



**Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities**

Date:
February 1, 2022
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Number: **202246011**
Release Date: 11/18/2022

UIL: 501.03-00

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Why we are sending you this letter

This is a final determination that you don't qualify for exemption from federal income tax under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3), effective . Your determination letter dated , is revoked.

Our adverse determination as to your exempt status was made for the following reasons: Organizations described in IRC Section 501(c)(3) and exempt under IRC Section 501(a) must be both organized and operated exclusively for exempt purposes. You have not demonstrated that you are organized exclusively for charitable, educational, or other exempt purposes within the meaning of IRC Section 501(c)(3). You have also failed to demonstrate that you are operated exclusively for charitable, educational, or other exempt purposes within the meaning of IRC Section 501(c)(3).

Organizations that are not exempt under IRC Section 501 generally are required to file federal income tax returns and pay tax, where applicable. For further instructions, forms and information please visit www.irs.gov.

Contributions to your organization are no longer deductible under IRC Section 170.

What you must do if you disagree with this determination

If you want to contest our final determination, you have 90 days from the date this determination letter was mailed to you to file a petition or complaint in one of the three federal courts listed below.

How to file your action for declaratory judgment

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of IRC Section 7428 in one of the following three venues: 1) United States Tax Court, 2) the United States Court of Federal Claims or 3) the United States District Court for the District of Columbia.

Please contact the clerk of the appropriate court for rules and the appropriate forms for filing an action for declaratory judgment by referring to the enclosed Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status. You may write to the courts at the following addresses:

United States Tax Court
400 Second Street, NW
Washington, DC 20217

U.S. Court of Federal Claims
717 Madison Place, NW
Washington, DC 20439

U.S. District Court for the District of Columbia
333 Constitution Ave., N.W.
Washington, DC 20001

Processing of income tax returns and assessments of any taxes due will not be delayed if you file a petition for declaratory judgment under IRC Section 7428.

We'll notify the appropriate state officials (as permitted by law) of our determination that you aren't an organization described in IRC Section 501(c)(3).

Information about the IRS Taxpayer Advocate Service

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. However, you may be eligible for free help from the Taxpayer Advocate Service (TAS) if you can't resolve your tax problem with the IRS, or you believe an IRS procedure just isn't working as it should. TAS is an independent organization within the IRS that helps taxpayers and protects taxpayer rights. Contact your local Taxpayer Advocate Office at:

Or call TAS at 877-777-4778. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to taxpayeradvocate.irs.gov. Do not send your federal court pleading to the TAS address listed above. Use the applicable federal court address provided earlier in the letter. Contacting TAS does not extend the time to file an action for declaratory judgment.

Where you can find more information

Enclosed are Publication 1, Your Rights as a Taxpayer, and Publication 594, The IRS Collection Process, for more comprehensive information.

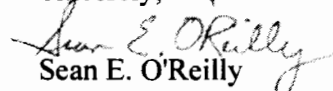
Find tax forms or publications by visiting www.irs.gov/forms or calling 800-TAX-FORM (800-829-3676).

If you have questions, you can call the person shown at the top of this letter.

If you prefer to write, use the address shown at the top of this letter. Include your telephone number, the best time to call, and a copy of this letter.

Keep the original letter for your records.

Sincerely,



Sean E. O'Reilly

Director, Exempt Organizations Examinations

Enclosures:

Publication 1

Publication 594

Publication 892



**Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities**

Date:
October 15, 2021
Taxpayer ID number:

Form:

Tax periods ended:

Person to contact:
Name:
ID number:
Telephone:
Fax:

Manager's contact information:
Name:
ID number:
Telephone:

Response due date:
November 15, 2021

CERTIFIED MAIL – Return Receipt Requested

Why you're receiving this letter

We enclosed a copy of our audit report, Form 886-A, Explanation of Items, explaining that we propose to revoke your tax-exempt status as an organization described in Internal Revenue Code (IRC) Section 501(c)(3).

If you agree

If you haven't already, please sign the enclosed Form 6018, Consent to Proposed Action, and return it to the contact person shown at the top of this letter. We'll issue a final adverse letter determining that you aren't an organization described in IRC Section 501(c)(3) for the periods above.

