

Internal Revenue Service
Appeals Office
300 N. Los Angeles Street, MS-8000
Los Angeles, CA 90012

Department of the Treasury

Taxpayer Identification Number:

Release Number: **201203031**
Release Date: **1/20/2012**
Date: **10/27/2011**

Person to Contact:

Tel: ()
Fax: ()

Tax Period(s) Ended:

UIL: 501.03-01

Certified Mail

This is a final adverse determination regarding your exempt status under section 501(c)(3) of the Internal Revenue Code (the "Code"). It is determined that you do not qualify as exempt from Federal income tax under section 501(c)(3) of the Code effective January 1, 2007.

Our adverse determination was made for the following reason(s):

To be an organization described in section 501(c)(3) of the Code, an organization must be organized and operated exclusively for charitable, educational, or other exempt purposes described in section 501(c)(3). Our examination of your operations in 2007 and 2008 showed that you were not operated exclusively for exempt purposes because your net earnings inured to your founder and principal officer by your failure to maintain appropriate records to demonstrate furtherance of exempt purposes and by comingling your finances with said officer. Moreover, more than an insubstantial purpose of your organization was to further the private interests of said officer.

Contributions to your organization are not deductible under section 170 of the Code.

You are required to file Federal income tax returns on Forms 1120 for the tax periods stated in the heading of this letter and for all tax years thereafter. File your return with the appropriate Internal Revenue Service Center per the instructions of the return. For further instructions, forms, and information please visit www.irs.gov.

If you were a private foundation as of the effective date of revocation, you are considered to be taxable private foundation until you terminate your private foundation status under section 507 of the Code. In addition to your income tax return, you must also continue to file Form 990-PF by the 15th Day of the fifth month after the end of your annual accounting period.

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 Code.

If you decide to contest this determination, you may file an action for declaratory judgment under the provisions of section 7428 of the Code 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. A petition or complaint in one of these three courts must be filed within 90 days from the date this determination letter was mailed to you. Please contact the clerk of the appropriate court for rules for filing petitions for declaratory judgment. To secure a petition form from the United States Tax Court, write to the United States Tax Court, 400 Second Street, N.W., Washington, D.C. 20217. See also Publication 892.

You also have the right to contact the office of the Taxpayer Advocate. Taxpayer Advocate assistance is not a substitute for established IRS procedures, such as the formal appeals process. The Taxpayer Advocate cannot reverse a legally correct tax determination, or extend the time fixed by law that you have

to file a petition in a United States Court. The Taxpayer Advocate can however, see that a tax matters that may not have been resolved through normal channels get prompt and proper handling. If you want Taxpayer Advocate assistance, please contact the Taxpayer Advocate for the IRS office that issued this letter. You may call toll-free, 1-877-777-4778, for the Taxpayer Advocate or visit www.irs.gov/advocate for more information.

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

Sincerely Yours,

Appeals Team Manager

Enclosure: Publication 892

Internal Revenue Service

Department of the Treasury

Date: **SEP 30 2010**

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Certified Mail - Return Receipt Requested

Dear

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

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

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

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

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

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

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

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

Thank you for your cooperation.

Sincerely,

Nanette M. Downing
Director, EO Examinations

Enclosures:
Publication 892
Publication 3498

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
Name of Taxpayer:	EIN:	Year/Period Ended December 31, XXX December 31, XXX
XXXXX	XXXXX	

I. Issue

Is XXXXX., operating exclusively for charitable and educational purposes described in Internal Revenue Code (IRC) §501(c)(3)?

II. Facts

A. Organizing Documents

i. Articles of Incorporation

XXX ("Organization") was formed on February 1, XXXX. Its Articles of Incorporation state the Organization's specific purpose is:

to operate for the advancement of education and for other charitable purposes, by the distribution of its funds for such purposes, and particularly for the study of and research into the areas of heart, respiratory and stress related disease with an emphasis on early detection of such illness and the study of preventative care and treatment of the same...corporation is formed to operate exclusively for such educational purposes...making distributions to organizations which qualify as tax-exempt organizations...

ii. Form 1023

Part III – Activities and operational information, Question 1, the organization states that its sources of financial support would be from applying to agencies of the federal and state government, and application to available private funds (ie, foundation grants) will be the organization's main source of financial support.

Question 2, describe the organization's fund raising program and explain to what extent it has been put into effect. The Organization responded, "As of this date only concept and program design planning have been initiated, to develop ourproject to study ... and its relationship to hypertension and cardiovascular disease."

In Part III – Activities and operational information, item 3, the organization described its activities (presently carried on and those that will be carried on):

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At this time the XXXXX is not operational fully, due to the planning and conceptual design stage which is crucial to the nature of the professional health industry.

- I. As our primary purpose will be the establishment of professional education programs to the existing health-care providers (primarily hypertension). Our primary planning phase at this time is the development of a community based program to further research in the area of respiratory and stress-related disease. (timeline allows 3 – 4 months)
- II. The Second planning phase will include coordinating and compiling existing health care providers servicing about indicated health care needs. Contacting and affiliating with similar professional medical service and research organizations (Estimate phase 2 / 6 months)
- III. The third phase will be implementation of 1 + 2 and include development of a plan for a medical research facility coordinated with a professional education/provider program

Part III – Activities and operational information, item 4, Membership of the organization's governing body is:

(a) Names, addresses, and duties of officers, directors, trustees, etc:

XXXXX ¹ , MD MD resident in psychiatric Medicine, XXXXX (XXXXX)
Medical Director XXXXX.	
XXXXX, Vice President Director of Medical – Medicare Accounting Systems XXXXX
XXXXX	
XXXXX, Secretary- Treasurer MA Public Service and five years background in XXXXX
XXXXX	

* * * *

¹ AKA XXXXX

Form 886A	Department of the Treasury - Internal Revenue Service Explanation of Items	Schedule No. or Exhibit
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XXXXXX	XXXXXX	December 31, XXX

Assoc. Community Services.)

In Question 7, the organization describes its assets, "assets not fully operational. Early drafting of proposal for funding is under study. Upon completion of draft, proposal(s) will be submitted to appropriate agency (s)."

Question 8 (a), What benefits, services, or products will the organization provide with respect to its exempt function?

"As a service to the XXXXX community, an educational program to assist providers of health care delivery systems (professional Ed.) will be implemented and offered to same."

Question 8 (b) Have the recipients been required or will they be required to pay for the organization's benefits?

The Organization responded in the positive, "Yes" - "In some cases, a donation may be asked in deference to professional consultations or services rendered, as in the case of the proposed professional / provider education program."

Part V - Financial Data -

The organization only reported legal fees as of June 20, XXXXX as the only data available for the organization.

Attorney Preparation, research and incorporation \$560, XXXXX Tax Board \$200, Stationary, Letterhead, Printing \$278, Office supplies, telephone \$196, Total incorporation costs: \$1,234.

