



OPTIONS FOR SCHOLARSHIP FUNDS

Over half of the funds held in P.E.O. Foundation are scholarship funds. Because you are considering this option for your fund, we would like to give you some basic information regarding how these funds operate and the three options available within this category for the administration of your individual fund.

A scholarship fund may be started with a minimum of \$1,000.00 and has up to four years to reach the \$5,000.00 minimum principal balance. An Annual Activity Statement will be prepared, either in January (for state chapter funds) or February (for local chapter or individual funds), advising you of the amount of income available for scholarships. Scholarships will be paid either to the recipient or to the school in which she is enrolled. Amounts over \$2,500.00 will be paid in two installments. Installments for smaller amounts will not be allowed.

Unless a fund is established with a predetermined principal balance or scholarship amount (see options B and C below), the principal balance will be calculated based on contributions and a portion of realized capital gains. An annual spending policy is determined by the Foundation's board of trustees. This policy determines the portion of capital gains to be spent and the portion to be returned to principal. No variation from the Foundation's spending policy will be allowed, nor will any portion of the spendable income be returned to the principal balance. Any spendable income not awarded will remain in the fund, continue to earn investment income, and will be added to the amount available next year.

The amount available for paying scholarships can be determined in one of three ways:

- A. **Use the Foundation's spending policy as described above.** This most closely matches the endowment fund concept and is focused on future growth of the fund.
- B. **Set a specific scholarship amount.** This provides the chapter with a known scholarship amount from year to year. The fund balance must remain above \$5,000 at all times.
- C. **Spend the excess fund balance over a set principal balance.** This typically provides the largest scholarship payouts in the early years, but does not allow the fund to grow or to offset inflation.

Before scholarships can be paid, a Statement of Operation will need to be prepared, approved, signed, and returned to the Foundation office. This statement determines how your fund will operate. The statement is intended to be a long-term set of directions and cannot be changed on an annual basis.

In an attempt to illustrate these different scholarship options, assume a chapter establishes a fund with a \$5,000 contribution in 2006. During fiscal year 2007, they add \$1,000 in contributions, earn \$200 net income and receive capital gains of \$100. Under the proposed options above, this fund could operate three different ways as illustrated in the examples on page two.

NOTE: Amounts used for net income and realized gains are for illustrative purposes only and are in no way an estimation or guarantee of earnings on any funds held by P.E.O. Foundation.

The award amount and principal balance shown in Scenarios B and C are examples. You may choose to award any amount for a scholarship. You may set any principal balance, provided it is above the minimum principal balance of \$5,000.00.

Scenario A

The chapter sets up the fund, with income to be given as scholarships. This means the Foundation's spending policy determines the amount to be spent. Assuming the spending policy for this year states that 70% of realized gains will be returned to principal, annual statements would be calculated as follows:

Beginning fund balance, July 1, 2006	\$ 5,000
Contributions	1,000
Net income (net of expenses)	200
Net realized gains	<u>100</u>
Ending fund balance, June 30, 2007	\$ 6,300
Principal balance	
(\$5,000 + 70% gains + contributions)	<u><6,070></u>
Available income for scholarships	<u>\$ 230</u>

Scenario B

The chapter specifies in the Statement of Operation that the fund is to pay out \$500 in scholarships every year. If the fund does not have at least \$500 over the required \$5,000 fund balance, income will be accumulated until sufficient. Under this scenario, principal balance is not an issue, since the Statement of Operation dictates a \$500 payout whenever possible. The activity statement would be presented as follows:

Beginning fund balance, July 1, 2006	\$ 5,000
Contributions	1,000
Net income (net of expenses)	200
Net realized gains	<u>100</u>
Ending fund balance, June 30, 2007	<u>\$ 6,300</u>
Scholarship to be awarded	<u>\$ 500</u>

Scenario C

The chapter decides that the fund is to maintain a \$5,000 principal balance, with the excess paid out each year in scholarships. Again, there is no need to calculate principal balance, since scholarships are not restricted to income and the principal balance is a predetermined amount. Payout is as follows:

Beginning fund balance, July 1, 2006	\$ 5,000
Contributions	1,000
Net income (net of expenses)	200
Net realized gains	<u>100</u>
Ending fund balance, June 30, 2007	\$ 6,300
Required principal balance	<u><5,000></u>
Available amount for scholarships	<u>\$ 1,300</u>

For all of these options, if the donor wishes to increase the available scholarship payout for the current year, a separate check may be awarded from the donor directly to the recipient or to the school in which she is enrolled.

These are the scenarios allowable under the second option on Form F-EF. Each has a slightly different emphasis, from growing the fund, to allowing maximum scholarship payouts. These three variations allow flexibility for donors, yet provide a necessary structure for administration.

Please take some time to consider which one of the options you would like to use when establishing your scholarship fund, and be sure to indicate by letter on Form F-EF which one you have chosen. This information is required before your Statement of Operation can be prepared.