After we issue the final adverse determination letter, we'll announce that your organization is no longer eligible to receive tax deductible contributions under IRC Section 170.

If you disagree

1. Request a meeting or telephone conference with the manager shown at the top of this letter.
2. Send any information you want us to consider.
3. File a protest with the IRS Appeals Office. If you request a meeting with the manager or send additional information as stated in 1 and 2, above, you'll still be able to file a protest with IRS Appeals Office after the meeting or after we consider the information.

The IRS Appeals Office is independent of the Exempt Organizations division and resolves most disputes informally. If you file a protest, the auditing agent may ask you to sign a consent to extend the period of limitations for assessing tax. This is to allow the IRS Appeals Office enough time to consider your case. For your protest to be valid, it must contain certain specific information, including a statement of the facts, applicable law, and arguments in support of your position. For specific information needed for a valid protest, refer to Publication 892, How to Appeal an IRS Determination on Tax-Exempt Status.

Fast Track Mediation (FTM) referred to in Publication 3498, The Examination Process, generally doesn't apply now that we've issued this letter.

4. Request technical advice from the Office of Associate Chief Counsel (Tax Exempt Government Entities) if you feel the issue hasn't been addressed in published precedent or has been treated inconsistently by the IRS.

If you're considering requesting technical advice, contact the person shown at the top of this letter. If you disagree with the technical advice decision, you will be able to appeal to the IRS Appeals Office, as explained above. A decision made in a technical advice memorandum, however, generally is final and binding on Appeals.

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 adverse determination letter.

Contacting the Taxpayer Advocate Office is a taxpayer right

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 www.taxpayeradvocate.irs.gov or call 877-777-4778.

Additional information

You can get any of the forms and publications mentioned in this letter by visiting our website at www.irs.gov/forms-pubs or by calling 800-TAX-FORM (800-829-3676).

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,

Director, Exempt Organizations Examinations

Enclosures:
Form 886-A
Form 6018

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

ISSUES

Whether the 501(c)(3) status of _____ (“_____”) should be revoked due to inurement to insiders and failure to maintain records per sections 6001 and 6033 of the Internal Revenue Code.

FACTS

_____ is currently classified as a publicly supported organization described under IRC section 501(c)(3) and 509(a)(2). The IRS issued a determination letter on _____, with an effective date of _____. Neither the tax-exempt nor foundation status have changed since its original ruling in _____.

The Form _____ states that President _____ and his wife _____ formed a _____ for _____ with difficult behaviors as a place where _____ can send their _____ away from negative influences, to receive mentoring, learn new skills and receive counseling.

Activities for _____ include outdoor work, swimming, hiking, camping, fishing, horseback riding, biking, sledding, and skiing, woodworking, maintenance, and community service. The _____ also help with the work of the _____, by participating in animal care for the horses, cows, llamas, and other animals. Youth also take part in church activities.

The _____ filed Form _____, *Return of Organization Exempt from Income Tax*, for tax years _____, _____ and _____. The _____ Form _____ showed _____ as Executive Director/BOD Director. The _____ Form _____ listed him as an officer, key employee and highest compensated employee. _____ compensation for _____ hours a week is \$ _____ per year.

Schedule L Part II, *Loans to/and from Interested Persons*, shows that _____ obtained a loan from the Organization approved by the Board of Directors for personal expenses. The balance due of the loan is \$ _____ on _____.

Schedule L Part IV, *Business Transactions Involving Interested Persons*, lists related persons on the Board of Directors. _____ and _____ are siblings of _____.

The _____ Form _____ shows that _____ received rent of \$ _____ for the property from the organization.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Part VII, *Compensation of Officers, Directors, Key Employees, Highest Compensated Employees*, lists () officers:

and out of officers are related: and
are is a of

Part VIII, *Statement of Revenue*, shows school income as \$ and other contributions as \$, for total revenue of \$. Part XI, *Statement of Functional Expenses*, shows total expenses as \$.