Part VIII, Question 21, Newly created organizations with less than one years experience: Explain how the organization is planning to satisfy the requirements of section 4942(j) with respect to the income test and one the of the supplemental tests during its first year's operation.

Under provisions income test (2), qualifying distributions (a) "Amounts...", the organization's administrative and other expenditures, including fixed monthly expenses are at present presumed by the Trustees themselves, upon the future receiving of grants, gifts, or other income, adjusted net income, as defined in section 4942(f) will be paid directly to

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satisfy active conduct of the foundation's activities. As the foundation activities are planed to be educationally and research oriented and of a nature that will involve professional consultation and services, a typical budget for (...illegible...) year ending June would allocate all net income ... (illegible)....to funding administrative costs, fixed, maintenance expenses, professional services....etc.

Assets test # 1 Substantially more than 65% of the foundation's assets are/will be devoted to the active conduct of our activity, ie, to meeting the expenditures generated from creation of medically - related research projects, and establishing the professional education -provider services described on page 2.

The Organization listed on Schedule B-I a List of Personnel

<u>Name</u>	<u>Position</u>	<u>Percent of time</u>	<u>XXX</u>
<u>Salary Support</u>			
XXXXX, M. D.	Project Director	100%	\$9,000
XXXXX, O.D.	Project Assistants	100%	6,000
XXXXX, M.P.S.	Secretary Adm/Asst	100%	4,800

iii. Determination Letter

Determination Letter (Form L-391 (4-73)) was dated June 02, XXXX. The organization was granted tax exempt status under IRC section 501(c)(3), and classified as a publicly supported organization described in section 509(a)(1) & 170(b)(1)(A)(vi).

The Organization's advanced ruling period ended on June 30, XXXX. In a letter dated July 22, XXXX the organization was classified as a private non-operating foundation under section 501(b)(1)(a). On October 14, XXXX, the organization requested an advanced ruling for 60 months termination of their private foundation status. On February 24, XXXX, the Service granted the organization an advanced ruling period which ended on June 30, XXXX.

B. The Organization and Affiliated Entities

XXXXX, reported its mailing address as XXXXX. The Organization is solely controlled and run by XXXXX, who resides at XXXXX,

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XXXXXX – recipient of funds from (XXXXXX). Organization is controlled by founder XXXXX, spouse of XXXXX. reported its mailing address as XXXXX.

C. Form 990 Filings

The Organization filed Forms 990 for the years XXXX and XXXX. The XXXX Form 990 was filed on November 18, XXXX and the XXXX Form 990 was filed on November 10, XXXX. The forms reported:

Year	XXXX	XXXX
1. Contributions		
Gifts Grants	\$264,000	\$180,000
9. Total		
Revenue	\$264,000	\$180,000
10.Grants		\$36,000
12. Salaries, other compensation		\$24,000.00
13. Program Service	\$236,926	
Management and General	\$36,196	
17. Total Expenses	\$273,122.00	\$192,898.00
19 Excess	(\$9,122.00)	(\$12,898.00)
21. Net Assets at end of year	\$12,834.00	(\$64.00)

D. Activities

The XXXX and XXXX Forms 990 Statement of Program Service Accomplishments state the organization's primary exempt purpose is the publishing and distribution of newsletters and health information / Nationwide promotional campaign to promote health and human services.

The Organization stated that it promotes health and healing through the arts (XXXXXX), holds marketing events where the organization set up an information booths. The organization did not provide dates of specific exempt activities it

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conducted or any information describing their daily operations and how it serves and exclusive exempt purpose.

The organization operated two websites during the years under audit:

www.XXXXXX². This was the Organization's (XXXXX) website, as it was commingled with XXXX's XXXXX and other non-exempt activities. The website stated:

The XXXXX is a Research And Development Program Of The XXXXX, a 501(C)3 Non-Profit Wholistic Health Educational Foundation.

The XXXXX is described on website:

THE XXXXX, a wholistic, proactive, educational, empowerment party is a synthesis of the Republican, Democratic, Libertarian and Green Parties. We have formulated a practical, synergistic 7-point program which addresses and serves to resolve our current socio-economic and ecological challenges... We urge you now to support The XXXXX and our progressive and enlightened programs and policies!

The organization offers membership to the XXXXX for \$30.00 plus \$6.00 shipping and handling. Membership is paid through the organization's website and links to a paypal site for payments to be made to the XXXXX.

The organization also accepts donations on XXXXX. Donations link to a paypal site for donations to XXXXX.

The Organization also sells "XXXXX" videos. The website describes XXXXX as:

XXXXX is new art form which is both evolutionary and revolutionary in that it serves to actualize human potential through the masterful synergy and synchronization of sacred mandalic art, sacred geometries, exquisite natural imagery and beautiful music...XXXXX elicits a powerful emotional, transpersonal, and transcendental experience which demonstrably and consistently "Inspires, Delights, Heals And Enlightens".

HTTP://WWW.XXXXXX/

* * * *

² See attachment 1

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THE XXXXX PROJECT - is a Research and Development Project of The XXXXX...The XXXXX is a division of The XXXXX, a 501-C-3 Tax Exempt Non-Profit Educational Foundation.

The organization's websites contained incidental educational articles, however, the vast majority of the websites promoted the XXXXX, the XXXXX project, the sale of products such as videos and elixirs.

The Organization filed Forms 460, Recipient Committee Campaign Statement Page. These forms show that from March 18, XXXX through April 1, XXXX and from June 1, XXXX through June 30, XXXX, the organization made \$7,500 and \$10,000, respectively, in expenditures for the XXXXX.

The campaign disclosure statement form was filed by the XXXXX, part of the XXXXX, which is a division of the XXXXX.

The XXXXX is a political party created by XXXXX, that supported and initiated the ballot, Proposition C, which wanted to see the XXXXX of XXXXX handed over to the City of XXXXX, have the XXXXX torn down, and a center for peace built in its place.

XXXXX Proposition C appeared on the February 5, XXXX countywide ballot in XXXXX, XXXXX, where it lost by a margin of about 3-1.

Proposition C Adopting a Policy that the City Acquire XXXXX to Make it a Global Peace Center -- City and County of XXXXX (Initiative Policy Declaration - Majority Approval Required to Pass)

Shall it be City policy that the City should explore and facilitate the acquisition of XXXXX from the United States Government to transform it into a XXXXX?

The Organization incurred numerous "professional fees", "printing and reproduction" expenses, community outreach and networking expenses, all of which were not substantiated to the Service or shown how they serve an exempt purpose.

It is also apparent that the organization is selling products via Paypal. It offers numerous products on its website and bank records show receipts from Paypal.

