

**Internal Revenue Service  
P.O. Box 2508  
Cincinnati, OH 45201**

**Department of the Treasury**

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**Employer Identification Number:**

**Contact Person - ID Number:**

**Date:** May 19, 2011

**Contact Telephone Number:**

UIL: 4945.04-04

**LEGEND**

B = Software program

Dear \_\_\_\_\_ :

We have considered your request for advance approval of your grant-making program under section 4945(g)(1) of the Internal Revenue Code, dated November 19, 2010.

Our records indicate that you are recognized as exempt from federal income tax under section 501(c)(3) of the Code and that you are classified as a private foundation as defined in section 509(a).

You were previously approved for a scholarship program. Specifically, your scholarship program provides for three annual awards to sixth graders to be used for post-secondary education. The recipients are chosen based on an annual competition open to Title 1 students attending public schools which use B.

You have proposed to expand your previously approved scholarship program.

You will continue to make grants to students for educational purposes. The purpose of the grants/scholarships will be to provide students with the opportunity for education, which they may not otherwise be able to pursue. Specifically, grants will be made to individuals wishing to attend elementary, secondary and post-secondary educational institutions, both private and publicly-supported, including high schools, preparatory schools, colleges, universities, vocational schools and graduate schools.

Grant awards to students will initially range from 3 to 7 per year, with the potential to increase as funding allows. Grant recipients fall into three categories:

- Single mothers pursuing high education,
- Current college students seeking to finish their Bachelor's degree or pursue a Masters in Education who are in financial need, and
- K-12<sup>th</sup> graders seeking grants for future secondary and post-secondary education.

For the third category of candidates, and as provided in the original policy, you will do a mass mailing to (including an invitation letter to principals and sample application packets) all U.S. elementary school principals that subscribe to B's programs at the beginning of each year. However, the third category will also be expanded to include schools that are not subscribing to B's program.

The scholarships will be awarded based on objective, non-discriminatory criteria. These criteria include academic performance (minimum 2.0 GPA), regular school attendance, personal integrity, communication skills, respect for others, initiative, ability to learn, community service, college and career goals, letters of recommendation, and financial need of the individual prospective recipient (including sources of income available to the applicant). Additionally, each recipient must be a U.S. citizen. Finally, each recipient must include with the application a letter of character addressing extra-curricular activities and/or other significant life changing events, which will be used during the selection process.

When you receive a scholarship application form, it is first screened for eligibility and accompanying documentation and then judged on the content of the student's 500 word essay. This process is graded according to a point scale system. Within 60 days after the contest deadline, the three highest point scorers will receive written and phone notification of their winning entry. The Foundation will then establish a trust account in the individual's name of each winner, which the student may request payment of principal and interest when the winner enters college for college tuitions and books.

The number of individual grants awarded and the amount of each individual grant will vary based on current funds available and the number of prospective recipients. The general expected range is \$100 - \$20,000 per recipient. All grants will be used solely for tuition, fees and related expenses in connection with enrollment at a recognized educational institution as defined in IRC 170(b)(1)(A)(ii).

Your board of directors will appoint a Selection Committee to judge and determine the awarding of scholarships. This Committee shall be appointed annually by your board and may, in the initial years, be two individuals. The award recipient will be determined by a majority vote of this Committee. In the absence of a Selection Committee, the recipients will be determined by a majority vote of your board members. Under no circumstances will disqualified persons be eligible to receive an award. Award recipients will be notified in writing of their award and the requirements to maintain the scholarship.

To ensure your funds are achieving the desired purpose, each grant recipient will be required to provide to your board a report (at least annually, but more periodic as requested) of the use of the grant funds, progress made toward achieving the purpose of the grant, the recipient's classes taken and their grades in each academic period. Your board will review each report to ensure that the grant funds are being properly applied. Furthermore, upon the completion of the grant funding, the recipient shall submit a final report describing his/her accomplishment with respect to the grant and accounting for all funds received under the grant.

Where possible, you will pay the grant award directly to the educational institution of choice. Such arrangement should include an agreement with that educational institution that grant funds defray the grant recipient's expenses and be paid to the recipient only if the individual is enrolled at such educational organization and his/her standing is consistent with the purpose of the grant.

You will investigate any suspicions that funds have not been used for their intended purpose and withhold any additional grant funds to the particular individual and/or cease direct payment to the educational institution on the individual's behalf. Upon such suspicion, you will request an immediate reporting by the grant recipient accounting for all grant funds and accomplishments in furtherance of the grant purpose. Your board must

determine whether the individual's grant shall be terminated or reinstated. Where you find evidence that grant funds were not used by the individual for the intended purpose, you will seek to recover such funds and cease funding to the particular individual.

You will retain all records pertaining to all grants to individuals as described above. Such records shall contain all information secured to evaluate the qualification of potential recipient; identification of grant recipients; specification of the amount and purpose of each grant; and the annual reporting which you obtain from each recipient as detailed above.

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) (as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) 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 award programs will be conducted as proposed, with a view to providing objectivity and nondiscrimination in making the awards, we have determined that your procedures for granting the awards comply with the requirements contained in section 4945(g) of the Code and that awards

granted in accordance with such procedures will not constitute "taxable expenditures" within the meaning of section 4945(d)(3).

In addition, we have determined that awards made under your procedures are 'scholarship or fellowship' grants within the meaning of section 117 of the Code, and are excludable from the gross income of the recipients subject to the limitations provided in section 117(b) of the Code, including to the extent that such grants are used for qualified tuition and related expenses within the meaning of section 117(b)(2) 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 award program procedures herein constitutes a one-time approval of your system standards and procedures designed to result in awards 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 subsequent award 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 award 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.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

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

Sincerely yours,

Lois G. Lerner  
Director, Exempt Organizations

Enclosure  
Notice 437  
Copy of redacted letter