Internet research revealed that the had attracted the attention of the press and newspapers in . The newspaper published a series of articles devoted to " " education and

Several articles negatively reviewed the history and activities of the :

- 1) programs for operate with no Oversight by
- 2) Former describe isolation, physical punishments,
By
- 3) New troubled under investigation for false license claim by

The Secretary of State website shows that domestic non-profit corporation, public benefit corporation without members was formed on . Current entity status: involuntary dissolution. Inactive date was on due to failure to file an annual report. The last annual return was filed

filings by filed on and
secured by for inventory, equipment and proceeds, general
intangibles, etc. Registered Agents:

The facility of the organization was located at . Internet research and description provided by show that there were () buildings, an apartment, and a shop on the parcel. The buildings were used as living quarters for , classroom facilities, living quarters for staff, kitchen, etc. Also, the had other separate buildings – barns, tents, corals for cows and horses.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Per _____ the facility was foreclosed and the bank took ownership officially in

The property located at _____ that also related to the
and its owners was sold on _____

Communication history with

On _____ Agent mailed Letter 3611, Exempt Organization Initial Appointment - No Prior Contact, Information Document Request # 0001 ("IDR") and Publication 1, Your Rights as a Taxpayer, to the address on file (_____).

On _____ Agent called the _____ by telephone numbers # _____, with no response, phones were disconnected or busy.

Agent called # _____ for _____ at _____ . The telephone seemed to be working, but nobody picked up and it did not provide an option to leave a voicemail.

On _____ Agent prepared and mailed Letter 3164-E, Third Party Contact, to the _____ along with Form 9814, Request for Mail/Shipping Service, with a tracking number. Agent checked the tracking number from previous Form 9814 sent with Letter 3611 and IDR #0001. UPS record shows that Letter 3611 and IDR # 0001 were received on _____. UPS proof of delivery states that "letter was received by customer _____".

Agent mailed Form 4759, Address Information Request - Postal Tracer, to the local Postmaster, USPS office in _____.

On _____ Agent received a response from the Postmaster in _____. The forwarding address for _____ . This address belonged to _____, the _____ Officer and _____ of _____.

On _____ Agent sent Letter 5077-D, TE/GE Information Document Request Delinquency Notice - Pre-Summons, along with the IDR # 0001 to the new address provided by the Postmaster with a tracking number.

On _____ Agent mailed Form 2039, Summons, with attachment to the bank and notified _____ by certified mail.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

On _____ Agent received a return notification (received _____) that received the summons.

On _____ Agent received a response for summons from _____ with statements, checks, etc. for the calendar year ending _____.

On _____ Agent collected certified mail received by IRS Seattle post of duty on _____. It was the certified letter mailed by the Agent previously on _____ to the _____ to its address in _____. It was returned to sender unclaimed. The post office marked that they could not forward the mail.

On _____, Agent sent Letter 3618, 30-day Letter - Proposed Revocation of Exempt Status under IRC section 501(c)(3), with attachments to _____ addresses: _____ and _____.

On _____ received a voicemail from _____ and called him back. _____ stated that _____ was foreclosed and "the bank got it". _____ had closed the _____ and not going to reopen it. _____ confirmed a new address _____.

On _____ the signed form by _____ was received. The statute was extended until _____.

On _____ Agent received documents in response to IDR # 001 (_____ file, _____, bank reconciliations, statements, etc.) from the accounting firm.

On _____, Agent conducted a phone interview with _____, President. _____ stated that the _____ was closed in _____ or _____. The _____ were sent home, remaining funds in the bank were used to pay mortgage, utilities in attempt to sell _____. Furniture was donated to other facilities, appliances to churches. A vehicle was given away to the church on the Indian reservation.

Agent issued an IDR # 0002 for _____ to review the interview notes and IDR # 0003 to clarify some issues and verify that the expenses claimed are substantiated with receipts.

In response to IDR # 0003 received on _____, _____ stated that "does not have an office any longer and with all of the personal records that did exist I chose to destroy all records after twenty years of keeping records and not having adequate space to store them". _____ responded to the questions as he could remember and recall.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Below is the information from Form _____ and the _____ Adjusted Trial Balance provided by the accounting firm in response to IDR # 0001.