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In Part III – Activities and operational information, item 3, the organization described its activities (presently carried on and those that will be carried on) thusly;

The audit revealed that the organization's plans to establish and provide "professional education programs to existing health-care providers... the area of respiratory and stress-related disease", "...affiliating with similar professional medical and research organizations", "develop a medical research facility coordinated with a professional education/provider program" as stated in Part III of the Form 1023 was not implemented.

The Organization responded to Question 8 on the Form 1023 that it would establish a professional education –provider services program. This activity has not been implemented.

The organization states that its sources of financial support would be from "applying to agencies of the federal and stated government, and application to available private funds (ie, foundation grants) will be the organization's main source of financial support."

The Organization's support is from family trusts, XXXXX's mother, and de minimis pay pal sales. The Organization provided no evidence that it applied to any federal or state agency for funding. The organization does not have a broad range of public support.

The Organization could not show that its activities serve an exclusive exempt purpose. The Organization serves personal and private interests of XXXXX. The organization does not own any assets (besides the bank account commingled with XXXXX) such as to carry on any exempt function (i.e. no vehicle, building/research facility or equipment, lab supplies, etc).

E. Revenues

Total revenue reported on the Form 990:

Year	XXXXX	XXXXX
1. Contributions Gifts Grants	\$264,000	\$180,000

Per Examination

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		December 31, XXXX

i. Revenue and Bank Accounts

The banks statements reveal that the vast majority of the organization's support come from trusts established by XXXXX's mother, unidentified bank accounts, and other unidentified sources such as cash, wire transfers, etc. The Forms 990 understate the revenue for XXXXX and XXXXX by \$109,602 and \$100,994, respectively (see below).

XXXXX Bank Acct # xxxxx

XXXXX	Deposits		XXXXX
1	\$35,143.38	Cash	\$41,797.86
2	\$41,047.95	XXXXX Trust	\$87,407.48
3	\$27,888.19	Incoming Wire -	
4	\$18,959.00	XXXXX	\$65,379.87
5	\$28,945.25	XXXXX	\$28,000.00
6	\$40,699.04	Incoming Wire from	
7	\$35,622.37	XXXXX	\$27,250.00
8	\$41,784.63	Incoming Wire from	
9	\$26,238.00	XXXXX	\$10,000
10	\$16,864.00	Missing	\$15,697
11	\$28,586.00	Transfer from	
12	\$32,958.00	XXXXX	\$4,200.00
		pay pal	\$272.00
Year Total	<u>\$374,735.81</u>	Total	\$280,004.21

XXXXX Check Number 2062, From XXXXX for \$100,000 was written to "XXXXX" on June 08, XXXXX. The check was subsequently deposited into XXXXX bank account XXXXX / XXXXX / XXXXX (endorsement on the back of the check). The check cleared on June 11, XXXXX. The Organization's bank records (XXXX Bank XXXXX) show that beginning June 11, XXXXX, a series of transfers were made from the unknown account XXXXX to the Organization's XXXXX bank account xxxxx. XXXXX Bank Account XXXXX has not been revealed to the Service when its initial information request asked for all bank statements.

Transfers from XXXXX:

Transfer from XXXXX	\$5,000.00	6/11/XXXXX
Transfer from XXXXX	\$2,000.00	6/20/XXXXX
Transfer from XXXXX	\$3,000.00	6/22/XXXXX
Transfer from XXXXX	\$6,000.00	6/26/XXXXX
Transfer from XXXXX	\$4,000.00	7/2/XXXXX

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Transfer from XXXXX	\$1,000.00	7/3/XXXXX
Transfer from XXXXX	\$1,500.00	7/10/XXXXX
Transfer from XXXXX	\$2,000.00	7/18/XXXXX
Transfer from XXXXX	\$1,000.00	7/12/XXXXX
Transfer from XXXXX	\$3,500.00	7/23/XXXXX
Transfer from XXXXX	\$3,000.00	7/27/XXXXX
Transfer from XXXXX	\$1,500.00	8/6/XXXXX
Transfer from XXXXX	\$3,000.00	8/9/XXXXX
Transfer from XXXXX	\$6,079.27	8/13/XXXXX
Transfer from XXXXX	\$5,000.00	8/21/XXXXX
Transfer from XXXXX	\$5,000.00	8/24/XXXXX
Transfer from XXXXX	\$6,000.00	9/11/XXXXX
Transfer from XXXXX	\$4,000.00	9/21/XXXXX
Transfer from XXXXX	\$5,000.00	9/25/XXXXX
Transfer from XXXXX	\$5,000.00	10/10/XXXXX
Transfer from XXXXX	\$5,000.00	10/15/XXXXX
Transfer from XXXXX	\$5,000.00	10/23/XXXXX
Transfer from XXXXX	\$5,000.00	11/5/XXXXX
Transfer from XXXXX	\$5,000.00	11/8/XXXXX
Transfer from XXXXX	\$5,000.00	11/9/XXXXX
Transfer from XXXXX	\$500.00	11/30/XXXXX
Transfer from XXXXX	<u>\$6,000.00</u>	12/13/XXXXX
Total	<u>\$104,079</u>	

Unidentified cash deposits were also made during the year:

Deposit	\$9,650.00	1/8/XXXXX
Deposit	\$10,030.00	1/16/XXXXX
Deposit	\$68.00	1/19/XXXXX
Deposit transfer from XXXXX	\$50.00	1/23/XXXXX
Deposit transfer from XXXXX	\$5,000.00	1/26/XXXXX
Deposit	\$313.38	1/26/XXXXX
Deposit	\$120.00	2/5/XXXXX
Deposit	\$30,000.00	2/9/XXXXX
Deposit	\$60.00	2/16/XXXXX
Deposit	\$1,639.95	2/22/XXXXX
Deposit	\$384.00	3/1/XXXXX
compusa Return	\$50.86	3/5/XXXXX
Deposit	\$8,000.00	3/6/XXXXX
Deposit	\$45.28	3/16/XXXXX
Deposit	\$140.00	3/23/XXXXX
Deposit	\$500.00	3/26/XXXXX
Deposit	\$24.00	4/8/XXXXX
Deposit	\$8,300.00	4/9/XXXXX

