



American Endowment Foundation

Creating a Scholarship Through A Donor Advised Fund

Scholarships are a wonderful way to support promising and deserving students by assisting them with the costs of their education. Donors often see such scholarships as a meaningful way to honor or memorialize friends, teachers, or family members.

Most commonly donors contribute to specific programs within a school. However sometimes, the family may want to do a named scholarship to honor a family member or other person that they desire to recognize. In this case, the simplest and most efficient method is to rely on the school or other charitable organization and its scholarship selection committee to advertise, screen for qualified applicants, and administer the scholarship.

Distributions can be made from a donor advised fund (DAF) to support the scholarship program. The DAF administrator, along with the donor and the school, agree to the terms of the scholarship agreement.



An Example:

Mr. Smith worked with the principal of ABC High School to establish a scholarship in memory of his mother, who was a teacher at that school. They agreed on a target annual funding level, and the selection criteria that the selection committee would use in qualifying applicants (Smith family members were not eligible to apply for the scholarship.)

Each year, the school's selection committee administers the program, and selects the scholarship awardees. (Mr. Smith may be on the scholarship committee, but may not have a majority vote).

Each year, Mr. Smith recommends a grant from his donor advised fund to the high school to fund the scholarship awards in memory of his mother.

The example above underscores an important note: Per IRS guidelines as it pertains to scholarships and donor advised funds, the donor can serve on the committee but cannot be a deciding vote on identifying qualified applicants. The donor may not amend the scholarship decision in any way nor can any relatives of the donor receive grants from the scholarship.

At American Endowment Foundation (AEF), we have found that schools are very happy to participate in this type of arrangement. It gives them excellent publicity benefits. Donors also enjoy the freedom to redirect their charitable assets if the school is not administering the plan as was agreed.