

**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: 12/24/2014**

**Contact telephone number:**

**LEGEND**

**UIL:** 4945.04-04

M= Geographic Area

N= Geographic Area

O= Name

X= Program Name

Y= Program Name

Z= Name

b=Quantity

c dollars=Amount

d=Number

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**

Your letter indicates that you will operate two grant programs called X and Y.

You are dedicated to enhancing the quality of life for residents in M and N. You concentrate your efforts and resources in areas about which the founders were most passionate: arts and culture, community development, education, and human services.

### **Grant Procedures for X**

The purpose of X is to provide grants for individuals to use to achieve a specific objective or to enhance a recipient's capacities or skills. Examples of the type of grants you will award (but are not limited to) are for the following purposes (i) to develop specific skills to advance an individual in his or her career, (ii) to conduct research and implement projects related to improving the community (You may refer to these as fellowships.), (iii) to defray startup costs to open a business in a troubled are, (iv) to fund continuing education and travel expenses related to educational opportunities, (v) to pay costs of equipment space rental or other expenses related to approved special projects, and (vi) to fund residence opportunities whereby recipients will advance their skills, and further their careers by spending several months in-house working alongside your staff, while researching, developing, and implementing charitable and educational programs of interest to the recipients.

Individuals who propose to achieve a specific objective, produce a report or similar product or improve their skills in a manner that will further, enhance, contribute to the charitable, educational and other 501(c)(3) exempt activities for the community development and advancement of the M and N region and its residents will be eligible to apply.

You will publicize X through direct and indirect contacts with the general public, including your web site. In particular, individual grants may be publicized through various charitable and educational organizations. You may expand your publicity efforts as appropriate.

The number of grants will be dependent upon your resources and other programs; you anticipate that your grant making activities will only be a part of your overall charitable program and therefore, you expect to award fewer than b grants at least in the first few years of your program. Grants will be awarded for a specified period (usually one year or less) and the amount of each individual grant will not exceed the anticipated cost of the particular activity designed to achieve a specific objective or to enhance the recipient's capabilities or skills.

You have not yet developed an application; it may include the following:

- A resume or curriculum vitae describing prior accomplishments. (For example, academic, musical, literary, and/or other achievements depending on the type of individual grant awarded.)
- A description of financial need as evidenced by a sample budget.
- An essay describing the applicant's interests, plans, and aspirations.
- A description of experiences with and involvement in extracurricular or community activities.
- Written recommendations by unrelated individuals to the applicant or a list of references that you may contact.
- The names of organizations, institutions, or individuals with which the applicant may collaborate.

The selection of grant recipients will be on an objective and nondiscriminatory basis that is reasonably related to the purposes of the grants and made by a selection committee. The selection committee will consist of some or all of the members of your advisory committee or other persons appointed or designated by your advisory committee.

No disqualified person with respect to you will be eligible for consideration. Your donors will not be allowed to designate individual recipients. Members of the selection committee, spouses and dependents of members of the selection committee, and all other disqualified persons with respect to you will be ineligible to receive an individual grant, and prohibited of deriving any private benefit directly or indirectly by the selection of one or more particular grant recipients.

Selection criteria may include but will not be limited to prior work or volunteer experience, recommendations from colleagues, educators, social workers, financial need/budgetary needs, prior academic performance, the conclusions the selection committee may draw from personal interviews as to the applicant's motivations, character, ability and potential. When appropriate, the selection committee will interview applicants in person or by telephone. Factors not related to the purposes of the grant such as race, gender, or the employment status of a prospective recipient (or the applicant's relatives) will not be considered and have no influence on the selection of the recipients.

### **Grant Procedures for Y**

The purpose of Y is to invest in exceptional innovators so they can take risks and implement projects that solve local challenges and seize opportunities through cross-sector collaboration, creative research, and community engagement. Y is open to M based civic leaders, who are creating replicable and transformative solutions to local challenges. You will collaborate with O, a private foundation described in 501(c)(3) and 509(a) on this program. You and O have adopted the name Z for your joint community development projects and Z is a philanthropic lab that brings together civic-minded talent to address challenges and uncover opportunities to accelerate the positive transformation of M.

The fellowships will be awarded annually to M based innovators who have identified a major local challenge and have an ambitious plan for addressing it. Awards will be granted to individuals who have demonstrated exceptional skill, produced work of professional merit and have shown promise for continued civic leadership. The fellowships are one-year terms, during which time fellows are required to complete their project in addition to exhibiting, talking, and/or hosting events that showcase their solutions and inspire action in others.

The award package consists of the following:

- A cash prize of c dollars to support project-related costs.
- Working space at Z for a period of d months.
- Design, marketing, outreach and other necessary support for the project.

Eligible expenses consist of a salary, permits and rentals, supplies and equipment, travel related to solution production, educational opportunities that aid the development of a solution, and showcase or exhibit opportunities.

Expenses not supported by the grant award include:

- Deficits or expenses incurred prior to or after the grant period.
- Programs, projects or events that have already taken place.
- Scholarships, purchase of awards or cash prizes.
- Benefits or projects planned primarily for fundraising.
- Loans, interest on loans, fines, penalties or costs of litigation.
- Activities with a primary purpose that is religious or political in nature.
- Travel not directly related to the project or fellowship.

Providing matching funds is not a requirement of the grant, but if the recipient's project will cost more than the award maximum of c dollars, the recipient will need to describe the additional funding that was secured to ensure the solution is a success.