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Deposit	\$475.00	4/16/XXXXXX
Deposit	\$310.00	4/24/XXXXXX
Deposit	\$8,939.88	5/1/XXXXXX
Deposit	\$5,620.00	5/8/XXXXXX
Deposit	\$250.00	5/15/XXXXXX
Deposit	\$1,500.00	5/18/XXXXXX
Deposit	\$162.16	5/29/XXXXXX
Deposit	\$178.00	5/31/XXXXXX
Deposit	\$2,287.23	6/7/XXXXXX
Deposit	\$300.00	6/11/XXXXXX
Deposit	\$50.00	6/18/XXXXXX
Deposit	\$38.30	6/25/XXXXXX
Deposit	\$172.37	7/27/XXXXXX
Deposit	\$26.40	8/3/XXXXXX
Deposit	\$40.00	8/16/XXXXXX
Deposit	\$1,500.00	8/16/XXXXXX
Deposit	\$2,000.00	9/28/XXXXXX
Deposit	\$130.00	10/3/XXXXXX
Deposit	Transfer from XXXXX	\$1,400.00 10/5/XXXXXX
Deposit		\$36.00 10/10/XXXXXX
Deposit		\$250.00 10/22/XXXXXX
Deposit		\$1,986.00 11/13/XXXXXX
Deposit		\$1,500.00 11/20/XXXXXX
Deposit		\$200.00 11/27/XXXXXX
Deposit		\$36.00 12/18/XXXXXX
Deposit		\$50.00 12/19/XXXXXX
Deposit		\$2,000.00 12/20/XXXXXX
Deposit		\$3,000.00 12/26/XXXXXX
Deposit		<u>\$1,080.00</u> 12/27/XXXXXX
Total		<u>\$108,442</u>

Trust deposits are as follow:

XXXXXX

	<u>XXXXXX Trust</u>	<u>XXXXXX Trust</u>	
1/2/XXXXXX	\$3,200.00	1/2/XXXXXX	\$6,700.00
2/6/XXXXXX	\$3,000.00	2/6/XXXXXX	\$5,900.00
3/1/XXXXXX	\$6,500.00	3/1/XXXXXX	\$12,000.00
4/2/XXXXXX	\$3,050.00	4/2/XXXXXX	\$6,800.00
5/2/XXXXXX	\$1,485.00	5/2/XXXXXX	\$9,550.00
6/1/XXXXXX	\$5,850.00	6/1/XXXXXX	\$15,750.00
7/3/XXXXXX	\$2,700.00	7/3/XXXXXX	\$6,850.00
7/31/XXXX	\$2,800.00	7/31/XXXX	\$7,100.00

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X		X	
8/31/XXXX		8/31/XXXX	
X	\$6,100.00	X	\$13,000.00
9/28/XXXX		9/28/XXXX	
X	\$2,700.00	X	\$6,500.00
11/1/XXXX		11/1/XXXX	
X	\$2,800.00	X	\$6,600.00
12/3/XXXX		12/3/XXXX	
X	<u>\$6,200.00</u>	X	<u>\$14,300.00</u>
	<u>\$46,385.00</u>		<u>\$111,050.00</u>
			<u>\$157,435.00</u>

Paypal Deposits are as follow (note, this activity has not been explained to the Service):

Paypal Transfer Ex Deposit	\$58.00	1/8/XXXXXX
Paypal Transfer Ex Deposit	\$24.00	1/16/XXXXXX
Paypal Transfer Ex Deposit	\$50.00	1/29/XXXXXX
Paypal Transfer Ex Deposit	\$248.00	2/5/XXXXXX
Paypal Transfer Ex Deposit	\$30.00	2/12/XXXXXX
Paypal Transfer Ex Deposit	\$50.00	2/15/XXXXXX
Paypal Transfer Ex Deposit	\$40.00	3/5/XXXXXX
Paypal Transfer Ex Deposit	\$228.05	3/21/XXXXXX
Paypal Transfer Ex Deposit	\$120.00	5/1/XXXXXX
Paypal Transfer Ex Deposit	\$300.00	5/3/XXXXXX
Paypal Transfer Ex Deposit	\$60.00	5/14/XXXXXX
Paypal Transfer Ex Deposit	\$180.21	5/29/XXXXXX
Paypal Transfer Ex Deposit	\$220.00	8/8/XXXXXX
Paypal Transfer Ex Deposit	\$70.00	8/20/XXXXXX
Paypal Transfer Ex Deposit	\$48.00	10/30/XXXXXX
Paypal Transfer Ex Deposit	\$150.00	12/3/XXXXXX
Paypal Transfer Ex Deposit	<u>\$40.00</u>	12/31/XXXXXX
	<u>\$1,916.26</u>	

XXXXXX Revenue summary by Type

Trust Deposits	\$157,435.00
Check 2062 /XXXXXX	\$100,000.00
Unidentified cash deposits	\$108,442.00
Paypal	\$1,916.00
Additional XXXXX	\$4,079.00

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XXXXXX Revenue by date

Incoming wire from XXXXX Charitable	\$20,000.00	1/3/XXXXXX
Incoming wire from XXXXX Charitable	\$8,000.00	1/7/XXXXXX
Deposit	\$4,407.61	1/14/XXXXXX
Deposit	\$147.00	1/31/XXXXXX
credit interest	\$5.31	1/31/XXXXXX
Incoming wire from XXXXX	\$8,850.00	2/4/XXXXXX
Deposit	\$3,000.00	2/8/XXXXXX
Deposit	\$793.00	2/11/XXXXXX
paypal	\$100.00	2/12/XXXXXX
Deposit	\$1,500.00	2/12/XXXXXX
Deposit	\$150.00	2/22/XXXXXX
Transfer from XXXXX	\$1,000.00	2/26/XXXXXX
March 1 - March 6 statemet is missing	\$15,696.89	2/29/XXXXXX
Deposit	\$135.00	3/6/XXXXXX
paypal	\$50.00	3/11/XXXXXX
Deposit	\$150.00	3/12/XXXXXX
Deposit	\$201.39	3/11/XXXXXX
Transfer from XXXXX	\$1,000.00	3/21/XXXXXX
Transfer from XXXXX	\$1,000.00	3/25/XXXXXX
Deposit	\$500.00	3/27/XXXXXX
Incoming wire from XXXXX	\$9,700.00	4/1/XXXXXX
Deposit	\$122.58	3/31/XXXXXX
Deposit	\$3,000.00	4/3/XXXXXX
Deposit	\$2,000.00	4/7/XXXXXX
Deposit	\$1,000.00	4/15/XXXXXX
Deposit	\$200.00	4/16/XXXXXX
Transfer from XXXXX	\$500.00	4/17/XXXXXX
xxxxx Systems	\$5,600.00	4/21/XXXXXX
Deposit	\$500.00	4/29/XXXXXX
Transfer from XXXXX	\$500.00	5/2/XXXXXX
Incoming wire from XXXXX	\$8,700.00	5/1/XXXXXX
Transfer from XXXXX	\$500.00	5/1/XXXXXX
Deposit	\$1,772.00	5/14/XXXXXX
Deposit	\$1,407.00	5/23/XXXXXX
Deposit	\$735.00	5/27/XXXXXX
Deposit	\$1,200.00	6/3/XXXXXX
Incoming Wire XXXXX	\$4,015.00	6/5/XXXXXX
Incoming Wire XXXXX	\$10,000.00	6/4/XXXXXX
Deposit	\$3,000.00	6/6/XXXXXX
Deposit	\$2,000.00	7/9/XXXXXX
External Deposit XXXXX Trust	\$6,651.60	7/8/XXXXXX
External Deposit XXXXX Trust	\$3,125.00	7/8/XXXXXX
Incoming wire from XXXXX	\$6,931.26	8/4/XXXXXX
Incoming wire from XXXXX	\$3,146.66	8/4/XXXXXX
Deposit	\$1,507.73	8/19/XXXXXX

