

Internal Revenue Service
4920DAL Mandatory Review
1100 Commerce Street, Mandatory Review
Dallas, TX 75242

Release Number: 200850039
Release Date: 12/12/08
LEGEND UIL:501.03-01
ORG = Organization name XX = Date
Address = address

Date: September 4, 2008

ORG
ADDRESS

Certified Mail

Dear

This is a final adverse determination as to your exempt status under section 501(c)(3) of the Internal Revenue Code (IRC). It is determined that you are no longer recognized as exempt from Federal income tax under IRC section 501(c)(3), effective September 1, 20XX, for the following reason(s):

Organizations exempt from Federal income tax under section 501(c)(3) of the Code are required to operate exclusively for charitable, educational, or other exempt purposes. Organizations are not operated exclusively for exempt purposes if the net earnings of the organization inure in whole or in part to the benefit of private shareholders or individuals of the organization. See Tres. Reg. § 1.501(c)(3)-1(c)(2). In addition, organizations may not impermissibly serve private interests as set forth in Tres. Reg. § 1.501(c)(3)-1(d)(1)(ii). During the period examined, you operated in a manner in which your fundraising practices conferred impermissible private benefits to the member families of _____ and such funds inured to the member families. In this regard, you operated a cooperative service for the member families of your organization to pay private costs, as is prohibited by the cited Code, Regulations, and principles described in Rev. Rul. 69-175, 1969-2 CB 149. In addition, you operated for the impermissible private benefit of the owners of facilities connected with your organization.

Contributions to your organization are not deductible under IRC section 170.

You are required to file Federal income tax returns on the form indicated above. You should file these returns within 30 days from the date of this letter, unless a request for an extension of time is granted. Please send the returns to the following address:

Processing of income tax returns and assessment of any taxes due will not be delayed because you have filed a petition for declaratory judgment under IRC section 7428.

If you decide to contest this determination under the declaratory judgment provisions of IRC section 7428, a petition to the United States Tax Court, the United States Court of Claims, or the district court of the United States for the District of Columbia must be filed within 90 days from the date this determination letter was mailed to you. Contact the clerk of the appropriate court

Department of the Treasury

Employer Identification No.:
Person to Contact:
Employee ID Number:
Tel:
Fax:
Form Required to be Filed:
Tax Years:
August 31, 20XX and subsequent
years
**Last Day to File a Petition with the
United States Tax Court:**
December 3, 20XX

for rules for filing petitions for declaratory judgment. To secure a petition form from the United States Tax Court, write to the United States Tax Court.

You also have the right to contact the Office of the Taxpayer Advocate. However, you should first contact the person whose name and telephone number are shown above since this person can access your tax information and can help you get answers. You can call and ask for Taxpayer Advocate assistance or you can contact your nearest Advocate's office, in this case by calling or writing to:

Taxpayer Advocate assistance cannot be used as a substitute for established IRS procedures, formal appeals processes, etc. The Taxpayer Advocate is not able to reverse legal or technically correct tax determinations, nor extend the time fixed by law that you have to file a petition in Court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling.

We will notify the appropriate State officials of this action, as required by IRC section 6104(c). You should contact your state officials if you have any questions about how this determination may affect your state responsibilities and requirements.

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

Sincerely,

Lois G. Lerner
Director, Exempt Organizations

Attachments:
Publication 892
:

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer ORG		Year/Period Ended 20XX08

LEGEND

ORG = Organization name XX = Date XYZ = State City = city
 Address = address WK-1 = 1st WK motto = motto County = county
 Fundraiser = fundraiser DIR-1 & DIR-2 = 1st & 2nd dir CO-1 thru CO-13 =
 1st, 2nd, 3rd, 4th, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th & 13th COMPANIES

ISSUE

Whether ORG is operated exclusively for exempt purposes within the scope of Internal Revenue Code §501(c)(3).

