

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

**Department of the Treasury**

Release Number: **201906016**  
Release Date: 2/8/2019  
Date: **November 14, 2018**

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

B = Name  
C = Year  
x = Amount  
y dollars = Amount

UIL

4945.04-04

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

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code Section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

**Our determination**

We approved your procedures for awarding scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding scholarships meet the requirements of Section 4945(g)(1) of the Internal Revenue Code (the Code). As a result, expenditures you make under these procedures won't be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code Section 117(b)).

**Description of your request**

Your letter indicates you have been operating a scholarship program. You were established several years ago as a public charity with the sole purpose of providing higher education scholarships to exceptional young men and women in B, who exhibit academic excellence, special talents, community involvement, and financial need. In C, you received a large bequest and you subsequently became a private operating foundation.

Under your program, you will award x scholarships for y dollars to B area high school students who demonstrate strong commitments to their communities as well as strength of character. Recipients must use scholarships for tuition and fees at an educational institution of higher learning described in Section 170(b)(1)(A)(ii) of the Code. Scholarship funds may not be used for any non-qualified scholarship purpose, including the limitations provided for in Section 117(c) of the Code, such as student housing or living expenses. These can be renewed for three additional years provided the recipients continue to meet the qualifications for the scholarship.

To be eligible for a scholarship, applicants must:

- Graduate in the top ten percent of their high school class,
- Have obtained an SAT score of at least 1300 or the ACT equivalent of such score,
- Show financial need,
- Show outstanding involvement in school activities,
- Submit your application found on your website by a specific due date with all required supporting materials including transcripts, the FAFSA form with estimated family contribution and copies of ACT and /or SAT scores.

All application materials are reviewed and evaluated by The Application Review Committee of your Board of Trustees, who will select recipients by using objective criteria. These criteria may include financial need, academic achievement, work experience, meritorious accomplishment, other prizes and awards received, other scholarships or grant funding received, performance on standardized aptitude tests, third-party recommendations, and evidence as to the individual's motivation, character, ability and potential made from recommendations or a personal interview (if conducted). Furthermore, the student's financial need will generally be given great weight in the selection process. The committee will also select those recipients who best demonstrate outstanding character, ability, leadership qualities, and academic and extracurricular achievement.

Upon awarding of the scholarship, you will provide each recipient a letter explaining the terms of the scholarship. Furthermore, before the initial payment of scholarship funds, you will obtain a report from the high school or institution of higher education confirming the recipient's graduation. You reserve the right to pay all scholarship awards for study directly to the attending college, university or other institution of higher education or directly to the grantee. The educational institution must agree to use the funds received on behalf of the student to defray their tuition and related expenses. You will only make payment only upon presentation of invoices. If payment is made directly to the grantee, proof of payment to the attending educational institution must be provided to you. By accepting the funds, the recipient agrees that the disbursed funds are to be used only to pay tuition and fees to a higher educational institution described in Section 501(c)(3) of the Code.

To renew the award, the recipient must provide you a copy of their transcript showing a minimum 3.2 GPA for each grading period. Furthermore, awards may not be renewed if

the recipient is placed on academic and/or disciplinary probation or if they do not enroll full-time in a program of study for the semester or quarter in which the award is to be in effect.

In addition, scholarships may be deferred for up to one year in extenuating circumstances provided the college or university also grants a deferral for the same time period. Recipients who want to defer their scholarship must contact you in writing explaining the reasons for the deferment and when they intend to enroll. You may then request additional information or proof of extenuating circumstances and reserve the right to deny the request, in which case the recipient would forfeit the scholarship.

You will obtain a copy of each recipient's grade report from the college, university or higher educational institution concerning the courses taken and grades received for each academic period. Upon completion of a recipient's study at a college, university or higher educational institution, a final grade report will also be obtained. In all cases, you reserve the right to request additional information in any scholarship report and to request independent verification of any facts submitted in such a report, including conducting personal interviews or site visits with grantees and/or their supervising faculty or mentor.

If you believe the scholarship funds have been used for an improper purpose or that the grantee has diverted funds for a purpose other than that for which the scholarship has been granted, you will take all reasonable and appropriate steps to recover such funds from the grantee. You will withhold further payments until you have been assured that scholarship funds have not been used for an improper purpose. Such assurances shall include written assurances from the recipient's supervising faculty or mentor that such future diversions of scholarship funds for an improper purpose will not occur, as well as the recipient's agreement to the implementation of certain precautionary procedures to prevent any possible future diversions, such as funding only on a reimbursement basis, funding only invoices pre-approved by you, and/or funding directly to a higher educational institution which commits in writing only to fund expenses for those purposes for which the scholarship or grant was awarded. In no event will you award further scholarships to a grantee who has diverted prior scholarships to an improper purpose unless a written plan of restitution for those funds diverted is agreed to by the grantee.

You will all retain all information used to evaluate the qualifications of potential grantees.

#### **Basis for our determination**

The law imposes certain excise taxes on the taxable expenditures of private foundations (Internal Revenue 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 Internal Revenue 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 the provisions of Internal Revenue Code Section 117(a).
- The grant is to be used for study at an educational organization described in Internal Revenue Code Section 170(b)(1)(A)(ii).

**Other conditions that apply to this determination**

- This determination only covers 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 a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to 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 award 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 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.
- The effective date of this ruling is August 11,

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

Please keep a copy of this letter in your records.

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

Sincerely,

Stephen A. Martin  
Director, Exempt Organizations  
Rulings and Agreements