Eligibility requirements are the following:

- Applicants must be at least 21 years old.
- Applicants must be citizens of the United States.
- Applicants must be residents of M and live within the local beltway.
- Applicants must have a proven track record of bringing their ideas to action.
- Applicants must be committed to working full time.

Applicant restrictions consist of the following:

- Applicants are not eligible to receive more than one grant per year.
- Applicants are not eligible if they have previously received Y.
- Applicants may not hold a fulltime job during their fellowship appointment.
- Applicants may not be working on a degree program at the time of application or be planning to work toward a degree during the course of the fellowship, with the exception of Ph.D. candidates.
- Applicants may not be staff or immediate family members of employees or advisors of you, O or Z.

Information about Y as well as applications is found on Z's website. In addition, online applications are submitted through Z's website. Potential applicants are also encouraged to schedule a meeting with staff for further information including application and submission assistance.

The online application will require the applicant to provide contact information, a resume, a personal narrative, a detailed budget, a timeline, a communication plan, any partners, an evaluation plan, and project samples. Issue and solution narratives including a name for the project and the category the project addresses such as community development, human services, education or art and design are also required.

The issue narrative should include:

- What is the challenge or opportunity?
- Who is/has been affected?
- What are contributing factors and causes?
- Why has the issue not been addressed?
- Why should it be addressed?

The solution narrative should include:

- What is the applicant's solution?
- How does the solution address the challenge or opportunity?
- What is the primary objective?
- How will the overall objective be accomplished?
- What barriers must be overcome?

Fellows will be selected via an open call for proposals and a rigorous review process. The selection of recipients will be made by an external panel composed of community and civic leaders. An objective scoring system will be used and each application will be reviewed several times. Final scores will be based on an average of each reviewer's score. Awards and funding allocations are based on scores received during the review and are solely the discretion of the panel and grant making council.

Selection criteria consist of:

- The solution is feasible.
- The solution is excellent.
- The solution is innovative and distinctive.
- The solution significantly impacts the identified issue.
- The solution is simple enough to be replicated and scaled.
- The solution will leave a lasting impact on M.
- The fellowship will advance the applicant's career.

Recipients are required to complete a W-9 and provide proof of identity and residency status before receiving funding. Recipients understand and accept tax liability for funding received.

Fellowship obligations also include:

- Fellows must exhibit, talk, publish, and host special events at W that establish context and inspire others.
- Fellows work in collaboration with partner companies, cultural institutions, and/or academic research centers.
- Fellows focus on cross collaboration and problem solving while leveraging resources and expertise provided by Z.
- Fellows are responsible for submitting promotional materials and content to Z. Fellows are also afforded permission to document their work and use photography and/or videography for publicity, catalogues, and educational purposes.

Your procedures for selecting grant recipients as previously described satisfy the requirements of 4945(g)(3) of the code; the grants are made in support of specific projects to enhance an awardee's professional development and will be awarded on a non-discriminatory basis with the purpose of or promoting and enhancing the professional development. The making of grants will also serve to further the purpose of achieving a solution for community development issues in M and the proposed individual grants will serve to further the professional development of grantees by helping them develop leadership skills.

**X and Y Supervision and Control Procedures:**

Each recipient will be required to make a written report at least once a year describing the use of the funds and the recipient's progress toward achieving the purposes for which the grant was made. Upon completion of the undertaking for which the grant was made, the recipient will be required to make a final report describing the recipient's accomplishments and an accounting for the funds. If you determine that funds have been diverted, you will take all reasonable and appropriate steps to recover the diverted funds. You will observe the following procedures for the investigation of suspected diversion of funds from their proper purposes and for the recovery of diverted funds:

1. Where reports or other information (including failure to submit reports after a reasonable time has elapsed after their respective due dates) indicates that all or any part of the grants is not being used for the intended purpose, you will initiate an investigation. During the investigation, you will withhold further payments to the extent possible until it has been determined that no part of the funds have been used for improper purposes, and until any delinquent reports have been submitted.
2. If you determine that any part of the award has been used for improper purposes; and the grantee has not previously diverted funds to any use not in furtherance of a purpose specified, you will withhold further payments until you have received the grantee's written assurances that future diversions will not occur, delinquent reports are submitted, and have required the recipient to take extraordinary precautions to prevent future diversions from occurring.
3. In the case where the recipient has previously diverted funds and you determine that any part of the award has again been used for improper purposes, you will take all reasonable and appropriate steps to recover the funds or to ensure the restoration of funds and the dedication of other grant funds held by the recipient to their proper purposes. All reasonable and appropriate steps including legal action where appropriate but need not include legal action if such action in all probability would not result in the satisfaction of execution of a judgment. You will withhold further payments until these conditions are met (i) the funds are in fact so recovered or restored, (ii) you have received the recipient's written assurance that future diversions will not occur, and (iii) you will require the recipient to take extraordinary precautions to prevent future diversions from occurring.

You will retain written records pertaining to all grants awarded under this procedure including the following:

- All information used to evaluate the qualifications of potential recipients.
- Identification of each recipient including any relationship of the recipient to you sufficient to make the recipient a disqualified person.
- Specification of the amount and purpose of each grant.
- The reports and other follow-up information obtained under this procedure.

### **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 may report any significant changes to your program by completing Form 8940 and sending it 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.

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

Sincerely,

Director, Exempt Organizations