund. For example, if an award is limited to a graduate of a specific high school, representatives from that high school may serve as the selection committee. Another example is if an award is to be made for a particular field of study at a college or university, that institution will help identify the student(s).
2. The Foundation utilizes one of its existing scholarship processes that meets the needs of the newly established scholarship program. In this case, a recipient would be selected from an existing applicant pool.

In rare instances, the Foundation may determine that the methods listed above are unable to accommodate the desired scholarship process. Cases requiring the establishment of a separate process, managed by the Foundation, are reviewed very carefully. A higher fund minimum of \$75,000 will apply.

IV. ADMINISTERING THE SCHOLARSHIP PROGRAM

The Community Foundation provides a variety of services to ensure the success of the scholarship program.

Program Promotion and Process Implementation

At the time the Scholarship Program is designed, the Community Foundation identifies an appropriate course of action to ensure that eligible students are aware of the scholarship opportunity. This includes posting the opportunity on the Community Foundation's website and working with the organizations, typically high schools, colleges, or universities, involved in the selection process to confirm appropriate promotional activities are taking place.

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When an external selection process is used, the Foundation maintains regular communications to ensure that the program is conducted according to the specific guidelines and criteria established for each scholarship program.

Award Announcement

Award letters are generated by the Foundation and either prepared for students to receive during special recognition events at local high schools or letters are sent directly to students. Letters describe the award and the intent in which they were given and provide students with directions on award payments. When appropriate, press releases may be sent to local media or information may be included in the Foundation's newsletter.

Award Disbursement

Payments are made directly to the appropriate academic institution. Award amounts are divided equally among semesters. Students are required to submit a current tuition statement each semester before a payment is made.

Renewal Process

For students eligible for scholarship renewal, a reminder letter is typically sent out in January with the requirements for requesting another year of scholarship support. Renewal information is submitted to the Foundation and reviewed by staff. Renewal approval is based on students maintaining specific criteria often established in consultation with the donor. An additional award or decline letter will be sent to each student to inform them of the status of their request.

Administrative Program Fees

The standard fee charged to help defray the costs of administering a Scholarship Program is 1% annually, assessed 1/12th of one percent each month. The Community Foundation retains the right to adjust this fee up (or down) in circumstances where the burden of administration is more than (or less than) average. The goal is to design an efficient program that will achieve the donor's goals and intentions while minimizing administrative expense.

V. LEGAL CONSIDERATIONS

In the design and implementation of Scholarship Programs, the Community Foundation takes into account the recommendations of entities such as the Council on Foundation to ensure we comply with Internal Revenue Service (IRS) and Treasury Regulations with respect to grant programs benefiting individuals. Important considerations are listed below:

- The individual grant program must serve a charitable purpose.
- Programs must adhere to appropriate conflict of interest practices to avoid providing private benefit or inurement. Community foundations should generally avoid making grants to organization managers, selection committee members and their families.
- Objective criteria are used for the selection of recipients.
- The group of persons who will be eligible for the grant program constitutes a charitable class. In general, a "charitable class" is a group that is large enough so that an indefinite number of individuals may benefit.

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- The donor or advisor does not control the process for selecting recipients. In some cases, a donor may serve on the selection committee, but neither the donor nor his or her representatives should ever dominate the proceedings (in number or in actions).

VI. CORPORATE SCHOLARSHIP PROGRAMS

Beyond the guidelines listed above, establishing an employer-related scholarship program requires additional attention to the following guidelines.

- The scholarship may not be used by the employer to recruit employees or to induce employees to continue employment.
- A group or committee independent of the sponsoring employer is used to select proposed scholarship recipients.
- If an individual must meet employment-based eligibility criteria, the minimum period of employment may not exceed three years.
- Neither the eligibility nor the selection criteria should be related to any employment-related factor such as position, services, seniority, or duties.
- Scholarships may not be terminated because the recipient or the recipient's parent terminates employment after the scholarship is awarded, regardless of the reason for termination. In addition, if an award is renewable or if a recipient must reapply in future years, employees may not be considered ineligible due to termination of employment since the initial award and renewal criteria must be based solely upon factors unrelated to continued employment.
- The courses of study for which scholarships are available may not be limited to those that would particularly benefit the employer.
- The terms of the scholarship must be consistent with the disinterested purpose of enabling recipients to obtain an education solely for their personal benefit and must not include any commitments, understanding, or obligations to suggest that studies are undertaken by the award recipient for the benefit of the employer.

Number of Scholarship Awarded

Corporate scholarship programs are also subject to either the percentage test or the subjective test to maintain their tax-exemption.

- The percentage test is met if the number of grants awarded is limited to 25% of the number of students who were eligible, applied for grants and were considered by the selection advisory committee. Alternately, the number of scholarships awarded may be limited to 10% of the number of children who were eligible for the year whether or not they submitted an application.
- When a program awards scholarships to employees, the number of grants awarded may not exceed 10% of the number of employees who were eligible, applied for grants, and were considered by the selection advisory committee.
- If a scholarship program does not meet the percentage test, then for the subjective test circumstances are reviewed to determine whether the primary purpose is to provide extra compensation or other employment incentives. Factors considered include but are not limited to the history, courses of study available to applicants, eligibility, publicity, independence of selection committee, selection criteria, number of

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scholarships available, number of eligible children, percentage of eligible children applying and how many scholarships are awarded to individuals who do not qualify as children of employees.

Information for the Legal Considerations and Corporate Scholarship sections was adapted from the *Community Foundation Scholarship Program Guidelines for Membership Clubs, Corporations, and Associations*, a publication of the Council of Michigan Foundations and *Grants to Individuals by Community Foundations*, a publication of the Council on Foundations.

Approved by the Executive Committee 11/21/2006