FACTS

ORG (referred to as "ORG") was incorporated on September 10, 19XX, as a non-profit corporation in the XYZ. During the year of examination, ORG was a booster club for CO-1 (referred to as "CO-1"), a for-profit entity. Currently, ORG is a booster club for the CO-2 (CO-2), another for-profit entity.

On July 21, 19XX, ORG was issued a determination letter advising the organization of recognition of exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC), and an advance ruling on the foundation status under IRC section 509(a)(2). In ORG's response to the IRS Determination Specialist inquiry concerning whether ORG paid any money to the CO-3, the ORG answered, no. ORG's response to the question of what members of the organization received in exchange for the payment of membership dues, the ORG replied: "mailing of meetings, minutes, and activities. Flyers to encourage participation of activities. Access to video library."

The ORG's Articles of Incorporation was filed in the XYZ on June 4, 19XX. As enumerated in the articles of incorporation, ORG's function is to "find ways to help defray expenses incurred by the competing motto and coaches of CO-3 when traveling. The foundation may sponsor activities for the benefit of all the motto." The purpose of ORG was subsequently amended to state the following: "provide assistance to qualifying motto residing in the County. The foundation may sponsor activities for the benefit of all the motto."

In its description to the Department _____, XYZ, ORG described its purpose as "to raise money to pay for travel expenses for motto and their coaches to mottoi meets."

As enumerated in ORG's original bylaws, "the purpose of this group shall be to aid the students under the jurisdiction of the CO-4 within the framework of the By-Laws of this group and consistent with the rules of the Centre."

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Additionally, Article II of the bylaw, state the following regarding the principal office of ORG's: "the principal office for the transaction of the business of the group is as may be hereafter fixed and located by the Board of Directors of the CO-4 in the County."

In March of 20XX, the ORG's bylaws were amended to reflect its current purpose and membership requirements. The purpose of ORG as stated in the revised bylaws, is to "provide assistance to qualifying motto for competitions. ORG may sponsor activities for the benefit of qualified motto for their competitions."

ORG's revised 20XX bylaws, Article II, state the following with respect to membership requirements:

- members are any person who is interested in promoting and furthering the purpose of the corporation shall be eligible for membership. The membership shall be divided into Voting Members and Associate Members.
- Voting members is defined as those persons who are parents or legal guardians of qualified motto. Only the Voting members will participate in making decisions of the corporation.
- Associate members are members who are not voting members. Associate members can attend meetings of the general membership and serve on committees.
- Qualified motto are current member and must comply with all application and eligibility rules of the competitive program at CO-1 A qualified motto must be a member of the
- ORG members must pay an annual fee, the amount to be established by the Board of Directors. Members must participate in all fund raising activities as determined by the Voting Membership or may elect to pay a "non-participating" fee. Failure of members to participate in fund raising activities or to pay the "non-participation" fee may, by vote of the Board of Directors, result in termination of support for the participating motto.

The ORG's bylaws were amended again on August 11, 20XX to reflect its new purpose and membership requirements. The purpose of ORG as stated in the revised 20XX bylaws, is to "provide a facility to assist qualified motto and members through education, training and competition. ORG may sponsor activities for the benefit of qualified motto and members for the facility and competition."

The below reflect the amended 20XX bylaw revision, Article II, membership requirements:

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- Any person who is interested in promoting and furthering the purpose of the corporation shall be eligible for membership. The membership shall be divided into Voting members and Associate members.
- Voting members is defined as persons who are parents or legal guardians of qualified motto and members. Only the Voting members will participate in making decisions of the corporations.
- Associate members is defined as not being a Voting member and can attend meetings of the general membership and serve on committees.
- Qualified motto is defined as being a current member and must comply with all application and eligibility rules of the . A qualified motto must be a member of the CO-2 program.
- Qualified member is defined as a member of the CO-2 program. The member must comply with all applications and eligibility rules of their activity.

