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THE SCHOOL LEADERS ASSOCIATION

7-Step Process to Establish a Scholarship Granting Organization

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FORMATION | COMPLIANCE | GOVERNANCE | BEST PRACTICES | SUSTAINABILITY

SCAN TO EXPLORE RESOURCES

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Step 1: Governing Documents: Articles of Incorporation & Bylaws

Your Articles of Incorporation must include:

- A charitable purpose clause relating to awarding education scholarships to K-12 students
- Must be a 501(c)(3) nonprofit entity, NOT a private foundation
- A dissolution clause that provides for assets go to another 501(c)(3) upon dissolution
- A ‘No Conflict of Interest’ policy that prohibits scholarships going to the children of board members or donors to the nonprofit entity
- A governance structure for awarding scholarships
- Template for Articles of Incorporation and Bylaws

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Step 1: Governing Documents: Articles of Incorporation & Bylaws

Your bylaws must ensure:

- That it serves eligible K–12 students (income ≤ 300% of area median)
- That funds will be used for qualified education expenses (tuition, books & other learning materials, tutoring, educational therapies, transportation, technology such as laptops, tablets, internet connection, public school fees, and the cost of other educational supports such as those allowed under Coverdale ESAs)
- The entity must spend at least 90% of revenue on scholarships
- Your entity must serve at least 10 students across at least two schools
- You may not accept donations earmarked for specific students
- Scholarships cannot be given to the children of donors or board members

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Step 2: Register Your Nonprofit Entity

1 Select a name

- Must be unique in Kentucky and include "Inc." in the name, such as Tri County Scholarship Granting Organization Inc.

2 Select/recruit initial board members

- A minimum of 3 board members/directors required. (Recommend start with a small board and expand later.)
- Recommended board be comprised of individuals such as local public-school supporters, alumni, local business owners, etc. (Note: Selecting board members who are independent of a school board helps avoid private foundation status.)

3 Appoint a registered agent

- Ideally a local law firm or accounting firm with a Kentucky address

4 File Articles of Incorporation with Kentucky Secretary of State

- https://www.sos.ky.gov/bus/business-filings/OnlineServices/Pages/default.aspx

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Step 3: Acquire an Employee Identification Number (EIN) from the IRS

Employee Identification Number form and links:

- http://efaidnbmnnnibpcajpcglclefindmkaj/https://www.irs.gov/pub/irs-pdf/iss4.pdf

- http://efaidnbmnnnibpcajpcglclefindmkaj/https://www.irs.gov/pub/irs-pdf/fss4.pdf

Obtaining an EIN is required before applying for 501(c)(3) status

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Step 4: Apply for 501(c)(3) status

501 C 3 instructions and form links:

- http://efaidnbmnnnibpcajpcglclefindmkaj/ https://www.irs.gov/pub/irs-pdf/p4220.pdf
- http://efaidnbmnnnibpcajpcglclefindmkaj/ https://form1023.org/wp-content/uploads/Form-1023-2020.pdf
- IRS Form 1023 template
- Use the full Form 1023, not the Form 1023EZ to apply for 501 (C)(3) status.

INCLUDE IN YOUR FORM 1023 501C(3) APPLICATION

Provide clear, complete, and thorough information to demonstrate you qualify as a public charity (not a private foundation).

1 NARRATIVE OF ACTIVITIES TO RAISE AND DISPENSE FUNDS

Provide a detailed narrative describing how your organization will raise funds (e.g., donations, grants, events) and how those funds will be used to provide scholarships and related services.

Note: This is very important for applications to establish SGOs.

2 ESTIMATE OF FUNDS TO RAISE AND SCHOLARSHIPS TO AWARD

Include an estimate of the funds you hope to raise and scholarships you plan to award for the first 3 to 5 years.

PROJECTED FIRST 3 TO 5 YEARS		
YEAR	FUNDS TO RAISE	SCHOLARSHIPS TO AWARD
Year 1	$ ________	$ ________
Year 2	$ ________	$ ________
Year 3	$ ________	$ ________
Year 4 (Optional)	$ ________	$ ________
Year 5 (Optional)	$ ________	$ ________

3 BOARD AND GOVERNANCE DETAILS FROM YOUR ARTICLES AND BYLAWS

- Design of your policies for awarding scholarships
- An objective, nondiscriminatory selection process
- An independent selection committee
- Clear eligibility criteria
- A documentation and monitoring process

4 CONFLICT OF INTEREST SAFEGUARDS

Describe the safeguards in place to avoid private benefit violations, such as scholarships being granted to board members or donors. Include policies requiring disclosure and recusal of conflicts of interest.

If structured incorrectly, the IRS can deny your application or revoke it later.

5 PUBLIC CHARITY PURPOSE

Explain how your organization's activities serve a charitable purpose and benefit the public, and why you qualify as a public charity as opposed to a private foundation.

WHY THIS MATTERS

The IRS uses this information to determine if you qualify as a public charity.

Complete and consistent information in your Form 1023 helps the IRS determine your eligibility for tax-exempt 501(c)(3) status as a public charity.

Strong information builds trust and supports your mission.

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Step 5: Additional Kentucky Registrations

Apply for Tax Exemption

- Use Form 51A125 from the KY Dept. of Revenue website
  http://efaidnbmnnnibpcajpcglclefindmkaj/
  https://revenue.ky.gov/
  Forms/51A125%20-%20PE%20Application.pdf
- Provide Articles of Incorporation and Bylaws, Employee Identification Number, address and contact person such as board chair or registered agent.
- Description of your SGO's primary function
- No fee for this designation.

Include in your Form 1023 501 C 3 application:

- **Narrative of activities** to raise and dispense funds. (Note: This is very important for applications to establish SGOs.)
- Include an **estimate of the funds** you hope to raise and scholarships you plan to award for first 3 to 5 years
- **Board and governance details** from your articles and bylaws
  - Design of your policies for awarding scholarships
  - An objective, nondiscriminatory selection process
  - An independent selection committee
  - Clear eligibility criteria
  - A documentation and monitoring process
- **Conflict of interest safeguards** that avoid private benefit violations such as scholarships being granted to board members or donors. If structured incorrectly, the IRS can deny your application or revoke it later.
- The IRS uses this information to determine if you qualify as a **public charity** as opposed to a private foundation

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Step 5: Additional Kentucky Registrations

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Step 5: Additional Kentucky registrations

You must be recognized as a charitable donation solicitation organization **before you begin fundraising.**

Submit a 'Notice of Intent to Solicit' with the Office of Attorney General as a charitable solicitation organization

- Office of Attorney General, Consumer Protection Division - Charity Registration, 1024 Capital Center Drive, Suite 200, Frankfort, KY 40601
- https://www.ag.ky.gov/Resources/Consumer-Resources/charity/Pages/registration.aspx

You must be recognized as a charitable donation solicitation organization before you begin fundraising.

Registration as a Charitable Donation Solicitation Organization typically includes:

- IRS Form 990: https://www.irs.gov/pub/irs-pdf/f990.pdf
- Unified Registration Statement URS: https://multistatefiling.org/
- IRS determination 501 C 3 determination letter
- Articles of Incorporation and Bylaws
- No fee for this designation

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Step 6: Additional Considerations

Your financial compliance system must:

- Segregate SGO donations (no co-mingling funds) from other activities
- Precisely track scholarship expenditures
- Maintain audit-ready records

Your scholarship program infrastructure should have:

- Application portal
- Income verification process
- Selection committee procedures
- Award tracking system

Governance safeguards to avoid IRS problems:

- A majority of board members should be independent of any school district(s)
- No insider scholarships for children of board members or donors
- Clear conflict of interest policy
- Recusal process for board members to excuse themselves from participating in scholarship decisions that may present a conflict of interest.

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Step 7: Prepare to Market your SGO and Soliciting Donations beginning January 1, 2027

Individuals can donate up to **$1,700** annually to a qualified SGO and receive a **100% tax credit**.

Donors will receive a **100% tax credit** for these donations as opposed to the lesser tax advantage they receive for other charitable donations.

There is a **lot of paperwork** and government filings involved in this process, plus state and federal agencies will be deluged with school districts across the country seeking to establish SGOs.

Getting started **ASAP** will increase the likelihood that you are ready to roll out your SGO on **January 1, 2027**.

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Scholarship Granting Organization

RESOURCE CENTER

Everything you need to establish and operate a Scholarship Granting Organization (SGO) in Kentucky. Browse the resources below to guide your organization from formation through ongoing compliance.

FORMATION | COMPLIANCE | GOVERNANCE | BEST PRACTICES | SUSTAINABILITY

Prepared by your

KASA Advocacy Team

SCAN TO EXPLORE RESOURCES

THANK YOU

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