



# THE COMMUNITY FOUNDATION

## Policies and Procedures for Scholarships

Rochester Area Community Foundation administers a wide variety of scholarship funds that make it possible for donors to provide support to individual students for educational costs. The Community Foundation actively encourages donors to be engaged with their scholarship funds within the limits identified by the Pension Protection Act of 2006. Therefore, in order to assure compliance with federal regulations, the Community Foundation requires that all scholarships be established and administered according to certain policies and procedures, identified below.

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### Setting Up a Scholarship Fund

The minimum amount to establish a permanent scholarship fund is \$25,000. An “acorn” scholarship may be established with an initial gift of at least \$2,500 and the commitment to grow the fund to \$25,000 within 10 years. Restrictions on awards apply during that period. For details about “acorn” scholarship funds and other options for amounts under \$25,000, please request a copy of “*Are you interested in establishing a scholarship fund or making a scholarship award, but need more information...?*” For funds established with a minimum of \$25,000, 5% of the value of the fund is available annually for distribution. Scholarship funds often take a year or more to earn enough to make any distributions.

Scholarship funds are established with a fund agreement that identifies the name of the fund and describes in broad terms the purpose of the fund. Once a fund agreement is signed and the charitable gift is completed, the document may not be amended by the donor. Therefore, we encourage selection criteria or desired characteristics of recipients to be outlined in a letter appended to the fund agreement. The letter may be easily revised and/or amended if needed. We strongly encourage prospective donors to meet with Community Foundation staff before signing a fund agreement or drafting letters of intent. Our knowledge and expertise will ensure that your desires are met appropriately. The annual administrative fee for scholarship funds is currently 1% of the fund’s assets. Fees may be increased on the basis of level of service provided.

### Establishing the Scholarship Process

*Award type-* The first step in creating the scholarship process is determining the award type. There are two types of awards: An award to an individual for past achievement is an Achievement Award and is paid to the individual directly for unrestricted purposes. An award to an individual for educational or skill enhancement purposes is a Scholarship Award and is paid to the educational institution or service provider.

*Criteria-* Once an award type for the scholarship fund is defined, criteria must be established that support and are relevant to that purpose. Criteria can include, but are not limited to, such factors as academic performance, leadership skills, community service, teacher recommendations and financial need. For help identifying criteria, request a copy of “*Designing a Scholarship: Sample Items to Consider.*” The eligibility and selection criteria of the scholarship must be broad enough to satisfy legal requirements and to attract worthy candidates. The criteria must be narrow enough to be manageable in relation to the dollars available. The Community Foundation retains the right to alter the criteria of a scholarship to keep it appropriate and to uphold the donor’s intent.

Need for financial assistance is often a criterion for an award. The Community Foundation defines **financial need** as “the difference between the total cost of attendance and the Expected Family Contribution,” a factor determined from standard financial aid applications. A related criterion is **unmet need or gap**, defined as “the amount remaining after deduction of the Expected Family Contribution, grants, scholarships, loans, and any other federal or state financial aid from the total cost of attendance.”

Once the fund is established, the Community Foundation’s Board of Directors becomes the owner of the fund with ultimate responsibility for ensuring that its criteria and procedures are objective, non-discriminatory, in compliance with all regulations, and that donor intent is maintained over time.

*Caretaker*- When the purpose and the criteria have been established, the Community Foundation delegates the actual recipient selection process to a “caretaker.” A caretaker is an organization authorized by the Community Foundation to take on the responsibility for designing, distributing, and evaluating applications and conducting the selection process according to the established criteria. In many cases, the most appropriate caretaker will be either a high school or college. The Community Foundation may assume this role but may charge for the service and reserves the right to refuse the responsibility.

The caretaker must assure the Community Foundation that a fair and equitable process for reviewing and selecting recipients according to the criteria of the award is established and maintained, and that no conflict of interest occurs. Each year, the caretaker notifies the Community Foundation of selected recipients via the “*Notification Form for Scholarships Administered by Rochester Area Community Foundation*” certifies that ***“an open, fair and equitable process was used to select the above student(s), that the criteria of the scholarship as determined by the donor and the Community Foundation were fully met, that no members of any recipient’s immediate family participated in the selection process, and that no fund donor or related party directly or indirectly controlled the scholarship selection process .”***

*Committee*- The structure of scholarship selection committees can depend on the purpose and intent of the scholarship. They can vary in size and may consist of community members, members of the field of education, representatives of the Community Foundation, citizens from the greater Rochester area, business owners, athletes, authors, family members, friends and many others. While donors and “related parties” may be involved in the selection process, they may not constitute a majority of the committee. Committees are required to follow the process defined in the scholarship description (see below) and are encouraged to provide feedback on the process to the Community Foundation so that both parties can work together to effectively carry out the donor’s intent. Committees that select recipients for scholarships administered by the Community Foundation serve as *de facto* subcommittees of the Foundation.