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external deposit pay pal	\$17.00	8/22/XXXXXX
Deposit	\$20.00	8/25/XXXXXX
external deposit pay pal	\$19.00	8/25/XXXXXX
Incoming wire from XXXXX	\$51,286.95	8/28/XXXXXX
External Deposit XXXXX Trust	\$34,507.54	9/3/XXXXXX
Incoming wire from XXXXX	\$485.00	9/15/XXXXXX
Deposit	\$4,020.00	9/29/XXXXXX
External Deposit XXXXX Trust	\$8,501.29	10/3/XXXXXX
External Deposit XXXXX Trust	\$4,062.42	10/3/XXXXXX
external deposit pay pal	\$86.00	10/6/XXXXXX
Deposit	\$250.00	10/9/XXXXXX
Missing 10/10/ - 10/29/8		
External Deposit XXXXX Trust	\$5,968.86	11/4/XXXXXX
External Deposit XXXXX Trust	\$3,167.30	11/4/XXXXXX
Deposit	\$1,500.00	11/20/XXXXXX
Deposit	\$1,171.00	12/2/XXXXXX
External Deposit XXXXX Trust	\$14,897.29	12/4/XXXXXX
External Deposit XXXXX Trust	\$6,526.18	12/4/XXXXXX
Deposit	\$508.55	12/5/XXXXXX
Total	<u>\$280,994.41</u>	

XXXXXX Revenue summary by type

Cash	\$41,797.86
XXXXXX Trust	\$87,407.48
Incoming Wire - XXXXX	\$65,379.87
XXXXXX Charitable	\$28,000.00
Incoming Wire from XXXXX	\$27,250.00
Incoming Wire from XXXXX	\$10,000.00
Missing	\$15,697.00
Transfer from XXXXX	\$4,200.00
pay pal	\$272.00

Summary of Income:

Reported on Form 990	Omitted Revenue
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XXXXX \$264,000 \$110,735.81³
 XXXXX \$180,000.00 \$100,994.41⁴

F. Expenditures

	Reported on Form 990	
XXXXX	\$273,122	\$370,702
XXXXX	\$192,898	\$262,889

The Organization and XXXXX share XXXXX bank account XXXXX. Account XXXXX is the primary account for both the Organization and XXXXX. XXXXX is responsible for all recordkeeping and financial responsibilities of the Organization.

No books or records are kept. Very few receipts or expense substantiation has been provided out of the thousands of transactions that have occurred from the Organization's bank account. The invoices provided are vague and do not explain how they exclusively serve an exempt purpose. The Service asked in Form 4564, Information Document Request 01, dated January 26, 2009, and Form 4564 002 April 24, 2009 for the XXXXX year and on March 30, 2010 for the XXXXX year to explain how these expenditures furthered an exempt purpose. The Organization has not provided contemporaneous substantiation that its expenditures have served an exclusive exempt purpose. The organization did provide documents which appear to be invoices for XXXXX which include:

- "XXXXX" for the category "printing and reproduction".
- The organization also provided cash to XXXXX in XXXXX and XXXXX, an organization controlled by XXXXX's spouse XXXXX. The organization reports that it gave XXXX's controlled organization \$40,100.

* * * *

³ \$374,735.81 - \$264,000 = \$110,735.81

⁴ \$280,994.41 - \$180,000 = \$100,994.41

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- New XXXXX receipt (did not provide invoices) \$11,353, the organization has not fully explained this activity and how it furthers an exempt purpose.
- Purported professional fees that were unexplained \$2,500 to Rev. XXXXX, XXXXX, XXXXX \$10,000 as a "loan/donation", and a receipt from XXXXX for \$12,375 for "Maintenance of Database and PSA distribution of Holistic Health Education materials thru the internet, At Health Fairs & Shows, + Mail."
- An unsigned statement entitled Community Outreach and Networking Services purportedly by XXXXX received \$15,134 for services for the year XXXXX." These services have not been explained or substantiated.
- An unsigned statement entitled Community Outreach and Networking Services purportedly by XXXXX for \$5,425 for "our services for the year XXXXX." These services have not been explained or substantiated.
- An unsigned statement entitled Website Design and Maintenance purportedly from XXXXX for \$3,600 for "my services for the year XXXXX." These services have not been explained or substantiated.
- An unsigned statement entitled Community Outreach and Networking Services purportedly from XXXXX for \$2,150 for "my services for the year XXXXX." These services have not been explained or substantiated.
- An unsigned statement entitled Community Outreach and Networking Services purportedly from XXXXX for \$2,860 for "my services for the year XXXXX." These services have not been explained or substantiated.

The total of these expenditures is \$105,497⁵.

* * * *
⁵ Approximately \$123,084 is unaccounted for XXXXX alone.: \$370,702 (total expenses) - \$105,497 + \$142,121 (direct inurement)

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XXXXXX's compensation is reported on 25(a) Compensation of current officers, of the XXXXX Form 990, as \$40,640 - XXXXX CEO and Line 12 and Part IV on XXXXX Form 990 as \$24,000.

XXXXXX (XXXXX) makes "No monthly payments for compensation rather, the company pays for things (personal withdrawals checks, credit cards, gas, etc)."

The amounts \$40,640 and \$24,000 reported as compensation on the Forms 990 are arbitrary, the amount of Organizational funds that inured directly to XXXXX totaled \$142,121⁶ for XXXXX and \$139,387⁷ for XXXXX. The inurement is not deemed compensation. The Organization did not file any information returns such as Forms W-2, Forms 1099, nor did the Organization file any Forms 941 or pay any employment taxes. Furthermore, the expenditures in questions are not expense reimbursements because they were not payments under an "accountable plan" nor were they incurred in the normal course the Organization's business, rather they were daily reoccurring personal expenses incurred by XXXXX for his private use. Organization's bank account is commingled with XXXXX's and it is impossible to discern any purported "Foundation" expense from XXXXX's personal expenditures. The Organization's assets, i.e. its bank accounts, are readily available for XXXXX's immediate and personal use. The majority of the expenditures were personal in nature or unexplained.

