

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

Department of the Treasury

Number: **202142016**
Release Date: 10/22/2021

Date: July 27, 2021

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LLCEND
Q = Specific
U = County and associated school districts
W = Individuals
X = State
Y = Scholarship Program
Z = City (Metropolitan Area)

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 Code Section 4945(g)(1). 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 that you will operate a grant-making program called Y.

The goal of Y is to identify students who would need scholarship funds to attend college and to encourage academic performance; in order to pursue this goal, you will identify students who are attending elementary school and follow them through high school. The objectives of Y will be achieved by forming a unique public/private partnership with public schools. Through this partnership, Y will help the public schools improve the educational

outcomes for their students and increase the college participation of children from disadvantaged neighborhoods in the Z.

Specifically, you will work with the local Z public schools' administrators to identify schools in the underprivileged neighborhoods with high (exceeding % enrollment) student population on federal free and reduced lunch programs. From this selection you will meet with administrators to identify a particular school and class that would support Y and to carry out its purpose. In addition, you will consider a class that is old enough to appreciate Y and young enough to benefit from the academic encouragement that Y will offer.

Once a school and grade level has been identified, Y will be made available to all students at that school and in that grade, who participate in the free and reduced lunch program. These individuals will be defined as eligible "Scholarship Students." Eligibility will be re-evaluated in the chosen class after their senior year of high school. In order to remain eligible, the Scholarship Student must:

- a. Graduate from the public elementary school chosen as well as from the local public high school.
- b. Demonstrate financial need. Such need shall be determined based on the eligibility of a Scholarship Student to qualify for aid under the Q program.

You have identified the first group of eligible students by using the methodology as stated above. You worked with public schools and identified numerous public schools in the U that have more than % of their enrolled students participating in the federal free and reduced lunch program. From this group of schools, you met with administrators to identify a particular school and class that would support Y. A third-grade class was determined to be the most appropriate. You explained that you have an initial list of students and a list of transfer students. The transfer students would only be eligible for scholarships if the test results on the eighth-grade national standardized test have met the performance standards. This information will be available from the school after the eighth-grade graduation. The two groups are defined below:

- a. The initial group will be students who are enrolled in the grade level and school originally selected. If the student leaves the particular school selected prior to eighth-grade graduation or the student does not graduate from the corresponding high school, then the student will no longer be eligible for Y. Any student in the selected class who is not promoted with the class in each year through high school will also no longer be eligible.
- b. A transfer student who joins the class at the same elementary school and qualifies for the free or reduced lunch program will also be included as an eligible student provided that the group of Scholarship Students when they reach eighth grade meets certain performance standards. Those standards will be based on performance on a national standardized test being used at the school. The group of Scholarship Students will either need to beat the national average on such test or show significant improvement over their scores in prior years.

A transfer student is anyone assigned to the selected class after the initial date who is a new enrollee in the school. It will not include a person who is previously enrolled at the school in a different class who leaves the school and then returns and is now assigned to the selected class. It will also not include anyone who becomes assigned to the class who becomes a member because they either were not promoted or because they were otherwise held back for any reason.

You will receive the information from the grade school after eighth-grade graduation so that you can determine the final list of eligible students. No names will be added to the list after eighth-grade graduation. In the senior year of high school all students who were on the list who are still enrolled in the district high school and are eligible for Q aid will be sent a letter in September informing them to notify you when they are accepted to college. There will also be follow-up letters in January and April to those who have not responded to the earlier letters.

The conditions of the scholarship are:

- a. Students must use other scholarship funds available to them before being eligible for funds under Y. Students must work with the committee identified below to identify and apply for other scholarships for which the student may be qualified.
- b. Scholarships will cover cost of tuition, room and board at any X state university.
- c. Scholarships will cover tuition and books for any X community college.
- d. Upon prior approval, scholarships can be used outside the state of X in dollar amounts not to exceed the cost of an equivalent education in X.
- e. Student must maintain a 2.0 grade point average (GPA) in college. If the student's GPA falls below 2.0, the student may be reinstated if he/she brings the GPA back up to 2.0 or higher.
- f. Student must complete a minimum of 12 credit hours per term and make regular progress towards a degree.
- g. Scholarships are good for a maximum of 4 years.
- h. Students who graduate from college in less than 4 years can use the scholarship toward graduate school fees and costs.

Y will be introduced to the chosen grades and schools through public meetings. It is anticipated that you will provide a commitment letter for each student who qualifies as a Scholarship Student. This letter will explain the commitment being made by all parties.

Your administrative trustees have selected W as the initial members of the committee to select grades and schools where Y will be implemented. If Y grows to a point where additional committee members are necessary, the administrative trustees intend to designate selection of such additional committee members to W. However, upon the designation of any additional committee members, the names of such members will be submitted to the administrative trustees. Your administrative trustees will maintain oversight responsibility for the selection of qualified committee members. No relatives of

members of the selection committee, or relatives of officers, directors or substantial contributors will be eligible for awards under Y.

You anticipate that all funds will be paid directly to accredited educational institutions, which must agree to use the scholarship funds to cover the recipients authorized expenses at the institution. If a recipient wishes to attend an educational institution that is not willing to comply, the recipient will be required at the end of the academic year to send you a report of courses taken, and grades received. This report must be verified by the educational institution. If the report is not submitted on a timely basis you will take all appropriate steps to recover funds given to such recipient. Such action may include legal action against the recipient if deemed appropriate. No additional funds will be given to any recipient if such recipient fails to submit the required report. At the time that a recipient is notified of the awarding of a scholarship, the recipient will be required to agree to return all grant money if such report is not submitted on a timely basis. In addition, you will investigate any possible misuse of funds by the recipient, withhold further funds during investigation if a misuse of funds is discovered, and seek recovery of any misused funds.

You will maintain the following records:

- Information used to evaluate the qualifications of potential grantees. This would include not only your information on the individual students, but the information obtained to evaluate all potential grantees within your search process from the selecting area, school and grade;
- Identification of the grantees (including any relationship of any grantee to the private foundation), the amount and purpose of each grant; and
- All grantee reports and other follow-up data obtained in administering Y.

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 the provisions of Code Section 117(a).
- The grant is to be used for study at an educational organization described in 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.

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