

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

**Department of the Treasury**

Number: **201510052**  
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**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**Date: December 8, 2014**

**LEGEND**

UIL: 4945.04-04

X = country name  
Y = foundation name  
Z = cities and states

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 will not 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 provide in Code section 117(b)).

**Description of your request**

This Scholarship Program was previously administered by Y, a related organization to you. Y decided to move full management and oversight of the Scholarship Program to you. This will unify strategies, monitoring and follow up for managing the post-secondary experience within one entity, which should enhance efficiency and improve services to the students.

You work with urban core students from their middle school years through college to help them prepare for and complete a college education to be paid for through the Scholarship Program. Through your Scholarship Program and support services you provide the

guidance and support necessary to place urban children on a path toward completing high school and ultimately college.

Your selection process will consist of three stages. During the first phase, you intend to target particular school districts, communities or schools throughout the X whose students, based on upon objective criteria, would benefit from the scholarships.

The overall factors used to make your determination of eligible communities are racial and ethnic diversity, poverty levels, low attendance or graduation records, inadequate test scores on state administered tests, and high incidence of teenage pregnancy or substance abuse. You intend that the scholarships will be made available to multi-racial, ethnically diverse groups of students who come primarily from inner-city or poverty-stricken communities. You are currently operating your program in Z, which was selected based on set criteria.

Once you have selected a community, the second phase of your process begins. This entails selecting students, then monitoring, guiding and supporting the students. You advertise your program by disseminating materials through the two school districts and their schools with 6<sup>th</sup> graders, community organizations that serve that age, your website, fliers, and numerous informational meetings throughout the community.

Students must be entering into the 7<sup>th</sup> grade, qualify for the free or reduced lunch program, live within the boundaries of the selected urban area, attend a public or charter school within the school district, and have maintained a C or better in all core subjects (e.g. reading, math, and English) during the first semester of the 6<sup>th</sup> grade school year, and have no more than one out of school suspension or two in school suspensions during the 6<sup>th</sup> grade.

Students who will satisfy the minimal criteria, provide a timely and complete application, participate in the interview, and complete the baseline test will be deemed eligible to participate in the program. Because there will be more eligible applicants than positions available, all such applicants will be assigned numbers. Your staff will use a computer that will randomly select participants for the program. In addition a waiting list will be generated to fill vacancies that may occur because students and/or their parents/guardians may decide not to enroll in the program. Your employees, employees of Y, disqualified persons and their family members are not eligible to participate.

The third and final phase of the program consists of the actual selection process to determine which students will receive funds for tuition and related expenses. This selection will be made by your employees. For initial and continued eligibility to receive scholarship funds all students must adhere to the following:

- Proof of legal presence as determined by KSI legal counsel
- Proof of admittance and enrollment in a KSI approved post-secondary institution
- Annual completion of the Free Application for Federal Student Aid ("FAFSA") by the March 1<sup>st</sup> priority deadline
- Annual submission of all financial aid award letters

- Annual renewal of a release of student records or Family Educational Rights and Privacy Act ("FERPA") release form
- Provide KSI access to all student accounts for the purposes of billing/payment and grade checks
- Maintain, "full-time," student status in any given semester with a minimum of twelve (12) credit hours and maximum of eighteen (18) credit hours
- Adhere to all program expectations and standards as set forth in your Handbook
- Otherwise comply with the requirements, policies, and procedures deemed necessary to support the student's successful participation in the program

The amounts of the scholarships are determined based on a variety of factors, including the school of choice and its tuition and fee structures, financial aid provided by the school and other sources, the program(s) in which students enroll, and other factors that affect cost. Your scholarships will cover all remaining tuition, room and board, books and fees after other scholarships, grants and non-loan sources are applied.

The grant award will be paid directly to the college, university or vocational or accredited technical institutions. You will request that the institution agree to defray the grantee's expenses only if the grantee is enrolled and in good standing as consistent with the purposes of the grant. If the institution does not agree to defray the grantee's expenses as previously stated, you will implement supervisory and investigatory mechanisms such as obtaining, at least annually, academic reports and an account of all courses taken by the grantee and the grades received for each academic period.

In the event the reports submitted indicate that all or any part of the scholarship is not being used in furtherance of the purposes of such scholarship, you shall investigate the facts. While conducting your investigation you shall withhold further payments to the extent possible until any delinquent reports are submitted. In the event you determine that any part of the scholarship has been used for improper purposes, you shall take all reasonable and appropriate steps to recover the funds and shall withhold any further payments.

You will maintain case histories showing recipients of your scholarships including names, addresses, purposes of awards, amount of each award, manner of selection and relationship (if any) to officers, trustees, or donors of funds to you.

#### **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,

Director, Exempt Organizations