The Organization stated that it makes "no monthly payments for compensation rather, the company pays for things (personal withdrawals checks, credit cards, gas, etc)." Reviewing the organizations expenditures revealed daily reoccurring personal expenses such as restaurant dining, gasoline, gym membership, medical payments, etc., for personal use,. XXXXX commingles with the organization's bank account, the organization paid the following for XXXXX's personal use⁸:

	XXXXX	XXXXX
Credit cards and lines of credit	\$28,981	\$31,676
Gas / XXXXX's personally owned vehicle for personal travel	\$4,578	\$4,738
Restaurants/groceries:	\$11,026	\$9,473
Withdrawals and over the counter		

* * * *

⁵ See attachment of list of personal expenditures

⁷ See attachment of list of personal expenditures

⁸ See attachment of list of personal expenditures

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Checks	\$38,934	\$25,666
Car insurance	\$2,757	\$2,592
Car payments	\$6,163	\$7,683
Rent for personal residence	\$35,300	\$30,500
Interactive Media - XXXXX	\$5,472	-
Cable/utilities/internet	\$6,620	-
Massage, personal phone		
Gym Membership	<u>\$7,938</u>	=

Organizational funds inured to XXXXX. The Organization did not differentiate XXXXX's personal expenditures from any purported Organizational expenditure. In the XXXXX and XXXXX audit years, the Agent Identified \$142,121 and \$139,387, respectively, as daily reoccurring personal living expenditures⁹.

G. Internal Controls

All Organizational funds are commingled with XXXXX's personal expenditures. XXXXX is in complete control over the Organization's financial activities. Funds are transferred to the organization as purported donations from Trusts and unidentified cash from XXXXX (XXXXX's mother). The audit reveals that XXXXX never relinquishes control over the funds. The Organization maintains no minutes of meetings of the Board of Directors. There is no Board of Directors or other independent body responsible for reviewing, approving, co-signing financial transactions, or preventing Organizational assets (bank account) from inuring to its founder. Transactions are not recorded, there is no segregation of duties, there are no outside parties (such as professional medical entities/governmental agencies) overseeing the organization, there is no annual independent audit. XXXXX is the sole controller of the Organization.

XXXXX does not have to substantiate or provide accounting for any expenditure made from the organization's bank accounts. He has unlimited access to spend organizational funds. All of the organization's cancelled checks that were provided were signed by XXXXX.

III. Law

A. Statutes

* * * *

⁹ See speardsheet

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I.R.C. § 501(c)(3) provides for the exemption from federal income tax of organizations that are organized and operated exclusively for charitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Treas. Reg. § 1.501(c)(3)-1(a)(1) provides that an organization must be both organized and operated exclusively for one or more of the purposes specified in section 501(c)(3) of the Code in order to be exempt as an organization described in such section.

Treas. Reg. § 1.501(c)(3)-1(c)(1) provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it is engaged primarily in activities that accomplish one or more of such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Treas. Reg. § 1.501(c)(3)-1(c)(2) provides that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

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

Treas. Reg. § 1.501(a)-1(c) defines a private shareholder or individual as those persons having a personal and private interest in the activities of an organization. In general, a private shareholder or individual is considered an "insider" with respect to the exempt organization.

Treas. Reg. § 1.6033-2(i)(2) provides that "Every organization which is exempt from tax, whether or not it is required to file an annual information return shall submit such additional information as may be required by the Internal Revenue Service for the purpose in inquiring into its exempt status and administering the provisions of subchapter F (section 501 and following), chapter 1 of subtitle A of the Code...."

B. Cases

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Better Business Bureau v. United States, 316 U.S. 279 (1945), holds that the existence of a single non-exempt purpose, if substantial in nature, will destroy the exemption under section 501(c)(3). An organization will be regarded as operated exclusively for one or more exempt purposes only if it engages primarily in activities that accomplish one or more of such purposes.

In *Church of World Peace, Inc. v. Commissioner*, 67 T.C.M. (CCH) 2282 (1994), *aff'd*, 52 F.3d 337 (10th Cir. 1995), the Tax Court held that a church did not operate exclusively for religious purposes because the church facilitated a circular tax-avoidance scheme. The facts showed that individuals made tax-deductible contributions to the church. The court found that the church then returned the money to the individuals claiming that the payments were for housing allowances and reimbursement of expenses. The court further found that such payments were in fact unrelated to the church's operations.

People of God Community v. Commissioner, 75 T.C. 127 (1980) decided that a portion of gross earnings inured to the benefit of private shareholders or individuals. The court stated:

An organization will qualify under section 501(c)(3) only if (1) it is organized and operated exclusively for exempt purposes, (2) no part of its net earnings inures to the benefit of any private shareholder or individual, and (3) it devotes no substantial part of its activities to political or lobbying activity...

Respondent argues that petitioner's loan policies and ministers' compensation each demonstrate both private inurement of net earnings and prohibited private purposes. While not necessarily identical, the prohibitions against private inurement and private purposes overlap to a great extent ... we will confine our discussion herein to the private inurement issue....

...The burden falls upon petitioner to establish the reasonableness of the compensation paid to Donhowe and petitioner's other ministers. *Bubbling Well Church of Universal Love Inc. v. Commissioner* [Dec. 36,999], 74 T.C. 531 (1980). Petitioner has failed to do so inasmuch as the record on this point contains little more than conclusory

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assertions and the fact that Dowhowe's compensation was partly based on his personal needs. Moreover, the method by which ministers' compensation was determined shows clearly that a part of petitioner's net earnings was paid to private shareholders or individuals.

In *Founding Church of Scientology v. United States*, 412 F.2d 1197 (Ct. Cl. 1969), a wide variety of devices were employed, including fees, commissions, excessive rental payments, loans and excessive salaries, to divert the organization's funds to its founder, L. Ron Hubbard, and his immediate family. The principle of inurement was summarized when the Court stated, "what emerges from these facts is the inference that the Hubbard family was entitled to make ready personal use of the corporate earnings."

In Rev. Rul. 75-384, 1975-2, a nonprofit organization formed to promote world peace and disarmament by nonviolent direct action and whose primary activity is the sponsoring of antiwar protest demonstrations in which demonstrators are urged to commit violations of local ordinances and breaches of public order does not qualify for exemption under section 501(c)(3) or (4) of the Code.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term "charitable" is used in section 501(c)(3) of the Code in its generally accepted legal sense. The regulation further states that the term "charity" includes lessening the burdens of government and the promotion of social welfare by organizations designed (i) to lessen neighborhood tensions; (ii) to eliminate prejudice and discrimination; (iii) to defend human and civil rights secured by law; or (iv) to combat community deterioration and juvenile delinquency.

Rev. Rul. 67-5, 1967-1 C.B. 123 held that a foundation controlled by the creator's family was operated to enable the creator and his family to engage in financial activities which were beneficial to them, but detrimental to the foundation. It was further held that the foundation did not operate a charitable program commensurate in scope with its financial resources, rather the foundation was only able to carry out minimal charitable activities. The ruling stated that the foundation was operated for a substantial non-exempt purpose and served the private interests of the creator and his family. Therefore, the foundation was not entitled to exemption from Federal income tax under I.R.C. § 501(c)(3).