Amounts reported per return and Adjusted Trial Balance:

The monthly _____ for the calendar year of _____ was \$ _____ per month, plus a _____ incidental allowance account of \$ _____ each month. Also, guardians of the _____ agreed to pay the _____ upon admission a _____ -time (non-refundable) processing fee of \$ _____. Depending on the date of admission, the initial payment was prorated as _____ dollars (\$ _____) per day. See **Addendum 1**.

Per _____, the _____, with average – _____ per month.

The adjusted trial balance reflects adjustments made to the different accounts. See **Addendum 2**.

Table 1 Income on Form _____ and the _____ Adjusted Trial Balance for the year ending _____

Description	Per Form Statement of Functional Expenses, Part IX	Per Profit & Loss Statement
Contributions	\$ _____	\$ _____
Program revenue: income	\$ _____	\$ _____
Investment income	\$ _____	\$ _____
Total revenue:	\$ _____	\$ _____

The initial _____ profit & loss statement had a difference of \$ _____ in school revenue between total income on Form _____ (\$ _____) and profit & loss statement (\$ _____). The adjusted trial balance shows that the adjustments were made to reclassify \$ _____ of Uncategorized income to program revenue, business expenses of \$ _____ from rent expense, to zero out negative difference of \$ _____.

Table 2 Expenses on Form _____ and the _____ Adjusted Trial Balance for the year ending _____

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Description	Per Form Statement of Revenue, Part VIII	Per Profit & Loss Statement
Compensation of current officers, directors	\$	
Other salaries and wages	\$	\$
Payroll taxes	\$	
Employee benefits	-	\$
Accounting	\$	\$
Advertising and Promotions	\$	\$
Office expenses	\$	\$
Information technology	\$	\$
Occupancy	\$	\$
Travel	\$	\$
Interest	\$	\$
Insurance	\$	\$
Groceries	\$	\$
Contract services	\$	\$
Client services	\$	\$
Operational services	\$	\$
Donations	-	\$
All other expenses	\$	\$
Total expenses:	\$	\$

Depreciation claimed on Line 22, Part IX, Form is \$; it matches the adjustment for depreciation on the adjusted trial balance.

Table 3 Assets on Form and the Adjusted Trial Balance for the year ending

Description	Per Form Part X	Balance Sheet, Balance Sheet Statement
Cash	\$	\$
Savings	\$	\$
Accounts receivables	-	
Loans from current and former officers	\$	\$
Land, buildings, and equipment less accumulation	\$	\$
Total assets:	\$	\$

The initial balance sheet showed accounts receivables amount of \$ as negative number. Adjusted trial balance zeroed out the negative \$, thus removing it from the balance sheet.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Table 4 Liabilities on Form and the Adjusted Trial Balance for the year ending

Description	Per	Form Sheet, Part X	, Balance	Balance Sheet Statement
Accounts Payable, Accrued Expenses (payroll plus credit cards)		\$		\$
Mortgages, Notes Payable (Secured)		\$		\$
Notes, Loans Payable (Unsecured)		-		
Total liabilities:		\$		\$

The amounts of liabilities on Form and the balance sheet match. Accounts payables (current liabilities) include credit card charges and payroll liabilities (\$ of credit cards plus \$ of payroll liabilities). Total credit cards line on the balance sheet shows a total amount of \$. This includes credit card balances for (account - \$) and (- \$; - \$; total of \$)

Payroll liabilities with total amount of \$ include balance for Form in amount of \$, state withholdings for \$, Unemployment - for \$.

Bank statements –

responded to the summons and provided bank statements and checks for accounts that belong to .

- 1) Basic Checking Account** – main business account for the organization. The payments were deposited into this account and operational organizational expenses were paid from this account.

Authorized representatives on the account: , , .

Incoming deposits into the account total \$ and outgoing withdrawals equal \$ for the calendar year .

Table 5 Money movement on the account for the year ending

Month	Balance-BOM	Deposits	Withdrawals	Balance-EOM
-------	-------------	----------	-------------	-------------

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

January	\$	\$	\$	\$
February	\$	\$	\$	\$
March	\$	\$	\$	\$
April	\$	\$	\$	\$
May	\$	\$	\$	\$
June	\$	\$	\$	\$
July	\$	\$	\$	\$
August	\$	\$	\$	\$
September	\$	\$	\$	\$
October	\$	\$	\$	\$
November	\$	\$	\$	\$
December	\$	\$	\$	\$
Total per Bank Stmts		\$	\$	

2) **Checking/Savings account**
organization.

