

**Internal Revenue Service  
Director, Exempt Organizations  
Rulings and Agreements**

**Department of the Treasury  
P.O. Box 2508  
Cincinnati, Ohio 45201**

Release Number: **200926034**

Release Date: 6/26/09

Date: 3/31/09

**Employer Identification Number:**

**Person to Contact - ID#:**

**Contact Telephone Numbers:**

**LEGEND**

UIL 4945.04-04

B= Name of organization  
C= Name of scholarship program  
D=School District  
E= Geographical area  
F= Organization  
x= scholarship amount

Dear

We have considered your request for advance approval of your grant-making programs under section 4945 (g)(1) of the Internal Revenue Code, dated, November 24, 2008.

Our records indicate that the B was recognized as exempt from Federal income tax under section 501(c)(3) of the Code and that it is classified as a private foundation as defined in section 509(a).

Your original scholarship program, named C was approved in a 1971 IRS ruling letter.

Your letter indicates that the B will operate a scholarship program named C, awarding 200 to 500 scholarships up to the amount of x to be determined based on unmet financial needs. Amounts will be payable in equal amounts over four years. The balance may be carried forward for up to six years of undergraduate or graduate study. Recipients will be chosen from graduates of public high schools; specifically students graduating from the D or other independent school districts in E. The high schools within each district will be allocated a specific number of scholarships annually. All high schools participating in the program will be encouraged each year to publicize availability of the Foundation scholarships within each individual school. Each high school participating in the program will be required to nominate students equal to a minimum of twice the number of scholarships the school is allocated, up to a maximum of four times the allocation, in order for the selection committee to have an adequate group from which to judge. The funds must be used solely for tuition and tuition related expenses. Scholarship recipients shall be selected based on the following criteria:

- Academic achievement
- Economic need

- Leadership, community service, and citizenship
- Persistence in overcoming barriers to further education

To be eligible to apply for a scholarship an applicant must:

- Enroll in a degree program in the United States, and strongly encouraged to attend a four-year college or university.
- Enroll in institutions that have received their accreditation from the regional commissions within the six geographic areas that cover the United States.
- Begin with the Fall semester immediately following high school graduation and continue for four consecutive years. However, a reasonable break in continuous education may be allowed, subject to approval by the Foundation.
- Provide an acceptance letter by August 1, from the college or university that he or she will attend. Otherwise, the scholarship will be canceled and awarded to the alternate winner.
- Enroll as full-time students and complete a minimum of 12 credit hours each semester, or a total of 24 credit hours for the full college year or its equivalent.

The Foundation will send funds directly to the scholarship recipient's selected college or university with instructions that the scholarship funds be used first toward ultimate financial need, then to reduce student loans, work requirements and expected family contribution.

The Foundation will be independent of both the nomination and selection processes. Relatives of Foundation board members, officers, other disqualified persons, and staff will not be eligible to receive a scholarship.

Nominees will be judged by a selection committee and process administered by F. The F selection committee will be composed of F members and other civic and business leaders. Judging of each school's nominees will be conducted by a team of three members, who will score the applicants on the criteria outlined by the Foundation. Before the process begins, the selection committee will ensure that all of the team members assigned to a specific school are independent of the school and have no conflicts of interest with applicants or nominators from the school. The scores of each judge will be compiled and reviewed by the team before a collective decision is made on the awardees and alternate awardees from each school. The F committee will then notify the Foundation of the scholarship winners and alternates, and the Foundation will in turn notify recipients they have been selected to receive a scholarship award.

Before July 1 of each year thereafter, the recipient must send the Foundation a copy of his or her official transcript from the previous year before funds for the following academic year will be disbursed. To transfer to another college or university following a full academic year, the scholarship recipient must furnish the Foundation with a copy of a letter of transfer acceptance from the new institution before July 1. To transfer during the academic year or before the completion of a full academic year, the recipient must make arrangements to notify the Foundation and each concerned institution. The previous semester's official transcript and a letter of acceptance from the new institution must be sent to the Foundation, along with any unused portion of a scholarship so it can be sent to the new institution. The scholarship may be canceled at the Foundation's option because of

failure to carry out the responsibilities of a scholarship recipient, academic failure, and/or withdrawal from school for reasons other than illness, or upon the request of the recipient's college or university. To defer payment in case of illness, the Foundation must receive immediate notification from the scholarship recipient, and the recipient's attending physician must promptly provide a letter verifying an inability to attend school.

