

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

**Department of the Treasury**

Release Number: **201501018**

Release Date: **1/2/2015**

Date: **October 10, 2014**

**Employer Identification Number:**

**Contact person - ID number:**

**Contact telephone number:**

**LEGEND**

**UIL: 4945.04-04**

**V= High School Name**

**W= School District**

**X= County**

**Y= City**

**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 in Code section 117(c)).

**Description of your request**

You are operating a scholarship program to worthy recipients for post-secondary education whom have or are graduating from V and have been accepted to an accredited college, university or trade school. The scholarship award may be used to help pay for tuition, books and room and board.

The eligibility criteria for scholarship awards shall be the following:

1. Applicants must be a current high school senior attending V and accepted to an accredited college, university or trade school.
2. Applicants must have a cumulative grade point average of at least 2.0.
3. Student and parent(s)/guardian(s) must be residents of W for at least one full school calendar year prior to the application for the scholarship. When a scholarship is awarded, the recipient and his/her parent(s)/guardian(s) must remain residents of W for the duration of the scholarship.

Applicants must complete your application, attach the letter of acceptance from the college they will attend and mail it to your administrative committee. Information requested on the application includes personal data, college and career goals, other scholarships, work history and a narrative on how the degree will be used. Your scholarship program will be publicized via the guidance counselor at V and by advertisements in local newspapers.

The dollar range of awards will reflect the number of successful applicants in a given year as well as the amount of funds determined to be available for scholarships. The amount of funds available for scholarships each year will be equal to 50% of the amount received in the prior calendar year in the course of your oil and management activities. During a year where no income is received from oil and gas management activities in the prior year and as a result no scholarship funds are available under this formula, your administrative committee in its discretion, may allocate any portion of that year's minimum investment return determined in accordance with Internal Revenue Code Section 4942.

The selection committee for scholarships is your administrative committee, the members of which are selected as set forth in your charitable trust and foundation agreement. One member is appointed by the president/judge of X, one is appointed by the mayor of Y and the third one is appointed by the other two members of your administrative committee. In addition, your administrative committee is advised by a four member advisory committee whose members are appointed by the administrative committee. The current four members are active on a number of community boards.

Applications are ranked on merit. In addition as part of the application review process, your administrative committee will consider a successful applicant's post-secondary education costs and other available grants, scholarships and loans to determine that the total award will not exceed the applicant's total cost. Scholarships will not be awarded to disqualified persons.

Payments of awards will be made directly to the educational institution, not to the student, under an arrangement ensuring the institution will apply the grant funds only for an enrolled student who is in good academic standing. In addition, when an award is made for two or more semesters, the award will be distributed in semester installments; you will require academic transcripts each semester before committing to renew for an ensuing semester. The transcripts will need to reflect a satisfactory academic standing of 3.0 or

higher. If the terms of an award are materially violated without a sufficient reason (e.g. sickness) the scholarship award will be reduced or withdrawn.

You will investigate all misuse of funds. In the event a diversion does occur, you will require (a) that the grantee provide written assurance that future diversions will not occur and (b) require the grantee to take extraordinary precaution to prevent future diversions from occurring.

You will maintain case histories showing recipients of your scholarships including names, addresses, purposes of award, 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 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

- 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.

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