

Internal Revenue Service
Appeals Office

Department of the Treasury

Taxpayer Identification Number:

Number: 201314058

Person to Contact:

Release Date: 4/5/2013

Tel:
Fax:

Date: December 28, 2012

Tax Period(s) Ended:

Certified Mail

UIL: 0501.03-00

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 July 1, 20XX.

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

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

TE/GE Exempt Organizations Examinations Division
1100 Commerce Street MC 4980 DAL
Dallas, Texas 75242

Date: **SEP 04 2009**

ORG
ADDRESS

Taxpayer Identification Number:

Form:

Tax Year(s) Ended:

Person to Contact/ID Number:

Contact Numbers:

Telephone:

Fax:

Certified Mail - Return Receipt Requested

Dear :

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

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

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

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

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

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

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

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

Thank you for your cooperation.

Sincerely,

Sunita Lough
Director, EO Examinations

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

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

LEGEND

ORG - Organization name XX - Date Address - address City - city State - state
 LOGO - logo website - website EIN - ein POA - poa President - president
 Vice President - vice president DIR-1 through DIR-11 - 1st through 11th DIR
 RA-1 through RA-17 - 1st through 17th RA CO-1 through CO-25 - 1st through 25th COMPANIES

Issue

Whether ORG ("ORG") is operated exclusively for religious or other exempt purposes within the scope of Internal Revenue Code section 501(c)(3).

Facts

History overview

ORG, EIN # EIN, was recognized as a tax-exempt organization on October 20XX under section 501(c)(3) of the Internal Revenue Code ("Code").

ORG was incorporated on July 1, 20XX, as a non-profit corporation in the State of State. The purpose of the organization as stated in its Articles of Incorporation is to be *"organized exclusively for charitable, educational, religious purposes within the meaning of 501(c)(3) of the Internal Revenue Code. Notwithstanding any other provision of these Articles, the corporation shall not carry on other activities not permitted to be carried on by a corporation exempt from Federal income tax under section 501(c)(3) of the Internal revenue Code of 1986 (or the corresponding provision of any future United States Internal Revenue law)"*.

The Articles of Incorporation reported the mailing address of ORG as Address, City, State and the registered agent was DIR-1. Per the articles, the original officers of ORG included DIR-1, DIR-2, DIR-3, and DIR-4.

ORG's bylaws state, under Section 2.1, that the *"business and property of the corporation will be managed and its corporate powers shall be exercised by the Board of Directors."*

ORG's bylaws state that the Executive Committee will consist of the Board of Directors and would have the same powers as the Board of Directors. ORG's bylaws further state that the corporation shall have a President, one or more Vice Presidents, a Secretary, and a Treasurer. The bylaws state that the President is a Director of the organization, but other officers need not be Directors. The officers will be elected by the Board of Directors at the annual meeting of Directors. A person may hold more than one office. The bylaws also have a conflict of interest policy.

ORG's bylaws state the following with respect to the duties of the officers:

- The President is the chief executive officer of the corporation and would manage the affairs of the corporation, subject to the directions of the Board of Directors.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

- The Vice-President will act as the President in the absence of the President. All Vice-Presidents shall perform the duties prescribed by the Board of Directors.
- The Secretary has custody of the corporation records, except the financial records. The Secretary records the meeting minutes of the Board of Directors, executive committee and directors.
- The Treasurer has custody of all corporate funds and financial records, including keeping accurate accounts of receipts and disbursements.

State law does not require ORG to have a license to operate or conduct business in State. However, ORG was issued a license by the State of State Department of Taxation for general excise tax and withholding. The licensing web page shows that ORG's business began on January 02, 20XX.

The State Secretary of State web site reported ORG's purpose as "for charitable, educational, religious purposes". The web site shows that ORG was incorporated on July 1, 20XX, mailing address: Address, City, State. The registered agent's name was DIR-5, address of Address, City, State.

The State Secretary of State web site listed the officers of ORG as follows, with an effective date of July 1, 20XX:

Name	Title	Effective date
DIR-2	President/Director	July 1, 20XX
DIR-5	Vice-President/Director	July 1, 20XX
DIR-6	Secretary/Director	July 1, 20XX
DIR-7	Director	July 1, 20XX
DIR-3	Director	July 1, 20XX
DIR-8	Director	July 1, 20XX

It was noted that in the beginning of ORG's existence, the organization's mailing address and principal office was located at the same address as its related organizations—CO-6 and CO-15. ORG's operational documents show ORG operated before its incorporation date, (Exhibit B).

It was also noted that one of the original officers of ORG, DIR-1, was also an employee of CO-6 and ORG.

Form 1023, Application for Recognition of Exemption:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

ORG applied for tax-exemption under Code §501(c)(3) on or about November 20XX. The mailing address shown on the application was Address, City, State. The Form 1023 application was signed by DIR-2 as Director of ORG on November 8, 20XX.

The year ending month of the annual accounting period was stated to be "January to December".

The primary contact person was shown as DIR-2 at telephone number #.

Part V of Form 1023 listed the organization officers/directors as follows:

Name	Title	Compensation amount
DIR-2	President	None
DIR-3	Treasurer	None
DIR-4	Vice President	None
DIR-1	Secretary	None

Part V of Form 1023, questions 8a and 9a, was marked "no" concerning having leases or other agreements with officers/directors of ORG.

Part VIII of Form 1023, question 15, was marked "no" with respect to having a close connection with another organization.

Part IV of Form 1023, ORG stated the following with respect to its description of past, present, and planned activities:

Professional counselors and bible scholars will provide theocratic doctrine to families and individuals on daily basis in XXX and upon request throughout the State of State. 100% of ORGs efforts will be spent educating people of the truth found in the bible and providing those applicable tools to the burdened, underprivileged, and distressed. While advancing religion and education to insure the word of God is not marginalized or its moral influence diminished thus lessening the burdens of government, community and neighborhood tensions and combating community deterioration and juvenile delinquency. ORG will be funded through public donation/contributions and gross receipts from the activities related to its exempt functions."