The scholarship grants will be paid only to the educational institutions which the recipients attend. Such institutions will be required to use the grant funds to defray the recipient's expenses only if the recipient is enrolled at such educational institution and the grantee's standing is consistent with the purposes and conditions of the scholarship grant. Otherwise, the funds will be returned to the Foundation.

If the Selection Committee determines that the recipient has misused funds distributed for benefit of the recipient, the Selection Committee shall authorize the Foundation to demand in writing that the funds distributed for the recipient be returned, in whole or in part as determined by the Selection Committee.

The organization agrees to maintain records which include the following:

- a. Information used to evaluate the qualification of potential grantees;
- b. Identification of the grantees (including any relationship of any grantee to the private foundation), the amount and purpose of each grant; and any follow-up data collected.
- c. All grantee reports and other follow-up data obtained in administering the private foundation's grant program.

This supersedes the IRS ruling letter of 1971, effective as of November 24, 2008.

Sections 4945(a) and (b) of the Code impose certain excise taxes on "taxable expenditures" made by a private foundation.

Section 4945(d)(3) of the Code provides that the term "taxable expenditure" means any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purposes by such individual, unless such grant satisfies the requirements of subsection (g).

Section 4945(g) of the Code provides that section 4945(d)(3) shall not apply to individual grants awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance if it is demonstrated that:

- (1) The grant constitutes a scholarship or fellowship grant which is subject to the Provisions of section 117(a) and is to be used for study at an educational organization described in section 170(b) (1)(A)(ii);
- (2) The grant constitutes a prize or award which is subject to the provisions of section 74(b), if the recipient of such prize or award is selected from the general public, or
- (3) The purpose of the grant is to achieve a specific objective, produce a report or similar product, or improve or enhance a literary, artistic, musical, scientific,

teaching, or other similar capacity, skill, or talent of the grantee.

Section 53.4945-4(c)(1) of the Regulations provides that to secure approval, a private foundation must demonstrate that:

- (i) Its grant procedure includes an objective and nondiscriminatory selection process;
- (ii) Such procedure is reasonably calculated to result in performance by grantees of the activities that the grants are intended to finance; and
- (iii) The foundation plans to obtain reports to determine whether the grantees performed activities that the grants are intended to finance.

Based on the information submitted and assuming your scholarship program will be conducted as proposed with objectivity and nondiscrimination in awarding grants, we determined that your procedures in awarding scholarship grants comply with the requirements of section 4945(g)(1) of the Code and that scholarships granted according to these procedures will not be “taxable expenditures” within the meaning of section 4945(d)(3).

In addition, we have determined that awards made under your procedures are excludable from the gross income of the recipients subject to the limitations provided by section 117 of the Code.

This determination is conditioned on the understanding that there will be no material change in the facts upon which it is based. It is further conditioned on the premise that no grants will be awarded to foundation managers, or members of the selection committee, or for a purpose that is inconsistent with the purpose described in section 170(c)(2)(B) of the Code.

The approval of your grant-making procedures is a one-time approval of your system standards and procedures that will result in grants which meet the requirements of section 4945(g)(1) of the Code. **This determination only covers the grant programs described above.** Thus, approval shall apply to succeeding grant programs only as long as the standards and procedures under which they are conducted do not differ materially from those described in your request.

Any funds you distribute to individuals must be made on a true charitable basis in furtherance of the purposes for which you are organized. Therefore, you should maintain adequate records and case histories so that any or all grant distributions can be substantiated upon request by the Internal Revenue Service.

This determination is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as a precedent.

You must report any future changes in your grant making procedures. Please keep a copy of this letter in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

Robert Choi  
Director of Exempt Organizations  
Rulings and Agreements