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In Rev. Rul. 59-95, 1959-1 C.B. 627, an organization previously held exempt from Federal income tax was requested to produce a financial statement as of the end of the year and a statement of its operations during such year. However, its records were so incomplete that it was unable to furnish such statements. Section 6033 of the Internal Revenue Code of 1954 provides that every organization, except as provided therein, exempt from taxation under section 501(a) of the Code shall file an annual return, stating specifically the items of gross income, receipts, and disbursements, and shall keep such records, render under oath such statements, make such other returns and comply with such rules and regulations as the Secretary of the Treasury or his delegate may from time to time prescribe. Held, failure or inability to file the required information return or otherwise to comply with the provision of section 6033 of the Code 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 an exempt status.

In determining the effective date of revocation, an organization may ordinarily rely on a favorable determination letter received from the Internal Revenue Service. Treas. Reg. §1.501(a)-1(a)(2); Rev. Proc. 2003-4, §14.01 (cross-referencing §13.01 *et seq.*), 2003-1 C.B. 123. An organization may not rely on a favorable determination letter, however, if the organization omitted or misstated a material fact in its application or in supporting documents. In addition, an organization may not rely on a favorable determination if there is a material change, inconsistent with exemption, in the organization's character, purposes, or methods of operation after the determination letter is issued. Rev. Proc. XXXXX-52, XXXXX8-30, IRB 222.

The Commissioner may revoke a favorable determination letter for good cause. Treas. Reg. § 1.501(a)-1(a)(2). Revocation of a determination letter may be retroactive if the organization omitted or misstated a material fact or operated in a manner materially different from that originally represented. Rev. Proc. XXXXX-52, XXXXX-30 IRB 222.

IV Analysis

A. Taxpayer's position

Is yet to be received

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B. Government's position

Is XXXXX operating exclusively for public, charitable, and educational purposes described in Internal Revenue Code (IRC) § 501(c)(3) in which no part of its net earnings inure to the benefit of any private shareholder or individual?

The Government contends that XXXXX failed the operational test of IRC 501(c)(3) on the following grounds:

1. The Organization's earnings and assets inured to the benefit of its private shareholder; the Organization's assets, (i.e. bank account) are being used by XXXXX, President XXXXX for personal use 2. A substantial part of the organization's activities are in the furtherance of non exempt activities.

1. The Organization's earnings and assets inured to the benefit of its private shareholder:

Federal Income Tax Regulation (Regulation) Section 1.501(c)(3)-1(a)(1) states: "In order to be exempt as an organization described in Section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such Code section. If an organization fails to meet either the organizational test or the operational test, it is not exempt."

Regulation Section 1.501(c)(3)-1(c) defines the "Operational test". Regulation Section 1.501(c)(3)-1(c)(1) "Primary activities" provides, in part: "An organization will be regarded as 'operated exclusively' for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in Section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose."

Regulation Section 1.501(c)(3)-1(c)(2) "Distribution of earnings" expands on the definition of an activity that is not in furtherance of an exempt purpose. It states: "An organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals. For the definition of the words 'private shareholder or individual', see paragraph (c) of Sec. 1.501(a)-1."

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XXXXX fails the operational test because its earnings inured to XXXXX, a private shareholder under Treas. Reg. § 1.501(a)-1(c)¹⁰ and key officer of XXXXX.

In XXXXX and XXXXX, XXXXX made \$38,934 and \$25,666, respectively, in unsubstantiated cash withdrawals. In XXXXX and XXXXX, the Organization paid for XXXXX's lines of credit totaling \$28,981 and \$31,676, respectively. In XXXXX and XXXXX, the organization paid rent for XXXXX's personal residence totaling \$35,300 and \$30,500, respectively. The Form 990 reported \$40,640 and \$24,000 reported as compensation. These figures are arbitrary and were not reported on any information return such as Form W-2 or Form 1099. The Organization did not file any Forms 941 or pay any employment taxes.

Expenditures in question are not expense reimbursements because they were not payments under an "accountable plan" nor were they incurred in the normal course the Organization's business, rather they were daily reoccurring personal expenses incurred by XXXXX for his private use. XXXXX is the only individually who authorizes checks or has signature authority on the Organization's bank account. The Organization's bank account is commingled with XXXXX's and it is impossible to discern any purported "Foundation" expense from XXXXX's personal expenditures. The Organization's assets, i.e. its bank accounts, are readily available for XXXXX's immediate and personal use. The majority of the expenditures were personal in nature or unexplained. The amount of Organizational funds that inured directly to XXXXX total \$142,121 for XXXXX and \$139,387 for XXXXX. The Organization is serving XXXXX's private interests.

A charity's assets are required to be irrevocably dedicated to charitable purposes. Treas. Reg. § 1.501(c)(3)-1(b)(4). The inurement prohibition serves to prevent the individuals who operate the charity from siphoning off any of a charity's income or assets for personal use. By having unlimited use of the Organization's assets, the Organization breached the dedication requirement and its assets and net income have inured to the benefit of XXXXX.

By allowing the Organization's income to inure to XXXXX, the organization fails Treas. Reg. § 1.501(c)(3)-1(c)(2) which provides that an organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals.

* * * *
¹⁰ XXXXX he meets the definition of such under Treas. Reg. § 1.501(a)-1(c) because he is a "person having a personal and private interest in the activities of an organization."

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The Organization fails Treas. Reg. § 1.501(c)(3)-1(d)(ii) also, which states that an organization is not organized or operated for one or more exempt purposes unless it serves a public rather than a private interest. Accordingly, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator, shareholders, or persons controlled, directly or indirectly, by such private interests.

A core requirement to be considered for an organization described by IRC §501(c)(3) is that no part of the income of the organization shall inure to an individual or shareholder. Church of Scientology v. Commissioner, 23 F.2d 1310 (9th Cir. 1983).

Treas. Reg. §1.501(c)(3)-1(f)(2)(ii) states that in determining whether to continue to recognize the tax-exempt status of an applicable tax-exempt organization (as defined in section 4958(e) and §53.4958-2) described in section 501(c)(3) that engages in one or more excess benefit transactions (as defined in section 4958(c) and §53.4958-4) that violate the prohibition on inurement under section 501(c)(3), the Commissioner will consider all relevant facts and circumstances, including, but not limited to, the following -

- (A) The size and scope of the organization's regular and ongoing activities that further exempt purposes before and after the excess benefit transaction or transactions occurred;
- (B) The size and scope of the excess benefit transaction or transactions (collectively, if more than one) in relation to the size and scope of the organization's regular and ongoing activities that further exempt purposes;
- (C) Whether the organization has been involved in multiple excess benefit transactions with one or more persons;
- (D) Whether the organization has implemented safeguards that are reasonably calculated to prevent excess benefit transactions; and
- (E) Whether the excess benefit transaction has been corrected (within the meaning of section 4958(f)(6) and §53.4958-7), or the organization has made good faith efforts to seek correction from the disqualified person(s) who benefited from the excess benefit transaction.