– mostly served as savings account for the

Table 6 Money movement on the account

for the year ending

Month	Balance-BOM	Deposits	Withdrawals	Balance-EOM
January	\$	\$		\$
February	\$	\$		\$
March	\$	\$		\$
April	\$	\$	\$	\$
May	\$	\$		\$
June	\$	\$	\$	\$
July	\$	\$		\$
August	\$	\$	\$	\$
September	\$	\$	\$	\$
October	\$	\$	\$	\$
November	\$	\$		\$
December	\$	\$	\$	\$
Total per Bank Stmts		\$	\$	

Authorized representatives on the account:

The deposits of \$ were transferred from checking account plus
 accrued interest. Withdrawals include a transfer of \$ to account and
 \$ withdrawal made by phone request by

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Credit Cards -

During the interview with _____, stated that _____ people – _____, _____ - had the _____ credit cards issued by _____. The _____ also had a debit card that was hardly used; and another credit card in case of emergency, for _____ was issued to _____ with \$ _____ credit limit.

The _____ balance sheet listed _____ credit cards balances under current liabilities:

		Balance on	
card XXXX		\$	
card XXXX		\$	
card XXXX		\$	
card XXXX		\$	
Total:		\$	

Agent reviewed the General Ledger and selected transactions for _____ year for credit cards _____ and _____. See Addendum 3.

Most of the transactions made by the credit cards are for the gas, restaurants, airfare tickets, retail stores, hardware stores, etc. The credit card bills were paid from the _____ account _____.

- property and equipment transactions

The _____ at _____ belonged to _____.
He rented it out to the _____ and received rent.

Form _____, Schedule L, Part IV, Business Transactions Involving Interested Persons, disclosed rent of \$ _____ paid to _____, Executive Director.

In response to IDR # 0001 received on _____, the accounting firm stated that "all real estate and equipment used by the organization was owned by the executive director, _____. The organization made the loan payments on the real estate and equipment on _____ behalf. The organization also paid the real estate taxes associated with the property, as well as miscellaneous vehicle expenses for the vehicles. These payments were reported as rent expense for the organization, and as rental income to _____ on personal income tax return. There was no formal rental agreement for this arrangement. The amounts included in rents are listed below for a total expense of \$ _____.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

- 1) Real estate loan payments= \$
- 2) Real estate tax payments= \$
- 3) Equipment loan payments= \$
- 4) Miscellaneous vehicle expense payments= \$

During the interview confirmed that the facility was on name and received the rental payments from the organization. All the payments for the mortgage, real estate taxes, insurance, etc. were made from the business account

During the interview said that the owned vehicles: Also, owned vehicles registered in his name. stated that he used vehicles mostly for the business of the organization and partly for the personal use.

The paid the credit loans for the vehicles and equipment owned by The payments were made from the business account to and were included into the rental payment to

Credit organization	Amount per General Ledger
	\$
	\$
Total:	\$

Other miscellaneous equipment was also included into the rental payment and paid from the business account.

– personal loan

Schedule L Part II Loans to/and from Interested Persons shows that obtained a loan from the Organization approved by the Board of Directors for personal expenses. Balance due of the loan is \$

Adjusted trial balance shows \$ with adjustment of \$ that was reclassified to account (Loan Receivable – for personal expenses paid by the organization.

In his response to IDR # 0003 said that “used a personal credit card for many years to purchase many different things for the and we paid that card off and

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

for some reason this was noted as a loan I am not sure why". did not have a written agreement.

LAW

IRC § 501(c)(3) exempts from Federal income tax 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.

An organization is "operated exclusively" for one or more exempt purposes only if it engages primarily in activities that accomplish one or more exempt purposes specified in section 501(c)(3), and not more than an insubstantial part of its activities further a non-exempt purpose. See section 1.501(c)(3)-1(c)(1).

An organization is not operated exclusively for exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals. Section 1.501(c)(3)-1(c)(2).