ORG filed Form 990-EZ return for the tax year ending August 31, 20XX. Within Part III, of Form 990-EZ, ORG stated that their primary exempt purpose is to “provide training equipment and travel costs for school age motto”.

ORG's primary income source is derived from fundraising events, public contributions, grants, and membership fees and assessments. The organization's expenditures are primarily motto meet expenses.

ORG engages in a variety of fund raising activities. The major fundraisers have been the competitive meets (City Invitational) for which admission fees are charged, the sale of ads, and the operation of concessions. Parent members are required to participate in the fund raising activities at levels predetermined by the Board of Directors or to contribute a corresponding amount in cash to enable their child to compete at meets sponsored by ORG and to be eligible for benefits paid on behalf of team motto. The other fundraisers include Fundraiser, a car wash, , silent auctions, and others.

During the year of audit and prior years, ORG was closely associated with a privately owned for-profit facility, CO-1 (CO-1). Currently, the ORG is associated with a for-profit gym called CO-2. The competitive teams that ORG sponsors compete at various skill levels, Level 4 – 10. All teams use CO-1/ CO-2 gym for both training and competing. The age group of the competitive team is 6-18 years. ORG hosts various levels of competition on the , including hosting and organizing the CO-5 held each January in which over 200 motto attended. Teams from , and other countries participated in the meet, including the NCAA collegiate competitive team. The season starts September to August. ORG helps cover the costs incurred by the sponsored motto teams by paying individual meet fees and travel expenses for the motto and coaches to approved competitions. ORG has also purchased equipment necessary for competitive training. This equipment has

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been installed at CO-1 gym and is available for use by regular classes during non-training hours.

ORG does not provide training for members of the motto teams it sponsors. The staff of CO-1 gym, which includes the coaches of the sponsored teams, provides the almost daily training of the team members.

Membership in ORG is available upon payment of a \$ membership fee. To join ORG an annual registration fee of \$ is charged to team members per family. This fee is used to pay for the operating expenses of the ORG. All team parents are asked to participate in the proposed ORG fundraisers and to attend required meetings. Team members are expected to travel together as a team going to and from each meet.

The Parent Reference Guide of the ORG sets guidelines for fundraisings, membership fees, member meetings, and others for parent team members to follow.

According to the ORG Parent Reference Guide, dated final 07/13/20XX, the purpose of ORG is to "raise monies for competing expenses. ORG is a non-profit organization run by the parents of the CO-6. The costs for classes and annual fees paid to CO-6 are separate from ORG."

Additionally, the Parent Reference Guide states that team parents are given opportunities to participate in all fundraising activities to offset their daughter's competing expenses, including coaches' expenses for air, ground transportation, hotel, per diem, and consulting fees; and motto's traveling expenses---air and ground transportation and hotel. Moreover, it states that the families are required to participate at 100%--each family will have a minimum number of tickets or goods to sell and they must work the event. In order to be eligible for participating in fundraisers, the parents of the team member must be ORG member and have paid the annual fee, and attend meetings. Each fundraiser will have its own minimum requirements. The more the parent/motto participates the more benefit they will receive to offset his/her individual costs. In this way, "you are allowed to 'pick and choose' the fundraiser that is right for your family or you may opt to not fundraise and pay the competing expenses in full."

The Parent Reference Guide sets the following policy regarding fundraising:

- For each fundraiser that your family participates in, you will be credited your portion raised from the net (minus % tax and 10% for the Team Fund).
- ORG will track the amount of money raised by each family and it will be used to offset their child's expenses when billing. The ORG Board will keep each family informed on how much money is raised after each fundraiser.

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- 10% after expenses and taxes of all fundraising will go into a Team Fund. This fund is designed to assist any member of the CO-6 who qualifies for the Regional and National Meets. ORG may ask the team to voluntarily participate in fundraising designated solely for the Team Fund. In this case, 100% of the net profit generated will be used to help pay for the coaches' expenses and the mottois' travel expenses.
- Major fundraisers that ORG holds annually are:
 - Fundraiser
 - Fundraiser
 - Fundraiser
 - Fundraiser
 - Fundraiser
 - Fundraiser
 - Fundraiser
 - Other
- Billing procedures:
 - Each competing motto will be required to pay an equal portion of the coaches' expenses and their own travel expenses for each meet. Families who participate in fundraising will be entitled to use the money earned to offset these expenses. If the motto is not able to make the first payment to cover air fare and coaches' expenses, the motto will not be allowed to participate. If the motto is not able to make the second payment to cover the hotel, ground transportation, parking, and coaches' hotel, the motto will not be allowed to participate in the next meet.
 - If a team family elects to not participate in ORG, the motto will still be responsible for paying an equal portion of the coaches' expenses plus a 10% service charge.

When a family exceeds their sales quota, the monies will either be credited toward next year or a check will be dispersed out to those families at the end of the season when all expenses are paid. The attached Exhibit A, taken from the Board Meeting minutes dated 01/30/20XX, shows a break down of how ORG billed the individual families with the Fundraiser and Tabloid fundraisers. Exhibit B shows the Summer Concession income, expenses, and net income divided up and dispersed to the participating families.

The City Invitational is one of the biggest activities of the ORG. The following information references some of the ORG's promotional material, the advertising flyers to potential sponsors.

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- The City Invitational meet flyers were distributed to potential sponsors. The following shows the background information on the event:

The CO-6 Invitational is held each year by the CO-1 and the ORG. The event includes a College Meet, which is the season-opener for most of the teams, and two days of club competition. The club meet includes the compulsory events for Levels 4, 5, and 6, whose season ends with the state championships in December, and the optional events of the more advanced motto in Levels 7, 8, 9, 10, and Elite. The optional group's season begins in January and ends with state, regional and national competitions in the spring.

At the end of the above printed material it indicates that DIR-1 and DIR-2 are the CO-6 coaches and directors.

- In ORG's Seventh annual CO-6 Invitational: January 4,5,6, 20XX flyer, the following excerpt describes ORG's cause:

Background info: The CO-6 Invitational is a fund-raiser for the CO-6 the nonprofit booster club for the CO-3. Each year, the Invitational includes club teams competing in the compulsory events of Levels 4, 5, 6, which concluded their season in December, and the optional events of the more skilled motto in levels 7, 8, 9, 10, and Elite, who start their season in January. This year's invitational will feature a college night with the season opening NCAA competition with teams from CO-7, CO-8, CO-9, and CO-10.

Again, at the end of the printed material it indicates that DIR-1 and DIR-2 are coaches and directors of CO-3.

It was also noted that going back to 19XX, the viewed printed material described the CO-1 (coaches/owner responsibilities) and ORG responsibilities, showing how monies were to be divided between the owner of CO-6 and ORG in which the division of net income were 60% going to CO-1 and 40% going to ORG.

In ORG's printed materials, the following shows the team requirement to participate in a meet.

Team requirement for 20XX-20XX competitive season:

- Charge a team membership fee of \$ each year
- Intro level 4 fee is \$
- Registration fee of \$ per year

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- The fees charged above is for a program and not for specific lessons, tuition is due regardless of attendance. With additional costs for and for level 7 and up.
- Entry fees for meets range from \$ to \$ per meet. \$ entry fee deposit for compulsory meet fees, except for state and beyond is due in August and non-refundable.
- CO-6 requires that all team families, competing level 4 and up join the non profit booster organization, whose job is to raising money for CO-6 travel and coaches expenses. Competing level 4's must join ORG. Motto membership requires the following for team members: \$ annual fee due in August, participation in any/all fundraisers, fundraising minimum amounts set b ORG.
- All meet expenses must be paid prior to season start or pre-approved payment schedule must be in place with ORG. No exceptions.

ORG did not rent space at the CO-1 gym. Currently, ORG rents a gym space including a small office in the facility of CO-2 for its administrative activities as well as motto training and meets. The sublease agreement of gym facility and equipment with CO-2 is notated as follows:

The agreement, dated January 1, 20XX, was between WK-1 and ORG, with ORG as the sublessee. The facility, located at Address, City, XYZ, belonged to CO-11 and is leased to WK-1. WK-1 as the sublessor is transferring use of the facility units 14 & 15 of the CO-12, known as the CO-2, to ORG for a fee of \$ per month.

The lease agreement dated January 1, 20XX, is an arrangement between CO-13 and the ORG. The equipment is located at Address, City, XYZ. CO-13 leased the equipment to ORG at the above location. The rental fee charged by CO-13 to ORG is \$ per month.

During the initial interview with the Treasurer of ORG, it was determined that WK-1 is the current President of ORG and that she owns or is an officer of CO-13. In the correspondence dated November 8, 20XX, Ms. WK-1 stated that she was not the current President of the ORG nor was she ever the President of the ORG.

In the correspondence dated November 19, 20XX and January 14, 20XX, the IRS requested that the ORG send a listing of the names, addresses, and telephone numbers of current ORG officers. The ORG have not responded to that request.

LAW

Internal Revenue Code

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Section 501(c)(3) of the Code describes certain organizations exempt from taxation under section 501(a) of the Code and reads as follows:

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

Treasury Regulations

Section 1.501(c)(3)-1(a)(1) of the regulations provides that in order to be exempt as an organization described in section 501(c)(3) of the Code, the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. If an organization fails to meet either the organizational or operational test, it is not exempt.

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will not be regarded as operated exclusively for exempt purposes if more than an insubstantial part of its activities is not in furtherance of exempt purposes. Thus, to qualify for exemption, the organization must show that it engaged "primarily" in activities which accomplished that exempt purpose. The organization will not qualify for exemption if a nonexempt activity is more than an insubstantial part of its activities, or if an activity of the organization has more than an insubstantial nonexempt purpose.

Section 1.501(c)(3)-1(d)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense and includes the advancement of education and the promotion of social welfare by organizations designed to combat juvenile delinquency.

Section 1.501(c)-1(d)(3) of the regulations defines the term "educational" as including the instruction or training of the individual for the purpose of improving or developing his

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capabilities, or the instruction of the public on subjects useful to the individual and beneficial to the community.

Revenue Rulings

Revenue Ruling 69-175, 1969-1 C.B. 149 states that when a group of individuals associate to provide a cooperative service for themselves, they are serving a private interest. By providing bus transportation for school children the organization is enabling the participating parents to fulfill their individual responsibility of transporting their children to school. Thus, the organization serves a private rather than a public interest. Accordingly, it is not exempt from Federal income tax under section 501(c)(3) of the Code.

Revenue Ruling 65-2, 1965-1 CB 227, (Jan. 01, 1965) describes an organization which is organized and operated exclusively for the purpose of teaching a particular sport to the children of a community by providing free instruction, free equipment, and facilities. The foundation was formed to provide educational and character building programs for the children of the community. Its activities consist of conducting clinics for student players at playgrounds and at parks, coaching clinics for instructors of the student players, provide free instruction in schools, playgrounds, and parks and furnish free equipment to those children who are unable to afford such equipment, stimulates interest in its program through the use of film and other instructional devices. Its program and facilities are available to any child in the community who desires to participate, is physically able, and has reached the qualifying age level.

The ruling concludes that the organization's activities of instructing individuals to develop their capabilities are educational. Further, its furnishing of free instruction, equipment, and facilities to children of the community is accomplishing the charitable purpose of combating juvenile delinquency. Accordingly, the organization qualifies for exemption under IRC 501(c)(3).