*Description*- Once the purpose, criteria, caretaker and committee have been determined, a “Scholarship Description” is written and maintained by the Community Foundation for each scholarship award. This document is reviewed annually and updated or amended if changes are needed to keep the scholarship relevant and in compliance with regulations. The Scholarship Description reflects the intent of the donor and the current administrative process. Caretakers and scholarship committee members are required to abide by the Scholarship Description. The description is sent annually to the caretaker organization, as well as posted on our website, and includes the following elements:

Name of Scholarship	Allowed Use of Award	Award Announcement and Payment
Donor Information	Eligibility Criteria	Renewability
Purpose of Scholarship	Application Process	Other
Number and Size of Awards	Committee/Selection Process	

## Donor Involvement

Individuals, organizations or companies that establish permanent scholarship funds may be involved in a number of ways, such as participating on a selection committee, presenting at award ceremonies, helping with publicity about the scholarships, receiving updates from students, etc. However, regulations passed in the Pension Protection Act of 2006 clarified that “donors and related parties” may not control the recipient selection process, and that no “donor or related party” may receive a scholarship (or any payment or compensation) from the fund. “Donors” are defined as any individual, family, organization, group, or company that establishes or contributes to a scholarship fund. “Related parties” are the immediate and extended family of the donor and their employees, advisors, attorneys, official delegates, etc. Examples of donor involvement that are not allowed under the regulations include funds established by professional or alumni groups for which members of the group serve as the selection committee; funds established by corporations with selection committees consisting of corporate employees; funds established by a family with recipients selected by members of that family; and funds established by churches or other charities with selection committees comprised of the boards of the organizations.

In order to operate legally and avoid fines and penalties, any fund with active donor involvement must meet all of the following tests:

- The Community Foundation officially appoints all of the members of the committee and the donor’s advice is given solely as a member of the committee;
- The donor and parties related to the donor do not control the committee directly or indirectly; and
- All grants are awarded on an objective and nondiscriminatory basis using a procedure that has been approved in advance by the board of directors of the Community Foundation and that meets the IRS-defined requirement for grants of this type.

The Community Foundation’s Board of Directors ensures that any involvement by “donors and related parties” is within legal boundaries and annually grants authority to staff to officially appoint members of scholarship committees representing funds with donor involvement to ensure compliance with legal requirements. For these funds, an updated list of committee members is acquired every year and reviewed to ensure that the committee is not donor-controlled. Members are required to notify the Community Foundation if they could be considered a “related party” to the donor. Once these steps have been completed, committee members are then officially appointed by the Community Foundation and can select scholarship recipients for the upcoming year.

## Payment of Awards

Once recipients are selected, an official award letter outlining the amount of the award, the purpose for which it must be used, and requirements that must be met before receiving the award is sent by the Community Foundation to the scholarship recipient, along with a copy of *“Terms and Conditions for Rochester Area Community Foundation Scholarships”* (attached). The Community Foundation reserves the right to not pay an award if a suitable candidate is not selected.

The type of award determines how payment is made. Achievement Awards are unrestricted and therefore always paid directly to the recipient. Scholarship Awards for qualified educational expenses such as tuition, books, room and board are paid to the educational institution or service provider. A letter accompanying the check is sent to the school outlining how the scholarship is to be applied to the student’s account. If the purpose of the scholarship requires payment directly to the individual, he or she is required to provide the Community Foundation an accounting of the expenses covered by the grant and a transcript indicating continued enrollment/participation throughout the grant period. Students are notified that some or all of their award may be considered taxable income by the IRS and advised to speak to a tax expert or financial aid office for more information.

For scholarship awards, the Community Foundation recommends that they be made for “tuition, room and board, and/or related educational expenses.” Unnecessarily limiting the use of the scholarship to “tuition only” can actually reduce the amount of aid a student receives. We also suggest a minimum scholarship award of \$500 and prefer that awards are renewable rather than one-time, to encourage the completion of degree programs. Appropriate contingencies such as maintaining a minimum GPA may need to be met before additional payments are made. Renewable awards should be paid not more frequently than annually.

Grants from Community Foundation scholarship funds are made according to IRS Treasury Regulations. Data on all schools and students are accurately maintained in our database and electronic and paper records are governed by our confidentiality and record retention policies.

## **Publicity**

Information about scholarships administered by Rochester Area Community Foundation is available on our website, [www.racf.org](http://www.racf.org), and is updated regularly. Students and schools are encouraged to check it often for new additions.

For more information about these policies and procedures contact Lori Banning, Scholarship and Grants Administrator at (585) 341-4357 or [lbanning@rochester.rr.com](mailto:lbanning@rochester.rr.com)