

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:

Contact telephone number:

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LEGEND

UIL: 4945.04-04

X= Program name

Y= Organization administering Program

b= Program duration

c dollars = Program eligibility lower budget limit

d dollars = Program eligibility upper budget limit

e= Number of applicants invited

f = Number of applicants on waiting list

h dollars = Lower limit of funds raised through matching grant

j dollars = Upper limit of funds raised through matching grant

m dollars= Minimum donation

Dear :

You asked for advance approval of your educational grant procedures under Internal Revenue Code Section 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

Our determination

We approved your procedures for awarding educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of Code Section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Description of your request

You operate a program called X. X is administered by Y, a disregarded entity whereof you are the sole member. The purpose of X is to provide a b capacity-building program for leadership of select charitable organizations, to teach them critical leadership and governance skills. Leadership teams are made up of the current chairman, chairman-elect, and CEO of each participating organization. The program consists of:

- Board Self-Assessment, teaching participants their responsibilities and roles as board members of their organization;
- Chair Leadership Assessment, addressing the participants' competencies, personal attributes, knowledge, business skills, and organizational awareness;
- Educational Seminars;
- Mentoring; and
- An exercise in which each participating organization's team will design and implement a matching grant program to fund a project central to the mission of their organization.

You will send a brochure and nominating form to various organizations and known networks in a specific faith community. Organizations that are eligible to be nominated consist of non-profit Section 501(c)(3) organizations with an annual budget between c and d dollars and serving that faith community. Your selection committee will review the nominations received and will invite organizations to apply for X.

The selection committee will rate and interview the applications received and complete a scoring grid using the following criteria:

- Experience and capacity of the board chairman, chairman-elect, and CEO of the applicant organization;
- Readiness and track record of the applicant organization in successfully implementing organizational change and welcoming new innovative ideas;
- Commitment of the applicant's board chairman, chairman-elect, and CEO to participate in X including business self-assessment and chair leadership assessment;
- Readiness of the board chairman, chairman-elect, and CEO to participate in a mentoring program and peer learning;
- Existence of a strategic focus or plan;
- Commitment to having a greater impact on the individuals, groups, and communities it serves;
- Financial stability of the organization; and
- Contribution to diversity of the applicant organizations.

The selection committee will send a list of the top ranked applications, along with the scoring grid, and observations from the interview process to your leadership to make the final determination as to which applicant organizations will be invited to participate in X. Your leadership will invite the top e applicant organizations, with the next f put on a waiting list, to participate in X. Each organization's team will be made up of its current chairman, chairman-elect, and CEO. You will directly pay to the service providers all costs of X including mentoring and educational fees, travel, food, lodging, and logistical costs.

Selected participants must demonstrate dedication to all aspects of the program and attend all seminars, to remain in X.

You will match one dollar for every two dollars raised by participants for their challenge grant. Each organization's total support will be between h and j dollars. The funds raised must be new money, raised after the date on the challenge grant agreement. Eighty-five percent of the donations must be m dollars or more. Total funds raised may not exceed thirty percent of the organization's total budget. The grant project must not be used for debt retirement or staff salaries and benefits. The funds can be used for functions such as strategic planning, board development, evaluation, resource development/fundraising, leadership development, operational management, human resource development, financial management, marketing, information technology, legal services/compliance, facilities planning, advocacy/field development, and collaboration/networks. The projects can consist of a new fundraising database, a consultant to strategize a new marketing or fundraising campaign, technology audits and upgrades, a merger or collaboration, feasibility and planning including construction for new buildings, an operations consultant to improve policies and systems, and development of a community engagement program.

Each of the participants will enter into an agreement setting out the terms of X and the initial expectation that each participant organization, board chairman, chairman elect, and CEO participate in all aspects of X. These agreements are used to ensure that each organization and participant complies with the requirements of X.

Each organization will be required to maintain financial records which account for the use of grant funds pursuant to the challenge grant and provide to you a written report including a narrative description of the use of grant funds at the completion of the project.

You represent that you will arrange to receive and review grantee reports annually and upon the completion of the purpose for which the grant was awarded, investigate diversion of funds from their intended purposes, and take all reasonable and appropriate steps to recover diverted funds, ensure other grant funds held by the grantee are used for their intended purposes, and withhold further payments to grantees until you obtain grantees' assurances the future diversions will not occur and that the grantees will take extraordinary precautions to prevent future diversions from occurring.

You represent that you will maintain all records relating to individual grants, including information obtained to evaluate grantees, identify whether a grantee is a disqualified person, establish the amount and purpose of the grant, and establish that you undertook the supervision and investigation of grants.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code Section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code Section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.

- The grant is:
 - A scholarship or fellowship subject to Section 117(a) and is to be used for study at an educational organization described in Section 170(b)(1)(A)(ii); or
 - A prize or award subject to the provisions of Section 74(b), if the recipient of the prize or award is selected from the general public; or
 - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulations Section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

Other conditions that apply to this determination

- This determination covers only the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot make grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and must further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code Section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements