Reasonable Cause Explanation for the Failure to Include Schedule B with the Form 990-EZ Return for the Stockton Unified School District 1852 Foundation (16-1632474)

The Stockton Unified School District 1852 Foundation, EIN: 16-1632474, (the "Foundation") was incorporated pursuant to the California Nonprofit Public Benefit Corporation statutes on September 27, 2002. On June 20, 2003, the Foundation was determined by the Internal Revenue Service to be exempt from federal income tax under IRC Section 501(c)(3) and a public charity pursuant to IRC Section 509(a)(3). Please see the attached copy of the IRS determination letter. On August 1, 2003, the Foundation was determined by the California Franchise Tax Board to be exempt from state income tax under California Revenue and Taxation Code Section 23701d.

Since its inception, the Foundation has been active but it has had minimal financial activity (less than $5,000 annually). As a result, staff always checked Item H on the front of all the previously filed Form 990-EZ and did not attach Schedule B. Please note that all such previous filings were complete and timely.

During the 2015 tax year (fiscal year ended June 30, 2016), efforts were made to generate greater revenue and give the Foundation a greater presence in the community. And, as a result of those efforts, the Foundation received one contribution and two grant awards during the 2015 tax year, all of which totaled $5,000 or more.

On the 2015 Form 990-EZ, staff did not check Item H; however, there was confusion regarding whether the Foundation was required to file Schedule B. The instructions for Item H (as set forth in the 2015 Instructions for Form 990-EZ) states that Schedule B must be completed if an organization meets certain specified conditions during the tax year. It appeared to staff that none of those conditions applied to the Foundation because while it is tax-exempt pursuant to IRC Section 501(c)(3) and it did receive $5,000 or more from one contributor, the Foundation is a public charity pursuant to IRC Section 509(a)(3)(Type I) and is not required to satisfy the 33-1/3% test. Pursuant to Internal Revenue Service Publication 557, an IRC Section 509(a)(3) organization "may be funded by a single donor, family or corporation." As a result of this confusion regarding the Instructions, Schedule B was not attached. In addition, because there had never been a need with the previously filed Form 990-EZ's to complete and file Schedule B, the form was not prepared.

Staff's failure to attach Schedule B to the Form 990-EZ was not intentional and it is the first time that the Foundation's Form 990-EZ has been deemed incomplete. In light of the IRS's January 5, 2017 letter, steps have now been taken to ensure that it does not happen again. Procedures have been reviewed, strengthened, and implemented which will provide for better documentation of contributions and/or grants which equal or exceed $5,000. This will allow for the complete and accurate reporting of financial activity on future tax returns.

The Foundation apologizes for this error and hereby requests the waiver and/or abatement of all penalties and/or interest that may be imposed on the Foundation.

Thank you for your consideration of this request.