

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

Department of the Treasury

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Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

X= Program name

Y= High School 1

Z= High School 2

m= Minimum number of grantees

n= Maximum number of grantees

o dollars = Minimum amount of grant

p dollars = Maximum amount of grant

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 an educational grant program called X.

Your purpose is to promote the development of entrepreneurial spirit in young people and incentivize the development of entrepreneurial education and business plans that identify underserved needs in the communities of the recipients.

The purpose of X is to identify and then support high potential community-based entrepreneurs and promote self-sufficiency and a sense of purpose in the lives of young people.

X will provide grants to start-up businesses which are developed, managed and owned by high school students currently attending Y or Z. You will publicize X on your website and release promotional materials to participating schools. The business teachers at each high school will be encouraged to make a class announcement and to encourage and assist their students in applying for your awards.

Awards will be made to the high school entrepreneurs in support of the needs identified in their business plan, such as the purchase of inventory, working capital, start-up costs, and the purchase of equipment or leasehold improvements directly related to the growth of the high school student's start-up business. You anticipate initially making m to n awards a year per school invited to participate in the program. Awards will range from o to p dollars.

To be eligible, high school students must attend Y or Z. Applicants must have developed a business plan for a startup business, participate in the management of the business, and have a majority ownership stake in the business. Applicants may not be your director, staff or employee, or an immediate family member of any such member, director, staff or employee of you, or members of the selection committee.

Applicants are required to submit the application form, a business plan and other supporting documentation. Applicants must provide a copy of school issued identification, two recommendation letters (if possible), a background check, and provide the signed consent of a parent or guardian. One of your program officers will conduct the initial screening to verify that applications are complete and satisfy the requirements in the application process. Finalists will be chosen by a selection committee, which will consist of five members. The application and business plan must identify that funds will be used to advance the business plan. Funds cannot be used to pay prior expenses, repay loans or capital contributions, or make investments, payments or distributions to the founders, principal, owners or affiliates of the start-up business.

Applications will be reviewed based on a number of factors, including the following:

- the award's ability to advance the applicant's idea or concept and business model
- the high school student's experience, passion and potential to run a successful business (and to gain experience and operational knowledge)
- the strength of the business plan in developing and growing a successful business
- the unique aspects of the start-up business and the high school student's vision
- the high school student's understanding of their strengths, weaknesses, opportunities and risks
- the high school student's understanding of their market and competition
- the location of the start-up business in the local community
- the applicant's other sources of funding

Award recipients will be required to submit annual reports and provide periodic updates about the performance of their business. Recipients will be required to provide receipts which account for how funds have been used. You will have a program officer to follow up on potential misuses of funds, but awards will be made to startup businesses with

sufficient cash needs that funds will be used to advance the business. If a high school student misuses the award for personal purposes rather than for investment in the business, you will attempt to recover the misused funds from the student.

You agree to maintain information regarding the X, including the following:

- All records relating to each grant including information obtained to evaluate applicants
- Identification of whether any applicant is disqualified or otherwise ineligible
- Information that identifies the amount and purpose of each award
- Other records establishing that the X undertook the supervision and investigation of its grant awards as part of administering the award program.

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 must report any significant changes in 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 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,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements