



DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

TE/GE: EO Examinations

1100 Commerce Street, MC 4920 DAL

Dallas, TX 75242

**TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION**

January 29, 2016

Number: **201620012**
Release Date: 5/13/2016

Taxpayer Identification Number:

Person to Contact:

Identification Number:

UIL Code: 501.03-00

Contact Telephone Number:

CERTIFIED MAIL

Dear :

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code (the Code). Our favorable determination letter to you dated August 9, 2011 is hereby revoked and you are no longer exempt under section 501(a) of the Code effective January 1, 20XX.

The revocation of your exempt status was made for the following reason(s):

You are not operating for any charitable, religious, educational, or other exempt purpose. Our examination, for the tax years ended December 31, 20XX, December 31, 20XX and December 31, 20XX, reveals that you are not engaged primarily in activities which accomplish religious, charitable, educational or other exempt purposes as required by Treas. Reg. section 1.501(c)(3)-1(c)(1). Moreover, you failed the organizational test for exemption because your corporate status has been suspended; therefore, you are not a corporation, community chest, fund, or foundation as required by I.R.C. section 501(c)(3).

You failed to establish that you were not operated for the benefit of private interest of your president as required for continued recognition of exemption pursuant to Treas. Reg. 1.501(c)(3)-1(d)(1)(ii). Your income inured to the benefit of private shareholders and individuals.

You failed to keep adequate books and records and failed to respond to repeated reasonable requests to allow the Internal Revenue Service to examine your records regarding your receipts, expenditures, or activities as required by I.R.C. sections 6001,

and 6033(a)(1), Treas. Reg. 1.6033-2(i)(2) and Rev. Rul. 59-95, 1959-1 C.B. 627.

Contributions to your organization are no longer deductible under IRC §170 after January 1, 20XX.

You are required to file income tax returns on Form 1120. These returns should be filed with the appropriate Service Center for the tax year ending December 31, 20XX and for all tax years thereafter in accordance with the instructions of the return.

Processing of income tax returns and assessments of any taxes due will not be delayed should a petition for declaratory judgment be filed under section 7428 of the Internal Revenue Code.

If you decide to contest this determination under the declaratory judgment provisions of section 7428 of the Code, a petition to the United States Tax Court, the United States Claims Court, or the district court of the United States for the District of Columbia must be filed before the 91st Day after the date this determination was mailed to you. Please contact the clerk of the appropriate court for rules regarding filing petitions for declaratory judgments by referring to the enclosed Publication 892. You may write to these courts at the following addresses:

United States Tax Court
400 Second Street, NW
Washington, D.C. 20217

United States Court of Federal Claims
717 Madison Place, NW
Washington, D.C. 20005

United States District Court for the District of Columbia
333 Constitution Avenue, NW
Washington, D.C. 20001

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit taxpayeradvocate.irs.gov or call 1-877-777-4778.

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

Sincerely,

Paul A. Marmolejo
Acting Director, EO Examinations

Enclosure:
Publication 892



Department of the Treasury
Internal Revenue Service

Date: August 12, 2015

Taxpayer Identification Number:

Form:

Tax year(s) ended:

Person to contact / ID number:

Contact numbers:

Manager's name / ID number:

Manager's contact number:

Response due date:

Certified Mail - Return Receipt Requested

Dear

Why you are receiving this letter

We propose to revoke your status as an organization described in section 501(c)(3) of the Internal Revenue Code (Code). Enclosed is our report of examination explaining the proposed action.

What you need to do if you agree

If you agree with our proposal, please sign the enclosed Form 6018, *Consent to Proposed Action – Section 7428*, and return it to the contact person at the address listed above (unless you have already provided us a signed Form 6018). We'll issue a final revocation letter determining that you aren't an organization described in section 501(c)(3).

After we issue the final revocation letter, we'll announce that your organization is no longer eligible for contributions deductible under section 170 of the Code.

If we don't hear from you

If you don't respond to this proposal within 30 calendar days from the date of this letter, we'll issue a final revocation letter. Failing to respond to this proposal will adversely impact your legal standing to seek a declaratory judgment because you failed to exhaust your administrative remedies.

Effect of revocation status

If you receive a final revocation letter, you'll be required to file federal income tax returns for the tax year(s) shown above as well as for subsequent tax years.

What you need to do if you disagree with the proposed revocation

If you disagree with our proposed revocation, you may request a meeting or telephone conference with the supervisor of the IRS contact identified in the heading of this letter. You also may file a protest with the

IRS Appeals office by submitting a written request to the contact person at the address listed above within 30 calendar days from the date of this letter. The Appeals office is independent of the Exempt Organizations division and resolves most disputes informally.

For your protest to be valid, it must contain certain specific information including a statement of the facts, the applicable law, and arguments in support of your position. For specific information needed for a valid protest, please refer to page one of the enclosed Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*, and page six of the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your rights as a taxpayer and the IRS collection process. Please note that Fast Track Mediation referred to in Publication 3498 generally doesn't apply after we issue this letter.

You also may request that we refer this matter for technical advice as explained in Publication 892. Please contact the individual identified on the first page of this letter if you are considering requesting technical advice. If we issue a determination letter to you based on a technical advice memorandum issued by the Exempt Organizations Rulings and Agreements office, no further IRS administrative appeal will be available to you.

Contacting the Taxpayer Advocate Office is a taxpayer right

You have the right to contact the office of the Taxpayer Advocate. Their assistance isn't a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate can't reverse a legally correct tax determination or extend the time you have (fixed by law) to file a petition in a United States court. They can, however, see that a tax matter that hasn't 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:

Internal Revenue Service
Office of the Taxpayer Advocate

For additional information

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,

Enclosures:
Report of Examination
Form 6018
Publication 892
Publication 3498

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
Name of taxpayer	Tax Identification Number	Years/Periods ended 12/31/20XX 12/31/20XX 12/31/20XX

ISSUES

- (1) Is _____ (_____) organized and operated exclusively for exempt purposes within the meaning of Internal Revenue Code section 501(c)(3) (IRC) and the Regulations?
- (2) Does the records keeping practice of _____ described below qualify to remain exempt under section IRC section 501(c)(3)?
- (3) Do withdrawals of cash, disbursements for personal expenses, and transferred funds to a personal business described below inure to the benefit of _____ (_____), _____'s President?

FACTS

Purpose and exempt status of _____
 _____ was incorporated in January 20XX. The purpose is to enhance the lives of Americans. Specifically, _____ intends to identify and help victims of child sexual abuse. In addition, _____ strives to educate the American public about the perils and destructive consequences and long-term manifestations of child sexual abuse in all aspects of a person's individual and family life. _____ initially received recognition of its exempt status in July 20XX. The exempt status was automatically revoked for failure to file Form 990-N in three consecutive years. _____ reinstated its exempt status in 20XX. Internal Revenue Service (IRS) received Forms 990-N from _____ for the 20XX, 20XX, and 20XX tax years on May 15, 20XX, June 15, 20XX, and April 14, 20XX, respectively.

Board of Directors and Corporate Officers

The following individuals were listed as officers and advisors on _____'s Application for Recognition of Exemption in March XX:

- _____, Founder/CEO
- _____, Secretary
- _____, Treasurer
- _____, MD, Adviser
- _____, PhD, Adviser

According to the Bylaws (remain effective since 20XX) attached to the Form 1023, none of these positions were paid positions. No Forms W-2 or 1099s were issued by _____ in any of the years at issue.

Referral from SB/SE agent

We received a referral from a Small Business and Self Employed (SB/SE) Division agent, who examined summonsed documents from a credit union showing the funds from _____'s bank accounts were transferred into an account of _____'s Schedule C business, Administrative & Contract Services (_____). This account was in turn

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
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paying many personal expenses. Meanwhile, _____ was making charitable contributions to _____ that she controls.

Audit and Records of _____

On December 9, 20XX, we informed _____ of the Form 990 audit for the year ended December 31, XX and provided an initial Information Document Request (IDR1). On February 2, 20XX _____ provided the following records:

1. A statement of "Governing instruments not revised since 20XX"
2. A statement of "Minutes, etc. – None officially taken. Meetings that were held were largely conducted informally, by phone etc., largely due to President's medical condition"
3. Lease agreement between _____ and _____ (_____) and monthly billing statements of June and July 20XX
4. A statement of "Receipts submitted as substitute for receipt journal" with the following purchase receipts, purchase orders, and order confirmations at retail stores:
 - a. A purchase order of \$ _____ dated 1/29/20XX issued by _____ to _____ paid by _____'s _____ Card
 - b. A credit card purchase receipt of \$ _____ dated 2/25/20XX, issued by _____, signed by _____
 - c. An order confirmation of 10 t-shirts dated 11/10/20XX billed by _____ to _____
 - d. An order confirmation of \$ _____ dated 12/13/20XX issued by _____ to _____
 - e. An order confirmation of _____ and _____ business cards dated 8/25/20XX billed by _____
 - f. An invoice of #10 envelopes billed by _____ to an unknown customer (paid by _____)
 - g. A purchase receipt of \$ _____ at _____ dated 4/25/20XX paid by _____ Card
 - h. A purchase receipt of \$ _____ at _____ dated 4/22/20XX paid by _____ Card
 - i. Five sales receipts at USPS:
 - i. \$ _____ (paid by _____, other prints were unreadable)
 - ii. \$ _____ (paid by debit card, 1 lb. 9.9 oz. mailed to _____ on 3/15/20XX)
 - iii. \$ _____ (paid by _____, 8.7 oz. mailed _____ on 3/17/20XX),
 - iv. \$ _____ (paid by _____, 1 lb. 3.5 oz. mailed to _____ on 6/19/20XX)
 - v. \$ _____ (paid by _____, 1 lb. 8.9 oz. mailed to _____ on 8/31/20XX)

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

- j. Two purchase receipts: \$ _____ at _____ (paid by _____), and \$ _____ at _____ (paid by _____)
5. _____ General Ledger of 20XX (total \$ _____ deposit/donation received and \$ _____ expenses) - a five-column spreadsheet ledger with no specific date of debits and credits with a statement of "This ledger is based on receipts and statements that could be documented and is a reflection of circumstances at that time"
 6. A brief introduction of _____ prepared in 20XX as to its mission and goals
 7. An invitation issued by _____ - _____ at _____ on December 19, 20XX
 8. A flyer of fundraiser at the _____
 9. A blank order form of _____ cosmetics with a statement of "All profits from your purchases are donated to: _____ a 501c(3) charitable organization EIN upon request"
 10. Seven thank-you letters to donors of _____ issued on February 29, 20XX
 11. A blank copy of application for grant-loan-scholarship
 12. Monthly bank statements of _____'s accounts (Checking # _____, Saving # _____) at _____ from January 20XX through December 20XX(_____), the deposits and withdrawals on the bank statements were listed below:

Trans. Date	Transaction Description of Checking Account (# _____)	Deposits	Funds transferred to	Transfer to Personal Credit Card Account	Cash Withdrawal	Office Expenses	Meals, Entertain. and Misc. Expenses	Note
			or paid for products					
01/12/XX								A
01/13/XX								
01/17/XX								
01/18/XX								
01/19/XX								1
01/21/XX								2
01/21/XX								3
01/21/XX								4
01/27/XX								5
01/27/XX								
01/30/XX								
01/31/XX								6
01/31/XX								A
02/01/XX								
02/03/XX								7
02/03/XX								
02/04/XX								
02/06/XX								
02/07/XX								
02/07/XX								

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

02/07/XX								
02/07/XX								C
02/07/XX								8
02/08/XX								
02/09/XX								
02/15/XX								
02/15/XX								
02/15/XX								
02/15/XX								
02/17/XX								9
02/21/XX								
02/21/XX								
02/21/XX								
02/22/XX								A
02/24/XX								
02/24/XX								
02/27/XX								
02/27/XX								
02/28/XX								
02/28/XX								
02/29/XX								
03/02/XX								B
03/02/XX								A
03/05/XX								
03/05/XX								
03/06/XX								11
03/06/XX								
03/06/XX								
03/07/XX								
03/09/XX								
03/10/XX								
03/10/XX								
03/12/XX								
03/13/XX								
03/15/XX								12
03/15/XX								
03/19/XX								
03/19/XX								
03/19/XX								
03/27/XX								A
03/28/XX								13
03/30/XX								
03/31/XX								
03/31/XX								
04/03/XX								A

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

04/04/XX									
04/06/XX									
04/10/XX									
04/13/XX									
04/16/XX									
04/16/XX									
04/17/XX									
04/19/XX									
04/20/XX									
04/21/XX									
04/23/XX									C
05/02/XX									A
05/04/XX									
05/05/XX									
05/07/XX									
05/07/XX									
05/07/XX									
05/07/XX									
05/10/XX									
05/12/XX									
05/14/XX									
05/15/XX									
05/15/XX									
05/18/XX									
05/18/XX									
05/19/XX									
05/19/XX									D
05/19/XX									
05/21/XX									
05/21/XX									
05/30/XX									
06/08/XX									A
06/14/XX									
06/14/XX									
06/15/XX									
06/16/XX									
06/16/XX									
06/20/XX									
06/21/XX									
06/22/XX									
06/23/XX									15
06/27/XX									
06/30/XX									
07/01/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

07/03/XX									
07/03/XX									A
07/09/XX									
07/10/XX									
07/10/XX									16
07/11/XX									
07/11/XX									
07/11/XX									
07/11/XX									
07/11/XX									
07/16/XX									
07/16/XX									
07/18/XX									
07/20/XX									
07/21/XX									
07/25/XX									
07/26/XX									
07/27/XX									
07/28/XX									A
07/30/XX									
07/30/XX									
08/02/XX									
08/02/XX									
08/04/XX									
08/06/XX									A
08/08/XX									
08/08/XX									A
08/08/XX									17
08/10/XX									
08/13/XX									
08/13/XX									
08/15/XX									E
08/16/XX									
08/16/XX									
08/20/XX									
08/20/XX									
08/20/XX									
08/21/XX									
08/22/XX									
08/22/XX									A
08/22/XX									18
08/23/XX									
08/24/XX									
08/27/XX									
08/27/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

08/27/XX									
08/27/XX									
08/27/XX									
08/27/XX									
08/29/XX									A
08/31/XX									
09/04/XX									
09/14/XX									
09/17/XX									D
09/24/XX									
09/28/XX									
09/30/XX									
10/10/XX									A
10/15/XX									
10/16/XX									
10/18/XX									
10/18/XX									
10/19/XX									
10/20/XX									
10/22/XX									
10/22/XX									
10/22/XX									
10/29/XX									
10/30/XX									
10/31/XX									
11/01/XX									
11/03/XX									
11/03/XX									A
11/05/XX									
11/05/XX									
11/05/XX									
11/05/XX									
11/05/XX									
11/05/XX									
11/06/XX									
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11/13/XX									
11/13/XX									
11/14/XX									
11/14/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

11/16/XX								
11/16/XX								
11/16/XX								
11/19/XX								
11/19/XX								
11/21/XX								
11/21/XX								
11/23/XX								
11/24/XX								
11/26/XX								
11/26/XX								A
11/27/XX								
11/27/XX								
11/27/XX								
11/27/XX								19
11/27/XX								
11/28/XX								7
11/29/XX								
11/30/XX								
12/05/XX								A
12/07/XX								
12/08/XX								
12/10/XX								
12/10/XX								
12/12/XX								17
12/13/XX								
12/14/XX								
12/14/XX								
12/14/XX								
12/14/XX								
12/15/XX								
12/15/XX								
12/17/XX								A
12/17/XX								
12/17/XX								
12/19/XX								
12/20/XX								
12/20/XX								
12/20/XX								A
12/21/XX								
12/21/XX								
12/21/XX								
12/22/XX								

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

Trans. Date	Transaction Description of Saving Account	Deposits	Funds transferred to or paid for Products	Transfer to Personal Credit Card Account	Cash Withdrawal	Office Expenses	Meals, Entertain. and Misc. Expenses	Note
12/24/XX								
12/26/XX								
12/26/XX								
12/27/XX								
12/27/XX								
12/27/XX								
12/31/XX								D
04/20/XX								
04/20/XX								
04/21/XX								
08/13/XX								
12/05/XX								D
	Total							
	Percentage							
	Deposits from _____'s personal							
Note	All financial charges due to withdrawal overdrawn were not included in the table above.							
1	_____ is a people search service that organizes information about people into comprehensive online profiles that are accessible to consumers, businesses and non-profits.							
2	Subscription of _____							
3	The _____ to protect and grow your wealth							
4	Customized promotional items							
5	_____ was not able to attest whether the mailing expenses paid to _____ were for shipping of _____ products.							
6	Customizable Invites. Order _____							
7	Cleaning services							
8	Pizza Pasta Salad (deposit for Fundraiser)							
9	Food and Beverage Service							
10	Jazz Performance/Music event							
11	Department of Transportation Parking Violations							
12	Celebrate film at _____							
13	Medical marijuana dispensary							
15	Celebration of life together							
16, 17	Office rent pay to the order of _____							
18	_____ (Prom supplies)							
19	_____							
A	Deposit from _____ President's personal checks							
B	Checks written from individuals other than _____ President							
C	Records not available to show the source of deposits							
D	Check was pay to the order of _____							
E	\$ _____ was donated by _____ to _____, two \$ _____ checks paid to the order of _____ - one of them remarked: _____ Products donations							

Summary of XX Bank Records

Report issued on August 12, 20XX

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
Name of taxpayer	Tax Identification Number	Years/Periods ended 12/31/20XX 12/31/20XX 12/31/20XX

The gross receipts of _____ in 20XX were \$ _____. The total amount of checks written by _____ or checks paid to the order of her name was \$ _____, which counted for _____ % of _____'s gross receipts. _____ had the following expenses:

- \$ _____ transferred to _____'s account
- \$ _____ was paid for _____ products
- \$ _____ transferred to _____'s personal credit cards
- \$ _____ cash withdrawn by _____
- \$ _____ office expenses
- \$ _____ meals, grocery, gas, medical, entertainment, and miscellaneous expenses

On February 3, 20XX, a meeting with _____ and _____ (Representative) was held in _____'s office at _____, Conference Room on 20th Floor, _____. We learned the following issues from the information and documents provided above:

Resource Partners of _____

_____ provided consulting services to small business customers. To demonstrate the relationship between _____ and _____, _____ provided an invoice (# _____) issued by _____ to its customer. The address on the invoice was the same as _____'s. The invoice billed _____'s customer \$ _____ for voice mail services. _____ claimed that _____ intended to use _____ as a resource partner whose total profits would have been used to assist daily operations of _____. _____ also provided an _____ business card, on which shows a notation, "All profits are donated to: _____ a 501c3 charitable organization".

Lack of records to substantiate credit card expenses and cash withdrawals

No records were provided to substantiate the purposes of \$ _____ in funds transferred from _____ accounts to _____'s credit card accounts and \$ _____ of cash withdrawals made by _____. Some receipts provided on February 2 indicated that _____ paid for those purchases but submitted for _____'s expenses.

Unallocated office expenses between _____ and its resource partners

Office supplies, shipping, and promotion items expenses appeared on _____'s bank statements. No explanation was given as to how these expenses were related to _____ business. Some of them were for the _____ business. Some of them were paid by _____'s credit cards, but they were submitted as _____'s expenses. No allocation plan or records were maintained to divide these expenses between _____, _____, and selling _____ products.

Meals, entertainment, and miscellaneous expenses

_____ used _____'s debit card to pay meals, entertainment, gas, medical, and miscellaneous expenses. The purpose of these expenses, claimed by _____, was mostly for _____'s clients or potential donors. _____ did not maintain records to

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
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substantiate or indicate what was purchased and how these expenses were related to _____ exempt purposes.

Lack of records substantiate _____ exempt activities

In addition to the invoice and _____ business card, _____ provided two pieces of colored publication: *Prayer Ideas for January 20XX* and a brief introduction prepared in 20XX stating _____'s mission and goals:

The Mission

To identify, protect, and help victims and survivors of child abuse, and educate the community at large about the perils and destructive consequences and long-term effects on all aspects of a person's individual and family life.

The Goals

- *Provide classes and workshops on how to identify victims, perpetrators and unsafe places and situations.*
- *Protect "at-risk" children by providing safe, interim/transitional shelter:*
- *Provide counseling, support groups, workshops, and varied outlets encouraging creative expression of survivors.*
- *To experience and share infinite possibilities through belief and practice*

_____ claimed these publications were distributed to _____'s clients during activities conducted in 20XX. However, no records show what activities were held by _____ and how they were conducted.

On February 9, 20XX, we sent IDR2 to _____/Representative to verify information given on February 3, 20XX. On March 15, 20XX, Representative provided the following documents:

1. A transmittal e-mail
2. A cover letter
3. Fictitious Business Name Statements filed in 20XX and 20XX by _____ as Proprietor/Owner of _____
4. Copies of _____ subscribed by _____
5. An e-mail dated March 27, 20XX sent by _____ to _____ Representative
6. A request for VR/Vessel Record Information from _____ to Department of Motor Vehicle
7. Copies of 17 deposited items into _____'s bank accounts
8. A flyer of In-House Music for a jazz performance held in _____ Hotel
9. A purchase receipt of \$ _____ at _____ paid by _____
10. _____'s response, edits, and clarifications on Memorandum of Interview
11. Narratives to items listed on IDR2

We learned the following information from the documents above:

Business ventures of _____

Report issued on August 12, 20XX

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
Name of taxpayer	Tax Identification Number	Years/Periods ended 12/31/20XX 12/31/20XX 12/31/20XX

_____ started using _____ as its resource partner in 20XX. Although _____ used _____'s address on its invoice, _____ denied _____'s usage of _____ office space. _____ issued 12 invoices to its customers in 20XX, which generated gross revenue of \$_____ in that year. _____ did not specify which transferred fund from _____'s account to _____'s account was related to the invoice in question (#_____), but provided \$_____ was the cost basis (not including cost of marketing). _____ did not demonstrate how it would receive benefit from the _____'s business with its customers. The Fictitious Business Name Statements filed in 20XX and 20XX by _____ indicated that she was Owner or Proprietor of _____. _____ started her business with _____ in 20XX. She did not know how much in sales she made for _____ products, nor did she maintain the sales/inventory records. She did not contribute to _____ from _____ sales because she did not earn any profit. An estimate of \$_____ to \$_____ tax deduction was claimed on her tax return.

Substantiation provided for a couple of expenses

Articles of _____ were provided to substantiate the subscription fees charged on _____'s bank statements. We asked why _____ paid for the reports when the beginning balance of _____ bank accounts during the same calendar month was only \$_____ (checking) and \$_____ (saving). Representative stated that in an effort to find investments for _____, _____ subscribed to these publications for guidance on how to invest _____ funds. The service was not for the current balance, but for the anticipated donations and other funds raised.

A purchase receipt of \$_____ at _____ paid by _____'s _____ Card on March 30, 20XX was provided. The receipt, remarked with two individual's names, showed that chocolates and dinner certificates were purchased. Representative claimed that the purchased were promotional gifts for two perspective donors. One donated. The individual, who made a \$_____ contribution, appeared on one of thank-you letters issued by _____ on February 29, 20XX.

Unsubstantiated payments for personal credit cards and cash withdrawals

We asked for credit card statements and actual expense receipts for funds transferred to _____'s credit accounts and cash withdrawals she made. Representative stated that not enough time was allotted to truly uncover the underlying charges as requested. All cash withdrawals were claimed to be used for stipends issued to _____'s clients, except the \$_____ withdrawal on February 8, 20XX. _____ believed that was used for the February fundraiser, a _____ receipt was previously provided. However, the receipt, dated February 25, 20XX, showed total \$_____ expenses, of which \$_____ was paid by _____'s credit card.

Report issued on August 12, 20XX

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
Name of taxpayer	Tax Identification Number	Years/Periods ended 12/31/20XX 12/31/20XX 12/31/20XX

CLIENT	M/F	AGE	GRADE	STIPEND	SESSIONS ATTENDED
1	F	17	10	90	Most
2	F	18	11	80	Some
3	F	18	12	110	All
4	F	17	11	100	All
5	F	18	11	90	Most

Unallocated office expenses between _____ and its business ventures

We asked _____ to provide the purpose, recipient, and mail-to/ship-to address of the following mail/shipments appearing on bank statements, and whether any of them were for shipping _____ products to _____'s customers.

Trans. Date	Transaction Description	Amount
1/27/XX		
2/15/XX		
3/9/XX		
3/19/XX		
3/19/XX		
3/31/XX		
6/18/XX		
8/13/XX		
8/23/XX		
10/18/XX		
10/20/XX		
11/3/XX		
11/6/XX		
12/15/XX		
Total		

Representative stated that _____ cannot attest to the specific names and addresses to whom mail was sent on specific days. She claimed the mailings were for the purpose of promoting _____, announcing _____ events, soliciting _____ donations, thanking donors or in some other way furthering _____ business. _____ was not able to identify whether these shipments were _____ sales, but claimed that _____ often sent thank-you notes, invitations, solicitations. Mailed invitations would have cost more – explaining higher postage. However, _____ receipts provided on February 2, 20XX showed that some shipments were sent to the state of _____ or _____.

Meals, entertainment, and miscellaneous expenses

Report issued on August 12, 20XX

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
Name of taxpayer	Tax Identification Number	Years/Periods ended 12/31/20XX 12/31/20XX 12/31/20XX

We asked for mileage logs and/or auto maintenance records to show mileage driven in 20XX for gas expenses. The representative stated that _____ did not keep maintenance records for the personal vehicle she had in 20XX and she no longer has the vehicle.

We also asked for actual receipts of other expenses shown on bank statements, the purpose of the purchases, the name and contact information of individuals _____ had meals with. Representative stated that the debit card expenses were used for either prospective donors or anonymous clients. Moreover, _____ did not possess the requested receipts, but stated that the best evidence of the amount of money spent and where is the actual bank statement that shows dates, amounts, location, etc.

_____’s activities based on _____’s best recollection

We asked _____ for the number of group sessions and classes conducted, as well as the date/time, topic, and class material of each session. Representative stated that there were approximately 60 various sessions. _____ did not retain calendars, but believed the information below reflects accurate information based on _____’s best recollection and review of the documents that are available to her. Maintaining the confidentiality of meetings and pursuing the goal of establishing trust with participants would have precluded the taking of any notes. The number of participants would have varied from 1 to 5. Class hours were various. Topics included Health/Fitness, Self Worth, School, Dating, Fearful emotions, Spirituality, Relationships, Recreation, and Finances. However, no records show how _____ retrieved the information.

February	March	April	May	June	July	August	September	October	November	December
6, 19, 24	13, 15, 28	6, 13, 16	5, 7, 14, 19	14, 22	10, 11, 30	13, 20, 27, 28	6, 24	19, 22, 21	5, 13, 21, 23, 24, 26, 27, 29	8, 10, 17, 18, 21, 26, 27

We asked how _____ received information of foster children, who became _____’s clients. Representative stated that _____ spoke with _____. During the course of her investigation, _____ has been unable to verify Ms. _____’s true title. Ms. _____ is deceased.

No application for grant/loan/scholarship received

We also asked whether _____ had ever received applications for grant/loan/scholarship, and what criteria were used to measure and approve the grant/loan/ scholarship. Representative stated that _____ did not receive any official application.

Fundraising and recruiting flyers

We asked for the number of participants, the funds raised, and names of workers/volunteers as to _____’s activities or flyers provided. Representative stated that no one attended and no funds were raised for the event held on December 19, 20XX. Two flyers were for events in 20XX, but inadvertently submitted. That was outside of audit scope.

Report issued on August 12, 20XX

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
Name of taxpayer	Tax Identification Number	Years/Periods ended 12/31/20XX 12/31/20XX 12/31/20XX

Treatments for clients struggling in trauma from violence/childhood abuse

We asked for the expense receipts at _____ and how they were related to _____'s business. Representative stated that a licensed clinical psychotherapist believed that the services similar to those offered by _____ can be extremely beneficial in the treatment of mental health problems resulting from mental traumas and personal tragedies.

We also asked how _____ evaluate the progress and effectiveness of _____'s classes, group sessions, incentives offered (cash, meals, and grocery), treatment (prescription, message, and entertainment) to _____ clients because _____ did not hire or pay any professional therapist or consultant for its operations and programs offered to its clients. Representative stated that the best evidence of the effectiveness would have been the participants' own statements, recounts (in group sessions, etc.), attendance, interactions with their mentor & other participants, and willingness to continue in the voluntary program. However, no clients' statements, recounts, records of attendance and interaction with their mentor & other participants were provided.

Official Website

We browsed _____'s official website on December 1, 20XX, March 17, 20XX and August 10, 20XX (see Attachment 1). _____ did not make event calendar or similar information available on its official website to broadcast its coming events.

Statute extension solicited

A statute extension request sent on February 27, 20XX has been solicited from _____. _____ declined to extend the statute of limitations.

Audit expanded to subsequent years

The audit was expanded to years 20XX and 20XX. A meeting was scheduled on April 7, 20XX for additional information and documents. Representative did not show up for the meeting. Instead, she orally withdrew her representation for _____ and stated that _____ is terminally ill. _____ also declined to attend the meeting because of her medical reasons. She partially provided the bank statements of _____'s bank accounts – Page 1 and Page 3 of every _____'s monthly bank statement from April 20XX through December 20XX, with a statement that she had done her best with all the information requested.

Summoned records from _____

We summonsed bank statements, deposit items, and cancelled checks of _____'s account at _____. The deposits and withdrawals of _____'s accounts at _____ for 20XX are listed below:

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

Trans. Date	Transaction Description of checking account	Deposits	Funds transferred to — or paid for — Products	Transfer to Personal Credit Card Account	Cash Withdrawal	Office Expenses	Meals Entertain. and Misc. Expenses	Note
01/03/XX								
01/04/XX								1
01/04/XX								
01/04/XX								A
01/09/XX								A
01/09/XX								C
01/09/XX								
01/11/XX								
01/14/XX								
01/15/XX								
01/16/XX								
01/22/XX								
01/23/XX								
01/24/XX								2
01/25/XX								
01/25/XX								
01/26/XX								
01/28/XX								3
01/28/XX								4
01/29/XX								C
01/31/XX								
01/31/XX								5
02/08/XX								A
02/11/XX								
02/12/XX								
02/13/XX								D
02/13/XX								B
02/13/XX								B
02/14/XX								
02/14/XX								
02/15/XX								
02/16/XX								
02/16/XX								
02/19/XX								
02/19/XX								
02/19/XX								
02/19/XX								
02/19/XX								A
02/19/XX								

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

02/20/XX									
02/20/XX									6
02/21/XX									
02/22/XX									
02/23/XX									
02/25/XX									
02/25/XX									F
02/25/XX									
02/28/XX									
02/28/XX									
02/28/XX									
03/04/XX									
03/05/XX									A
03/06/XX									
03/06/XX									
03/11/XX									7
03/11/XX									7
03/11/XX									
03/12/XX									
03/13/XX									
03/14/XX									
03/14/XX									
03/14/XX									
03/18/XX									
03/18/XX									
03/18/XX									8
03/18/XX									9
03/18/XX									
03/20/XX									
03/20/XX									
03/20/XX									
03/21/XX									
03/21/XX									
03/21/XX									10
03/22/XX									
03/25/XX									
03/25/XX									
03/25/XX									C
03/25/XX									D
03/27/XX									
03/29/XX									11
03/30/XX									
04/01/XX									
04/01/XX									
04/05/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

04/05/XX									
04/06/XX									
04/07/XX									
04/09/XX									
04/10/XX									
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04/11/XX									
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04/15/XX									
04/16/XX									
04/17/XX									
04/20/XX									
04/22/XX									
04/22/XX									F
04/22/XX									D
04/26/XX									
04/26/XX									12
04/26/XX									
04/27/XX									
04/29/XX									
05/06/XX									
05/07/XX									
05/08/XX									
05/09/XX									F
05/09/XX									
05/10/XX									
05/10/XX									
05/11/XX									
05/13/XX									
05/14/XX									
05/16/XX									
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05/28/XX									
05/28/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

05/29/XX									
05/30/XX									D
06/02/XX									A
06/06/XX									
06/06/XX									
06/07/XX									
06/07/XX									
06/12/XX									
06/14/XX									
06/19/XX									A
06/20/XX									
06/21/XX									
06/24/XX									
06/28/XX									C
06/28/XX									
06/29/XX									
06/30/XX									
07/01/XX									
07/01/XX									
07/01/XX									
07/01/XX									
07/01/XX									
07/02/XX									
07/02/XX									13
07/03/XX									
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07/09/XX									
07/10/XX									
07/10/XX									
07/10/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

07/11/XX									
07/11/XX									
07/12/XX									
07/12/XX									
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07/31/XX									
07/31/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

08/01/XX									
08/01/XX									C
08/02/XX									
08/02/XX									
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08/27/XX									
08/29/XX									16
09/01/XX									
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09/21/XX									
09/21/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

09/23/XX									
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11/01/XX									
11/14/XX									
11/18/XX									
11/19/XX									
11/19/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

11/20/XX									
11/20/XX									
11/20/XX									
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11/23/XX									17
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11/23/XX									18
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12/01/XX									
12/02/XX									
12/03/XX									
12/04/XX									
12/07/XX									
12/07/XX									
12/09/XX									19
12/09/XX									C
12/09/XX									
12/12/XX									
12/13/XX									
12/15/XX									A
12/16/XX									
12/16/XX									
12/18/XX									
12/18/XX									
12/19/XX									
12/19/XX									A
12/20/XX									
12/20/XX									A
12/21/XX									
12/23/XX									
12/23/XX									

Report issued on August 12, 20XX

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Form number or exhibit 990
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- \$ _____ transferred to _____'s personal credit cards
- \$ _____ cash withdrawn by _____
- \$ _____ office expenses
- \$ _____ meals, grocery, gas, medical, entertainment, and miscellaneous expenses

The deposits and withdrawals of _____'s accounts at _____ for 20XX are listed below:

Trans. Date	Transaction Description of Checking Account	Deposits	Funds transferred to _ or paid for _ Products	Transfer to Personal Credit Card Account	Cash Withdrawal	Office Expense	Meals Entertain. and Misc. Expenses	Note
01/02/XX								
01/03/XX								
01/03/XX								
01/03/XX								1
01/04/XX								C
01/06/XX								
01/06/XX								
01/06/XX								
01/07/XX								
01/07/XX								
01/09/XX								15
01/11/XX								
01/13/XX								
01/13/XX								
01/13/XX								
01/14/XX								
01/14/XX								
01/15/XX								5
01/15/XX								A
01/15/XX								C
01/21/XX								
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01/21/XX								
01/22/XX								
01/22/XX								
01/23/XX								

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

01/23/XX									
01/24/XX									
01/25/XX									2
01/25/XX									3
01/27/XX									4
01/28/XX									
01/28/XX									
01/28/XX									
01/28/XX									5
01/28/XX									
01/29/XX									
01/30/XX									
01/31/XX									A
02/03/XX									
02/03/XX									
02/03/XX									6
02/04/XX									
02/05/XX									
02/05/XX									
02/06/XX									
02/06/XX									
02/06/XX									
02/07/XX									
02/10/XX									7
02/11/XX									
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02/12/XX									
02/14/XX									
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02/15/XX									8
02/15/XX									
02/18/XX									
02/18/XX									
02/18/XX									9
02/18/XX									
02/21/XX									10
02/26/XX									
02/28/XX									
02/28/XX									
02/28/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

03/01/XX									
03/01/XX									C
03/05/XX									
03/06/XX									
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03/07/XX									11
03/08/XX									
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03/10/XX									
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03/12/XX									
03/12/XX									
03/13/XX									
03/13/XX									12
03/14/XX									
03/14/XX									
03/17/XX									A
03/17/XX									
03/18/XX									
03/19/XX									
03/19/XX									
03/19/XX									
03/19/XX									
03/20/XX									
03/20/XX									13
03/21/XX									14
03/21/XX									
03/21/XX									
03/21/XX									A
03/28/XX									
03/28/XX									
03/29/XX									15
03/31/XX									
03/31/XX									A
04/03/XX									16
04/03/XX									
04/03/XX									
04/03/XX									
04/04/XX									

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

04/04/XX										
04/04/XX										A
04/05/XX										
04/05/XX										
04/05/XX										
04/07/XX										
04/07/XX										
04/07/XX										
04/07/XX										
04/07/XX										17
04/07/XX										
04/08/XX										
04/08/XX										
04/09/XX										
04/10/XX										
04/11/XX										
04/11/XX										
04/11/XX										A
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04/22/XX										
04/24/XX										A
04/28/XX										
05/01/XX										18
05/02/XX										
05/02/XX										A
05/05/XX										
05/05/XX										A
05/06/XX										
05/06/XX										
05/06/XX										

Report issued on August 12, 20XX

EXPLANATIONS OF ITEMS

Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

05/06/XX									19
05/06/XX									
05/07/XX									
05/07/XX									
05/08/XX									
05/08/XX									20
05/08/XX									
05/09/XX									
05/09/XX									
05/09/XX									
05/10/XX									
05/12/XX									21
05/13/XX									
05/14/XX									
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05/15/XX									
05/16/XX									
05/16/XX									23
05/16/XX									
05/20/XX									
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05/22/XX									
05/24/XX									
05/27/XX									
05/27/XX									
05/28/XX									
05/29/XX									
05/30/XX									
05/30/XX									A
06/03/XX									
06/06/XX									
06/07/XX									
06/09/XX									12
06/09/XX									
06/13/XX									
06/16/XX									A
06/17/XX									
06/18/XX									
06/18/XX									
06/19/XX									
06/20/XX									
06/20/XX									

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Name of taxpayer

Tax Identification Number

Years/Periods ended
12/31/20XX
12/31/20XX
12/31/20XX

Trans. Date	Transaction Description of Saving Account	Deposits	Funds transferred to _ or paid for _ Products	Transfer to Personal Credit Card Account	Cash Withdrawal	Office Expense	Meals Entertain. and Misc. Expenses	
06/20/XX								A
06/23/XX								
06/24/XX								
06/25/XX								C
06/26/XX								
06/27/XX								
06/30/XX								24
06/30/XX								
07/01/XX								A
07/03/XX								
07/07/XX								
07/07/XX								
08/07/XX								
09/08/XX								
10/09/XX								
11/07/XX								
11/25/XX								
12/05/XX								A
12/08/XX								
12/31/XX								C
02/28/XX								
02/28/XX								
06/30/XX								
08/05/XX								B
08/13/XX								
08/21/XX								B
08/22/XX								
08/25/XX								B
08/27/XX								
09/03/XX								B
09/15/XX								
11/10/XX								
12/04/XX								
	Total							
	Percentage							
	Fund from _____ President							
Note	All financial charges due to withdrawal overdrawn were not included in the table above.							
1	A full-service salon and spa serving _____							
2	_____ online							
3	Restaurant							

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4	Women's clothing
5	Cruise trip
6	This shop affiliated with a ministry features a selection of spiritual books, gospel CDs & more.
7	_____ is the fast, simple and secure way to pay online without using a credit card at more than 1000 stores.
8	Closeout chain selling a range of products, such as housewares, grocery items, furniture & apparel.
9	Upscale deli making pastries, salads, sandwiches & more for dining in or takeout
10	_____ in _____ & Streaming online
11	_____ Car Wash
12	Professional services
13	Licensed clinical social worker, is a professional who provides counseling and psychosocial services to clients in clinical settings
14	24 hour emergency outside service
15	Cruise planning
16	Bars near _____ Concert Hall
17	_____, LLC
18	Vehicle payment
19	_____ Full Services Salon
20	Discount office supplies
21	_____ of Beauty
22	_____ yacht club offering full service yacht club amenities
23	Medical Marijuana Dispensary in _____
24	Medical marijuana in quality medication and excellent service
A	Deposit from _____ President's personal checks
B	Checks written from individuals other than _____ President
C	Records not available to show the source of deposits
D	Check was pay to the order of _____

Summary of 20XX bank records

The gross receipts of _____ in 20XX were \$ _____. The total amount of checks written by _____ or checks paid to the order of her name was \$ _____, which accounted for _____% of _____'s gross receipts. _____ had the following expenses:

- \$ _____ transferred to _____'s account
- \$ _____ transferred to _____'s personal credit cards
- \$ _____ cash withdrawn by _____
- \$ _____ office expenses
- \$ _____ meals, grocery, gas, medical, entertainment, and miscellaneous expenses

On May 22, 20XX, we sent _____ IDR4 with copies of the determination application _____ filed with IRS in 20XX and asked whether any changes in methods of operation from what was described in the application.

On June 4, 20XX, we received _____'s comment in response to IDR4: "No changes in methods of operation."

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On July 29, 20XX, we sent the summonsed records to _____ and asked whether any errors appear on the bank records provided by _____.

On August 4, 20XX, _____ commented that no errors appear on the bank records. Additionally, she informed us of Ms. Wilks' status as representative is no longer effective.

_____, _____, and Representative did not provide any other records to demonstrate or substantiate _____'s exempt activities.

LAW

IRC section 501(c)(3) provides, in part, for the exemption from federal income tax of corporations organized and operated exclusively for charitable, scientific, or educational purposes, provided no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

IRC section 502(a) provides that an organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt from taxation under section 501 on the ground that all of its profits are payable to one or more organizations exempt from taxation under section 501.

Treasury Regulations (Treas. Reg.) section 1.501(c)(3)-1(c)(2) states that an organization is not operated exclusively for charitable purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

Treas. Reg. section 1.501(a)-1(c) defines "private shareholder or individual" as referring to persons having a personal and private interest in the activities of the organization.

Treas. Reg. section 1.501(c)(3)-1(d)(1)(ii) states that an organization is not organized exclusively for any of the purposes specified in IRC section 501(c)(3) unless it serves public, rather than private interests. Thus, an organization applying for tax exemption under IRC section 501(c)(3) must establish that it is not organized or operated for the benefit of private interests.

Treas. Reg. section 1.501(c)(3)-1(d)(3)(i) defines "educational" as "In general... (a) The instruction or training of the individual for the purpose of improving or developing his capabilities; or (b) The instruction of the public on subjects useful to the individual and beneficial to the community.

In *Better Business Bureau of Washington, D.C. v. U.S.*, 326 U.S. 279, 283 (1945), the Supreme Court held that the "presence of a single . . . [nonexempt] purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly . . . [exempt] purposes."

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In *Airlie Foundation, Inc. v. U.S.*, 826 F. Supp. 537 (D. D.C. 1993), aff'd 55 F.3d 684 (D.C. Cir. 1995) the court acknowledged that Airlie's activities have some noncommercial characteristics, but found these outweighed by other factors such as the nature of Airlie's clients and competition, its advertising expenditures, and substantial revenues derived from weddings and special events. In the court's view, these factors support an adverse conclusion. Finally, citing a distinctive commercial hue to the way it carries out its business, the court concluded that Airlie does not qualify under IRC 501(c)(3) because it operates its conference center in a manner consistent with that of a commercial business.

IRC section 6001 provides that every person liable for any tax imposed by the IRC, or for the collection thereof, shall keep adequate records as the Secretary of the Treasury or his delegate may from time to time prescribe.

IRC section 6033(a)(1) provides, except as provided in IRC section 6033(a)(2), every organization exempt from tax under section 501(a) shall file an annual return, stating specifically the items of gross income, receipts and disbursements, and such other information for the purposes of carrying out the internal revenue laws. The Secretary may also prescribe by forms or regulations the requirement of every organization to keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Treas. Reg. section 1.6001-1(c) states that in addition to such permanent books and records as are required by paragraph(a) of this section with respect to the tax imposed by section 511 on unrelated business income of certain exempt organizations, every organization exempt from tax under section 501(a) shall keep such permanent books of account or records, including inventories, as are sufficient to show specifically the items of gross income, receipts and disbursements. Such organizations shall also keep such books and records as are required to substantiate the information required by section 6033. See section 6033 and sections 1.6033-1 through -3.

Treas. Reg. section 1.6001-1(e) states that the books or records required by this section shall be kept at all times available for inspection by authorized Internal Revenue Service officers or employees, and shall be retained as long as the contents thereof may be material in the administration of any Internal Revenue law.

Treas. Reg. section 1.6033-1(h)(2) provides that every organization that has established its right to exemption from tax, whether or not it is required to file an annual return of information, shall submit such additional information as may be required by the District Director for the purpose of enabling him to inquire further into its exempt status and to administer the provisions of subchapter F (section 501 and the following), chapter 1 of the Code and IRC section 6033.

In accordance with the above cited provisions of the Code and Regulations under IRC sections 6001 and 6033, organizations recognized as exempt from federal income tax must meet certain

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reporting requirements. These requirements relate to the filing of a complete and accurate annual information (and other required federal tax forms) and the retention of records sufficient to determine whether such entity is operated for the purposes for which it was granted tax-exempt status.

IRC Section 6033(a)(1) provides, except as provided in IRC Section 6033(a)(2), every organization exempt from tax under Section 501(a) shall file an annual return, stating specifically the items of gross income, receipts and disbursements, and such other information for the purposes of carrying out the internal revenue laws. The Secretary may also prescribe by forms or regulations the requirement of every organization to keep such records, render under oath such statements, make such other returns, and comply with such rules and regulations as the Secretary may from time to time prescribe.

Treas. Reg. Section 1.6033-1(h)(2) provides that every organization that has established its right to exemption from tax, whether or not it is required to file an annual return of information, shall submit such additional information as may be required by the District Director for the purpose of enabling him to inquire further into its exempt status and to administer the provisions of subchapter F (section 501 and the following), chapter 1 of the Code and IRC Section 6033.

Revenue Ruling 59-95, 1959-1 C.B. 627, concerns an exempt organization that was requested to produce a financial statement and statement of its operations for a certain year. However, its records are so incomplete that the organization was unable to furnish such statements. The ruling held that the failure or inability to file the required information return or otherwise to comply with the provisions of IRC Section 6033 and the regulations which implement it, may result in the termination of the exempt status of an organization previously held exempt, on the grounds that the organization has not established that it is observing the conditions required for the continuation of exempt status.

GOVERNMENT'S POSITION

We are proposing revocation based on _____'s failure to operate exclusively for charitable purposes, failure to provide operational information requested, and a part of its net earnings inures to the benefit of individual prohibited by law, as discussed below.

Issue 1

_____ received recognition of its exempt status because it commits to help victims of child sexual abuse, and to educate the American public about the perils of child sexual abuse on all aspects. However, there is no indication that _____ conducts activities to fulfill its exempt purpose.

_____ provided two pages of handouts and claimed that they are given to _____'s clients during workshops. However, no records illustrate when the workshops take place, how

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these handouts are used, and how they are related to _____'s educational and charitable purposes. Flyers show that _____ hosted several fundraising events. However, no publications were created and presented to _____'s donors about _____'s progress of its programs or recent accomplishments.

Bank statements reveal that _____ does not have expenses that normally occur for educational activities, such as fees for rental spaces of seminars, costs of class curriculum, charges by instructors or professionals' counseling for _____'s clients. Instead, we observe a long list of meals, grocery, medical, gas, entertainment, and miscellaneous expenses. In addition to these unsubstantiated expenses, _____'s funds paid for cosmetic products, _____'s credit card bills, and _____'s Schedule C activities. _____ also withdrew cash from _____'s account at her discretion.

Treas. Reg. section 1.501(c)(3)-1(d)(1)(ii) provides that an organization is not organized or operated for exempt purposes unless it serves a public rather than a private interest. The term "educational" is used in IRC section 501(c)(3) in its general legal sense in the law of charities and does not have a separate and distinct meaning from the term "charitable." In construing the meaning of the phrase "exclusively for educational purposes" in *Better Business Bureau v. United States*, 326 U.S. 279 (1945), the Supreme Court of the United States said, "This plainly means that the presence of a single noneducational purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly educational purposes."

_____ 's exempt status should be revoked because it is not organized and operated exclusively for exempt purposes within the meaning of IRC section 501(c)(3) and the Regulations.

Issue 2

_____ has failed to provide records as required in Code Section 6033(a)(1) and Regulation Section 1.6033-1(h)(2). _____ failed to provide operational information that was requested during the audit. We made many attempts to obtain records via correspondence and telephone contacts. Without _____'s records to substantiate its expenses, we cannot verify that _____ is operating according to its exempt purpose.

This situation is similar to the case in Revenue Ruling 59-95. In that case, tax-exempt status is revoked for failure to establish that it is observing the required conditions for exempt status, namely, providing financial statements. _____ has also failed to provide actual receipts or equivalent records of its spending shown on bank statements to substantiate its exempt purpose. _____ should likewise have its exempt status revoked.

Issue 3

Another primary focus is the question of whether any of _____'s net earnings inured to the benefit of private individuals. The term 'net earnings' as used in IRC section 501(c)(3) includes

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more than the net profits as reflected on the organization's books. Net earnings may inure to the benefit of an individual in a variety of ways, and not merely through the distribution of dividends.

_____ does not correctly book its revenue and expenses on its general ledger. _____ provides that the figures recorded the 20XX ledger (\$_____ income and \$_____ expenses) is a reflection of circumstances at that time. _____ does not rely on records for bookkeeping purposes. _____ does not have a system or procedure to keep its cash receipts and disbursements accountable. _____, President of _____, is the only individual who has the access to _____'s bank account, signs checks, purchases using _____'s debit card, and makes deposits or withdrawals. No Board is functioning to oversee _____'s financial activities or review bank statements.

Bank records clearly show that substantial funds of _____ are transferred to _____'s Schedule C activities and personal credit card accounts. Moreover, significant amounts of expenses for meals, gas, grocery, medical, entertainment, and unsubstantiated withdrawals, are not distinguishable whether they were for _____ operations or _____'s personal use. Without reliable records, we cannot verify that these expenditures are exclusively for _____'s exempt purpose. Our position is that a portion of _____'s net earnings inure to the benefit of _____ and _____ has thereby violated the requirements for tax exemption under IRC section 501(c)(3).

TAXPAYER'S POSITION

The taxpayer's position is unknown at this time.

CONCLUSION

As a result of the audit, we have determined that _____ is not operating for exempt purposes as a IRC section 501(c)(3) organization. _____ fails the operational test prescribed in Treas. Reg. 1.501(c)(3)-1. Because _____ is not organized and operated exclusively for one or more exempt purposes under IRC section 501(c)(3), its Federal tax exempt status under such section is revoked effective January 1, 20XX. _____ is required to file Form 1120, U.S. Corporation Income Tax Return, for the tax year ended December 31, 20XX and all years there after.