Revenue Ruling 9-215, 1980-2 C.B. 174, describes an organization which is organized and operated to develop, promote, and regulate a sport for junior players, and to promote sportsmanlike competition for junior players in a particular state. The organization is comprised of affiliated individual associations, clubs, leagues, and teams. Each club may be comprised of any number of teams. The organization organizes local and state-wide competition for individuals under 18 years of age; promulgates rules; organizes officials; and presents seminars for players, coaches, and referees. The organization provides a framework for protests, appeals, and procedures. It also distributes a newsletter, and otherwise encourages the growth of the sport throughout the state. This ruling holds that the organization's activities combat juvenile delinquency and promote the education of children. Therefore, the organization qualifies for exemption under IRC 501(c)(3).

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Court Cases

Better Business Bureau of Washington D.C., Inc. v. United States, 326 U.S. 279, 283 (1945), the presence of a single non-exempt purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly exempt purposes.

TAXPAYER'S POSITION

A draft report of examination was provided to the organization. The organization have not provided any information as to their position at this time.

GOVERNMENT'S POSITION

Based on the facts of the examination, it is our position that your organization is not operated exclusively for purposes within the scope of §501(c)(3) and as a result, your organization does not qualify for exemption under §501(c)(3) of the Internal Revenue Code.

Section 501(c)(3) of the Code provides exemption from federal income tax for organization's organized and operated exclusively for educational, charitable or religious purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), no part of the net earnings of which inures to the benefit of any private shareholder or individual.

In addition, Section 1.501(c)(3)-1(d)(1)(ii) of the Regulations states that an organization is not operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. It must not be operated for the benefit of designated individuals or the persons who created it.

It is the government's position that the parents of the team members control the booster club, and are the primary members. ORG bylaws and Parent Reference Guide does not urge parent-members to participate in the various fundraising activities for the benefit of all motto on the competitive teams. ORG does not support all team motto to the full extent of its resources regardless of whether their parents are members or contributors.

ORG is not supporting the promotion of youth motto competition but is primarily supporting the children of members based upon their participation in the organizations fundraising events. ORG requires its parent-members to participate in the fundraising events and proportionally credits motto / child accounts based upon participation. As a

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result, the motto is not permitted to compete for ORG unless the parent either raises a certain amount of funds through the fundraising events, or pays upfront, the anticipated cost of participation in the programs. If the parent does not pay, the motto does not participate.

The families are billed for their expenses up-front, with most checks will not be made out to ORG. If all expenses are not covered by the fund raising events, parents are required to contribute any shortages. A motto, through his/her parent, must help raise funds in some way to receive an allocation of funds raised. Nonparticipating parents are fully responsible for their children's expenses and are expected to pay the full amount in cash.

There is no scholarship program for those players who are unable to raise the money to participate.

The parent-members of the booster club are considered the insiders of the organization because they are in a position to have control or influence over the activities of the ORG. The requirement that each parent-member participate in the fundraising activities in direct proportion to the benefits they expect to receive causes a direct benefit to flow to these parents. Consequently, the earnings of the organization are being used directly and specifically to pay for benefits to specific individuals rather than to a class of competitive motto as a whole. The organization is allowing the earnings of the organization to inure to the benefit of specific insiders (the parent and their children).

Inurement of income is prohibited under IRC 501(c)(3) without regard to the amount involved. Like the organization in Better Business Bureau of Washington D.C., Inc. v. United States, 326 U.S. 279, 283 (1945), the presence of a single non-exempt purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly exempt purposes.

The ORG activity is similar to the organization described in Rev. Rul. 69-175, 1969-1 C.B. 149, in which a group of parents got together and provided bus transportation for their own school children to and from the school their children attended. The organization was found to serve a private rather than a public interest and was not exempt under section 501(c)(3).

The examination revealed that ORG has purchased equipment installed at the CO-1 gym that is used by the owners in their commercial business. It is noted that the transaction with CO-2 is the same as with CO-1. Even though the owners of CO-1 do not sit on the Board of Directors of ORG, both DIR-1 and DIR-2 (owner of the for-profit gym) have considerable control in the booster club. DIR-1 and DIR-2 are also considered the insiders of the organization. Additionally, the examination revealed that

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ORG has purchased equipment installed at the CO-1 gym that is used by the owners in their commercial business. Purchasing such equipment for use by a non-exempt entity is not an exempt purpose. ORG's competitive team use of CO-1 facility to train and hold competitive meets resulted in an increased advertisement and patronage to the for-profit gym.

ORG's use of the private facility resulted in a substantial private benefit to its owners and accordingly benefiting a commercial enterprise. ORG's operations are not exclusively charitable within the meaning of section 501(c)(3).

According to the organization's financial records, ORG hosted and organized the annual City Invitational Meet, held January 7th and 8th, 20XX, with attendees from _____, and the _____ 60% of the profits from that meet were given to CO-1 with the remainder stayed in ORG account. The 20XX City Invitational brought in total income of \$ _____ and expenses of \$. A net income of \$. 60% of the net income went to CO-6 (CO-1) \$ _____ and 40% went to ORG (ORG) \$. In 20XX year, the net profit for City Invitational was \$. 40% of the net profit went to ORG of \$ _____ and 60% of the net profit went to CO-1 of \$ _____.

CONCLUSION

Based on the facts presented above, the method in which ORG operates results in the inurement of its income to its parent-members and to the owners of CO-1 gym.

ORG exemption should be revoked effective September 1, 20XX.

Form 1120 returns should be filed for the tax periods after August 31, 20XX.

Internal Revenue Service

Department of the Treasury
TE/GE Exempt Organizations Examinations Division
915 Second Avenue, M/S 540
Seattle, Washington 98174

Date: February 25, 2008

ORG
ADDRESS

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Certified Mail - Return Receipt Requested

Dear

We have enclosed a copy of our report of examination explaining why we believe revocation of your exempt status under section 501(c)(3) of the Internal Revenue Code (Code) is necessary.

If you accept our findings, take no further action. We will issue a final revocation letter.

If you do not agree with our proposed revocation, you must submit to us a written request for Appeals Office consideration within 30 days from the date of this letter to protest our decision. Your protest should include a statement of the facts, the applicable law, and arguments in support of your position.

An Appeals officer will review your case. The Appeals office is independent of the Director, EO Examinations. The Appeals Office resolves most disputes informally and promptly. The enclosed Publication 3498, *The Examination Process*, and Publication 892, *Exempt Organizations Appeal Procedures for Unagreed Issues*, explain how to appeal an Internal Revenue Service (IRS) decision. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process.

You may also request that we refer this matter for technical advice as explained in Publication 892. If we issue a determination letter to you based on technical advice, no further administrative appeal is available to you within the IRS regarding the issue that was the subject of the technical advice.

If we do not hear from you within 30 days from the date of this letter, we will process your case based on the recommendations shown in the report of examination. If you do not protest this proposed determination within 30 days from the date of this letter, the IRS will consider it to be a failure to exhaust your available administrative remedies. Section 7428(b)(2) of the Code provides, in part: "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted its administrative remedies within the Internal Revenue Service." We will then issue a final revocation letter. We will also notify the appropriate state officials of the revocation in accordance with section 6104(c) of the Code.

You have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have to file a petition in a United States court. The Taxpayer Advocate can, however, see that a tax matter that may not have been resolved through normal channels gets prompt and proper handling. You may call toll-free 1-877-777-4778 and ask for Taxpayer Advocate Assistance. If you prefer, you may contact your local Taxpayer Advocate at:

If you have any questions, please call the contact person at the telephone number shown in the heading of this letter. If you write, please provide a telephone number and the most convenient time to call if we need to contact you.

Thank you for your cooperation.

Sincerely,

Reatsamay Ly
Internal Revenue Agent

Enclosures:
Publication 892
Publication 3498
Report of Examination
Form 6018
Form 4621-A