IRC § 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 § 6033(a)(1) provides, except as provided in IRC § 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 as the Secretary may by forms or regulations prescribe, and 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. § 1.6001-1(a) in conjunction with Treas. Reg. § 1.6001-1(c) provides that every organization exempt from tax under IRC § 501(a) and subject to the tax imposed by IRC § 511 on its unrelated business income must keep such permanent books or accounts or records, including inventories, as are sufficient to establish the amount of gross income, deduction, credits, or other matters required to be shown by such person in any return of

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (<i>last 4 digits</i>)	Year/Period ended

such tax. Such organization shall also keep such books and records as are required to substantiate the information required by IRC § 6033.

Treas. Reg. § 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 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 § 1.6033-1(h)(2) provides that every organization which 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 § 6033.

Rev. Rul. 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 were so incomplete that the organization was unable to furnish such statements. The Service held that the failure or inability to file the required information return or otherwise to comply with the provisions of IRC § 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:

1. Failure to maintain records

In accordance with the above cited provisions of the Code and regulations under IRC §§ 6001 and 6033, organizations recognized as exempt from federal income tax must meet certain 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 and to determine its liability for any unrelated business income tax.

Taxpayer did not have records to substantiate its expenses. _____ stated that destroyed all the records since he did not have an adequate storage to keep them after closed the organization. Taxpayer is therefore unable to show that it was engaged primarily in activities that accomplish one or more exempt purposes specified in section 501(c)(3), rather than being engaged in activities that further a non-exempt purpose.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Gross deposits per bank statements for the _____ checking account _____ is \$ _____. Gross receipts per Form _____ /Adjusted trial balance is \$ _____. The difference of \$ _____ was unexplained.

Gross receipts per Form	Gross deposits per bank statements	Difference
\$ _____	\$ _____	\$ _____

2. Inurement

Furthermore, the _____ has failed to establish that its earnings did not inure have inured, in substantial part, to the benefit of _____, Executive Director, or other insiders. An organization is not operated exclusively for exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals. Section 1.501(c)(3)-1(c)(2). _____ was in a position of complete financial control during the years under examination. Because of this control, _____ was able to use the _____ credit card and its cash to pay expenses that appear more personal in nature, and has not provided records to show the business or exempt purpose.

The analysis of the General Ledger transactions revealed some questionable expenses.

The travel expenses of \$ _____ were claimed on Line 17, *Travel*, Part IX, Statement of Functional Expenses Form _____. It matches the Account _____ amount of the adjusted trial balance after several adjustments made. Account _____ Travel account consists of the following expenses (See **Addendum 2**):

Account 630 Travel	Amount
Facilities and Equipment: Auto Expense	\$ _____
Facilities and Equipment: Auto Expense: Gas	\$ _____
0 Facilities and Equipment: Auto Expense: Maintenance	\$ _____
Travel and Meetings: Conference,	\$ _____

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Convention	
Travel and Meetings: Lodging	\$
Operations: Meals	\$
: Travel and Meetings: Travel	
Total:	\$

In response to IDR # 003 explained that travel expenses would "include airline tickets and baggage fees for and staff on many different occasions would go home for visits. Also, it would include fuel, motels, meals, car rentals and other expenses involved on those trips."

However, per the Agreement (See **Addendum 1**), financial obligations of the include payments for airline or other forms of commercial travel, travel to and from airports, medical visits, any appointments, weekly activities & super activities, incidental allowance expenditures of \$ per month. The incidental allowance expenditures may include craft projects, school supplies, field trips, and family outings.

Per General Ledger the expenditures for gas - \$ - were partly charged and paid from the checking account (check) and partly by credit card, and

Addendum 3 itemizes transactions for credit cards (and) used by

The credit card charges include miscellaneous transactions for gas stations, supermarkets, hardware stores, restaurants, etc. such as , etc.

Total charges for credit card were \$ with \$ for the gas charges. Since there is no substantiation the Service can't determine how much of these gas expenses were used for the tax-exempt purposes and for personal use.

