DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

200217057

Date: JAN 30 2002

Contact Person:

Identification Number:

UIL: 4945-00-00

Telephone Number:
(202) 283-8954

Employer Identification Number:

Legend:
B=
C=

Dear Sir or Madam:

This is in reference to your letter of November 8, 2001, requesting advance approval of your grant-making procedures under section 4945(g) of the Internal Revenue Code.

You are exempt under section 501(c)(3) of the Code and have been classified as a private foundation within the meaning of section 509(a).

Beginning in the fall of 2003, you will implement the C scholarship grant program. C is designed to make scholarship grants each year to one or more high school graduates to enable the recipients to complete an undergraduate education at a college or university of his or her choice. The aim is to benefit public school students from primarily rural areas. The program will be initiated in B, a rural area within your operating region that now sends a relatively low percentage of its public high school graduates to college. A much smaller number of high school graduates ever receive a 2 or 4 year undergraduate degree.

Scholarship grant recipients will be selected (at least initially) from the junior classes of the 5 public high schools in B. They will receive college admissions guidance and assistance during their senior year, and must achieve academically, graduate from high school and gain college admission. The basic criterion for selection or continuation in the program will be superior academic achievement in high school or college. An additional consideration will be financial need of the student and his or her family. A scholarship recipient, although selected as a high school junior, must ultimately be a candidate for a degree at a qualifying educational institution that meets the requirements of section 170(b)(1)(A)(ii) of the Code.

The scholarship grant selection process will be managed by a qualified educational

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consulting organization with expertise and experience in college scholarship programs. An independent selection committee, the majority of whose members are college admissions professionals, will make the final selection of scholarship grant recipients. Your Board of Directors will approve the final selection list. At least five scholarship grants will be awarded the first year.

Scholarship grants will be paid directly to the educational institution for the use of the recipient, and each educational institution must agree to use the funds for tuition, fees and other educational expenses, only if the recipient is enrolled and in good standing. The funds can only be used in a manner consistent with the terms and conditions of the grant, and the requirements of section 117(b)(2) of the Code.

All awards will be made on a nondiscriminatory basis. No awards will be made to disqualified persons with respect to you, or for any purpose that is inconsistent with the purposes described in section 170(c)(2)(B) of the Code.

Section 4945 of the Code provides for the imposition of taxes on each taxable expenditure of 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 section 4945(g).

Section 4945(g)(1) of the Code provides that section 4945(d)(3) shall not apply to an individual grant awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance by the Secretary, if it is demonstrated to the satisfaction of the Secretary that 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 institution described in section 170(b)(1)(A)(ii) of the Code.

Based upon the information submitted, and assuming your program will be conducted as proposed, with a view to providing objectivity and nondiscrimination in the awarding of scholarship grants, we rule that your procedures for the awarding of scholarship grants in the C program comply with the requirements of section 4945(g)(1) of the Code. Thus, expenditures made in accordance with these procedures will not constitute "taxable expenditures" within the meaning of section 4945(d)(3) of the Code, and as such are eligible for the exclusion from income provided for in section 117(a) of the Code to the extent that such grants are actually used for qualified tuition and related expenses within the meaning of section 117(b)(2) of the Code.

This ruling is conditioned on the understanding that there will be no material changes in the facts upon which it is based. It is further conditioned on the premise that no grants will be awarded to creators, officers, directors, trustees, or members of the selection committee, or for a purpose inconsistent with the purposes described in section 170(c)(2)(B) of the Code.

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The approval of your grant-making procedures is a one time approval of your system of standards and procedures for selecting recipients of grants that meet the requirements of section 4945(g)(1) of the Code. Thus, approval will apply to succeeding grant 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 are informing the TE/GE office of this action. Please keep a copy of this ruling with your permanent records.

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

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Gerald V. Sack

Gerald V. Sack
Manager, Exempt Organizations
Technical Group 4