

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

**Number: 200917045
Release Date: 4/24/2009**

Date: January 26, 2009

Department of the Treasury

Employer Identification Number:

Contact Person - ID Number:

Contact Telephone Number

LEGEND

UIL 4945.04-04

**X= Organization
Z= Sponsors
N= Location**

Dear :

We have considered your request for advance approval of your loan and grant-making programs under section 4945 (g)(1) and 4945(g)(3) of the Internal Revenue Code, dated August 31, 2008.

Our records indicate that X was recognized as exempt from Federal income tax under section 501(c)(3) of the Code and that it is classified as a private foundation as defined in section 509(a).

Your letter indicates that X will operate a loan and grant-making program to cover the costs of tuition, room and board for 4 years at a qualified educational institution. Loans will be short term (less than 1 year) and low-interest.

X expects to award up to 10 scholarships per year made payable to an accredited educational institution the recipient will attend. Scholarships will be used for tuition, fees, extracurricular activities and/or room and board. X will publicize the program through leaders of youth groups of N in Z. The students are identified as exceptional individuals by a network of trusted members of the local church community in Z. Once the student has been identified by a local youth leader, the youth leader will contact the director of X for an application. To apply, the individual will complete an application form and provide all required information to the director of X.

The selection criteria will be: (a) high school G.P.A., (b) financial need, (c) ambition and motivation towards future achievement and goals, (d) desire to follow and grow in relationship with Christ, and (e) students who have at least one supportive adult in their life.

Scholarships will be awarded by the Scholarship Committee, composed exclusively of the directors of X, to individuals selected from students of applicable qualification. Family members of the Committee and substantial contributors are disqualified from receiving scholarship funds.

X will send the scholarship funds to the educational institution.

All scholarship recipients must fulfill the following requirements:

- a. Maintain a 2.5 grade point average. If the student's grade point average falls below 2.5, the scholarship will be put on probation. The committee is to investigate and document the reasons for the decrease in grade point average. Based on the findings, it is up to the discretion of the committee as to whether the student will be granted renewal scholarship funding.
- b. Students must provide updated financial information including tax return and other scholarship awards to renew the scholarship.
- c. Students must provide an interview or updated answers to essay questions to determine the students continued motivation toward achievement and goals to renew the scholarship.
- d. An updated description of financial needs including registration statements, invoices and bills is required to renew the scholarship.
- e. Any indication of misuse of funds must be immediately investigated by the Committee through inquiry and documentation. Renewal scholarships will not be granted until the Committee has been satisfied as to the proper use of funds.
- f. Should the Committee become convinced of a misuse of funds, legal action may be taken to recover the misused funds.
- g. Default on a loan requires immediate investigation by the Committee. The Committee may work out a mutually agreeable repayment plan with the recipient. If a plan is not established, the recipient will be disqualified from receiving any future scholarships or loans from X.
- h. Neither members of the Committee nor substantial contributors may be in a position to receive a private benefit, either directly or indirectly, if certain candidates are selected over others.

X will maintain all records relating to individual grants, including information obtained to evaluate grantees, identify whether a grantee is a disqualified person, and establish the amount and purpose of each grant.

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

Sections 4945(a) and (b) of the Code impose certain excise taxes on "taxable expenditures" made by a private foundation.

Section 4945(d)(3) of the Code provides that the term "taxable expenditure" means any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purposes by such individual, unless such grant satisfies the requirements of subsection (g).

Section 4945(g) of the Code provides that section 4945(d)(3) shall not apply to individual grants awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance if it is demonstrated that:

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

Section 53.4945-4(c)(1) of the Regulations provides that to secure approval, a private foundation must demonstrate that:

- (i) Its grant procedure includes an objective and nondiscriminatory selection process;
- (ii) Such procedure is reasonably calculated to result in performance by grantees of the activities that the grants are intended to finance; and
- (iii) The foundation plans to obtain reports to determine whether the grantees performed activities that the grants are intended to finance.

Revenue Ruling 77-434, 1977-434, 1977-2 C.B.420, provides that long-term, low interest loans by private foundations for educational purposes may be considered grants within the meaning of section 4945(g)(3) of the Code.

Based on the information submitted and assuming your scholarship and loan programs will be conducted as proposed with objectivity and nondiscrimination in awarding grants and loans, we determined that your procedures in awarding scholarship grants and educational loans comply with the requirements of section 4945(g)(1) and 4945(g)(3) of the Code and that scholarships and loans granted according to these procedures will not be "taxable expenditures" within the meaning of section 4945(d)(3).

This determination is conditioned on the understanding that there will be no material change in the facts upon which it is based. It is further conditioned on the premise that no grants or loans will be awarded to foundation managers, or members of the selection committee, or for a purpose that is inconsistent with the purpose described in section 170(c)(2)(B) of the Code.

The approval of your grant-making procedures is a one-time approval of your system standards and procedures that will result in grants and loans which meet the requirements of section 4945(g)(1) and 4945(g)(3) of the Code. This determination only covers the grant programs described above. Thus, approval shall apply to succeeding grant and loan programs only as long as the standards and procedures under which they are conducted do not differ materially from those described in your request.

We have not considered whether grants made under your procedures are excludable from the gross income of recipients under section 117(a) if the Code.

Any funds you distribute to individuals must be made on a true charitable basis in furtherance of the purposes for which you are organized. Therefore, you should maintain adequate records and case histories so that any or all grant distributions can be substantiated upon request by the Internal Revenue Service.

This determination is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as a precedent.

You must report any future changes in your grant making procedures. Please keep a copy of this letter in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

Robert Choi
Director, Exempt Organizations
Rulings and Agreements