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The regulations further provide that the IRS will consider the above factors in combination, and may assign different weight to each factor depending on the facts and circumstances. Treas. Reg. § 501(c)(3)-1(f)(2)(iii).

When the factors listed above are applied to the situation of the Organization, it becomes abundantly clear that revocation is in order, as each factor favors revocation.

(A) The size and scope of the organization's regular and ongoing activities that further exempt purposes before and after the excess benefit transaction or transactions occurred;

The Organization has not substantiated that it conducts exempt activity. The activities of XXXXX served XXXXX's private interests. The excess benefit transactions occurred continuously throughout the two year period examination.

(B) The size and scope of the excess benefit transaction or transactions (collectively, if more than one) in relation to the size and scope of the organization's regular and ongoing activities that further exempt purposes;

The Scale of the excess benefit transactions at issue in XXXXX was large, in XXXXX and XXXXX, 38% and 50% of the Organization's receipts directly inured to XXXXX, respectively. The remaining Organizational funds were not accounted for and were spent on non-exempt activities.

(C) Whether the organization has been involved in multiple excess benefit transactions with one or more persons;

There were multiple excess benefit transactions with XXXXX in this case; they appear to be ongoing daily during the periods' examination.

(D) Whether the organization has implemented safeguards that are reasonably calculated to prevent excess benefit transactions; and

There is no indication that any safeguards were implemented. XXXXX was the only person in control of XXXXX with no outside Control.

(E) Whether the excess benefit transaction has been corrected (within the meaning of section 4958(f)(6) and §53.4958-7), or the organization has made good faith efforts to seek correction from the disqualified person(s) who benefited from the excess benefit transaction.

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None of the excess benefit transaction has been corrected. XXXXX remains in charge of whatever actions XXXXX is operating.

Pursuant to Treas. Reg § 501(c)(3)-1(f)(2)(ii), the numerous excess benefit transactions engaged in by XXXXX, to the exclusion of serving any exempt purpose, warrant revocation of XXXXX's exempt status.

2. A substantial part of the organization's activities are in the furtherance of non exempt activities.

The Organization is operating in a manner that is inconsistent with its Form 1023, Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code to the Service.

The Organization stated that its primary purpose was:

1. To establish professional education programs to the existing health-care providers (primarily hypertension). "Our primary planning phase at this time is the development of a community based program to further research in the area of respiratory and stress-related disease.
2. coordinating and compiling existing health care providers servicing about indicated health care needs. Contacting and affiliating with similar professional medical service and research organizations. (Estimate phase 2/6 months),
3. implementation of 1 + 2 and include development of a plan for a medical research facility coordinated with a professional education/provider program.

The audit concluded that XXXXX has not: (1) established any professional education programs to existing health-care providers (primarily hypertension), (2) developed a community based program to further research in the area of respiratory and stress-related disease or (3) develop a medical research facility coordinated with a professional education/provider program.

The Organization stated on Item 8 (a), What benefits, services, or products will the organization provide with respect to its exempt function, of the Form 1023 application:

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As a service to the xxxxx community, an educational program to assist providers of health care delivery systems (professional Ed.) will be implemented and offered to same.

The organization has not developed a medical research facility that's coordinated with a professional education/provider program.

The Organization also stated on its Form 1023 that Substantially more than 65% of the foundation's assets are/will be devoted to the active conduct of our **medically related research projects, and establishing the professional education -provider services.**

The organization has not substantiated nor shown the Service how any expenditure it has made has furthered medical research. The organization has not implemented medical research program as stated on its Form 1023.

The operation of a websites XXXXXX and XXXXXX is substantially all of the Organization's activity. The websites do not further any medical research or exempt activity. The websites are self serving to XXXXX by promoting XXXXX's private ventures and personal interests. The websites exclusively promote XXXXX's XXXXX campaign, the legislative and lobbying activity - XXXXX, and the sale of products: XXXXX videos, and the sale of elixirs. The website contains incidental educational articles (links to other websites or health articles), however, the vast majority of the websites serve XXXXX's private interests and any potential exempt activity is incidental.

The organization did spend significant time and money on the Proposition C - the XXXXX project. This activity was not in furtherance of any exempt medical research, instead it furthered XXXXX's private interests.

The organization had incurred thousands of expenditures during the two years under examination. The Organization did not provide any accounting or contemporaneous substantiation on how its expenditures exclusively furthered an exempt purpose. All expenditures appear to serve XXXXX personally whether directly or indirectly. In XXXXX, for instance, cancelled checks totaling \$6,176.53 were illegible and are unable to determine the exempt purpose. Additionally, \$71,129 in cancelled checks were unexplained, and it was not shown how these checks served an exempt purpose.

There is no Board of Directors or other independent body responsible for reviewing, approving, co-signing financial transactions, or preventing

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Organizational assets (bank account) from inuring to its founder. There is no accounting system in place, the organization does not use accounting software such as quick books to record and monitor Organizational transactions. Transactions are not recorded, there is no segregation of duties, there are no outside parties (such as professional medical entities/governmental agencies) overseeing the organization, there is no annual independent audit. XXXXX is the sole controller of the Organization.

C. Effective Date of Revocation

While revocation of a determination letter is generally not retroactive, revocation of a determination letter may be retroactive if the organization omitted or misstated a material fact or operated in a manner materially different from that originally represented. In cases where the organization omitted or misstated a material fact, revocation may be retroactive to all open years under the statute. In cases where revocation is due to a material change, inconsistent with exempt status, in the character, the purpose, or the method of operation, revocation will ordinarily take effect as of the date of the material change. In any event, revocation will ordinarily take effect no later than the time at which the organization received written notice that its exemption ruling or determination letter might be revoked. Rev. Proc. 2007-52, 2007-30 IRB 222.

In this case, the agent recommends retroactive revocation of the determination letter because the Organization operated in a manner inconsistent with its exempt status under IRC 501(c)(3). Accordingly, it is recommended that revocation be effective as of January 1, XXXXX.

V. CONCLUSION

Based on our audit, and in light of the applicable law, we have determined that you are not operated for exempt purposes. Rather, you are, primarily, operated for the non-exempt purpose, operating in furtherance of private interests, of XXXXX. Forms 1120 Income Tax Return should be filed for tax years ending December 31, XXXXX, and December 31, XXXXX. Subsequent returns are due no later than the 15th day of the 3rd month following the close of the Corporation's accounting period. Returns should be sent to the following mailing address:

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XXXXX	XXXXX	December 31, XXX

Internal Revenue Service, 55 N Robinson MC 4900 OKC MS, Oklahoma City, OK 72102.

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(3) of the Code and you must file federal income tax returns.

Contributions to you are not deductible under section 170 of the Code.