Per General Ledger and Adjusted Trial Balance the expenditures for restaurants and meals were partly charged and paid from the checking account (check) and partly by credit card, and . The total charges for the restaurants on the card make up \$.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Some of the meals indeed may have been bought for students on the way to the doctor's or other appointments, i.e. , etc. But other restaurants like () appear more consistent with the purchasing patterns of adults, rather than . If some of the charges for the restaurants were indeed spent on the , then the charges for the "adult" restaurants are \$.

Also, the credit card has an Interest expense charge for amount of \$. This expense was included into the amount of \$ on Line 20 *Interest*, Part IX, Statement of Functional expenses, Form .

Table 7 Unsubstantiated personal expenses on the card XXXX6570

Unsubstantiated expenses on card	Amount
Gas charges	\$
Restaurants and meals	\$
Interest expense	\$
Total:	\$

The credit card used by shows miscellaneous transactions for academic fees to and , interest expense, office supplies, travel expenses, licenses and permits to Secretary of State, etc. with total charges of \$.

The total interest expense is \$; it was included into \$ on Line 20 *Interest*, Part IX, Statement of Functional expenses, Form . Per General Ledger and Adjusted Trial Balance Interest expense of \$ includes interest charges on cards and (\$ and \$), (\$), Bank of America (\$), – Construction (\$).

Since the has not provided documentation to substantiate the expenses (receipts, invoices, etc), to the Service can't determine if these expenses served the exempt purpose of the organization or were personal expenses of in everyday life and for property.

Table 8 credit cards – personal expenses

Payments	Amount
Credit card	\$
Credit card	\$

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit			
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended			
<table border="1"> <tr> <td>Total:</td> <td>\$</td> <td></td> </tr> </table>			Total:	\$	
Total:	\$				

This \$ of the personal expenses were not included into compensation or rental payment and were not disclosed on Form . Actually, the amount for personal transactions may be higher but it's difficult to determine since the audit was conducted via correspondence due to COVID-19 restrictions and there were no source documents provided by the .

Form discloses the following information in regard to :

- Compensation - Form W-2 - \$
- Rental payment - \$
- Personal Loan balance - \$

Form shows wages income of \$ and rental income of \$ claimed on Schedule E. Form was issued for \$ for rents and adjustment for \$ was made per adjusted trial balance (see **Addendum 2**), total of \$

The balance of his personal loan on was \$ after the \$ adjustment was made on the account Loan Receivable – to reclassify personal expenses to employee loan (see **Addendum 2**). There was no written agreement between and about the terms of the loan, payment schedule, etc. There is no substantiation that the personal loan was paid back to the organization.

Accordingly, it is the Service's position that the organization has failed to demonstrate that it was operated exclusively for exempt purposes for the tax year ended . It has failed to maintain records in support of its exempt operations, and therefore has not established that it is observing the conditions required for the continuation of exempt status. Furthermore, it has failed to demonstrate that its earnings did not inure to the benefit of or other insiders. Accordingly, it is proposed that the organization's exempt status be revoked effective .

Taxpayer's Position:

Taxpayer said that he closed the in and he does not plan to restart the operations.

Form 886-A	Department of the Treasury – Internal Revenue Service Explanations of Items	Schedule number or exhibit
Name of taxpayer	Tax Identification Number (last 4 digits)	Year/Period ended

Taxpayer stated that he used the remaining funds in the bank to pay mortgage, utilities in attempt to sell the property. The furniture and appliances were donated to the other organizations, e.g. a church on the reservation. The vehicles were donated as well, the van was given away to the church on the reservation.

In his response to IDR # 0003 stated that he used a personal credit card for many years to purchase different things for the , paid that card off and for some reason this was noted as a loan, does not know why.

Taxpayer explained that used credit card to pay for the operational expenses, taking students to doctors, taking them to the restaurants to have meals on the way to the appointments, etc. Per his words, another credit card was used for paying academic fees to , , etc. During the interview and following responses to IDRs stated that does not have any receipts to substantiate the expenses. informed that destroyed all the records since did not have an adequate storage to keep them after he closed the organization.

Conclusion:

It is the Services position that the Organization does not qualify for exemption from federal income tax under IRC §501(c)(3). The proposed date of the revocation is . Form , *U.S. Corporation Income Tax Return*, should be filed for and subsequent years during which the was operational.