Part V of Form 1023, question 3a, with respect to officers/directors qualifications, ORG reported the following:

Name	Qualification	Hours worked	Title
DIR-2 AA Theology	1-2 hrs wk		Counselor

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

DIR-3	Phd Education	1-2 hrs wk	Counselor
DIR-4	BA Divinity	1-2 hrs wk	Counselor
DIR-1	AA Accounting	1-2 hrs wk	Bookkeeper

Part VI of Form 1023, question 1a, with respect to providing goods, services, or funds to individuals, ORG stated the following about its program:

Part VI of Form 1023, question 1b, with respect to providing goods, services, or funds to organizations, ORG stated the following about its program:

Part VIII of Form 1023, question 4a, asked if the organization conducted fundraising. The box "yes" was checked. The organization responded as follows:

"ORG Educations Services offers has not conducted any fundraising, but may ask for a donation or contribution for the counseling and educational services offered."

Part VIII of Form 1023, question 10, asked if the organization owned or will publish, own, or have rights in music, literature, tapes, artworks, choreography, or other intellectual property. The "yes" box was checked. The organization responded as follows:

"ORG Educations Services will own copyrights, patents or trademarks. Fees will not be charged, production to be determined."

Part VIII of Form 1023, question 11, asked if organization accepts contributions of real property, intellectual property. The "yes" box was checked. The organization responded as follows:

"Contributions will not be accepted with conditions imposed."

On June 12, 20XX, ORG was issued a letter by the Determination specialist requesting for additional information with respect to ORG's activities. ORG responded in a letter dated June 28, 20XX, as follows:

Q1) It is unclear exactly what are your activities. You state in your narrative that the organization will provide biblical principles for faithful stewardship decisions. Since stewardship is the act of managing another's property, finances, or affairs, you must tell us exactly what it is that your organization is doing. Submit a detailed description of all of the activities of the organization – past, present, and planned showing how you operate or will operate to achieve your purposes.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Q1a). Its purpose and nature.

ORG responded as follows:

"The earth is the Lord's, and everything in it, the world and all who live in it. Psalm 24:1."

"For by him all things were created, both in the heavens and on earth, visible and invisible, whether thrones or dominions or rulers or authorities, all things have been created through and for him. Colossians 1:16".

Q1b). Frequency and duration.

ORG responded as follows:

"The frequency of ORG will be available on a daily basis with duration of approximately 60 to 90 minutes or as needed."

Q1c). How, when, where and by whom it was, is, or will be conducted.

ORG responded as follows:

"ORG will be provided face to face and over the phone, one on one and in groups. Services will be available on a daily basis and offered in churches, homes, schools, community centers, businesses and organizations upon request. Professional counselors/Bible scholars will offer the services."

Q1d). The requirements a person or organization must meet in order to participate in or receive benefit from the activity.

ORG responded as follows:

"ORG will be available to anyone and there will be no requirements to meet to participate or receive benefit."

Q1e). The amounts of any charges or fees and the basis for the amount.

ORG responded as follows:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

"ORG will be offered to anyone at no cost or fee."

Q1f). What the activity has accomplished or will accomplish.

ORG responded as follows:

"ORG will accomplish advocating biblically based answers and solutions for daily living. How we view God will determine how we live."

"Where there is no guidance, the people fall, but in abundance of counselors there is victory. Proverbs 11:14"

"The way of a fool is right in his own eyes, but a wise man is he who listens to counsel. Proverbs 12:15"

"Do not be conformed to this world, but be transformed by the renewing of your mind that you may prove what is that good, and acceptable, and perfect will of God. Romans 12:2"

Q1g). State what percentage of the total time and effort of the organization is devoted to carrying out each activity.

ORG responded as follows:

"100% of the total time and effort will be devoted to advocating biblically based answers and solutions for daily living."

Q2) What month does your annual accounting period end?

ORG responded as follows:

"ORG annual accounting period will end in December"

Q3) Describe your fundraising programs. Submit copies of any brochures, pamphlets, flyers, advertisements, newsletters, newspaper articles, or any other literature regarding your organization.

ORG responded as follows:

"ORG does not have any fund raising. The general public will be made aware of services through existing multi-denominational church congregation notices, public service announcements, and word of mouth referrals through treatment facilities, community service organizations and social service agencies."

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Q4) Submit copies of any contracts, leases, or other agreements in which the organization is a party.

ORG responded as follows:

"ORG does not have any contracts, leases, or other agreements in which the organization is a party."

You indicate in the financial data (page 9) that compensation is planned. Submit a complete response to the following.

Q5a) The name and title/relationship of such person to whom payment has been, is being or will be paid.

ORG responded as follows:

"ORG does not have any compensated officers, directors, trustees or members of their families or any individuals at present but plans to compensate a counselor/biblical scholar and secretary."

Q5b) The nature and/or purpose of payments.

ORG responded as follows:

"The purpose of payments proposed will be salary."

Q5c) A detailed description of the position filled by the duties and services for which compensation will be paid.

ORG responded as follows:

"Principle duties and responsibilities of the counselor/Biblical scholar will be to:

- 1. Study God's word*
- 2. Adhere to policies and procedures*
- 3. Develop and implement biblically based answers and solutions based on public need*
- 4. Seek out and assist with special community projects*
- 5. Building and maintaining a highly visible servant based profile in the community and throughout the state*
- 6. Responsible for offering available directions, options, actions services and assistance programs available throughout the church bodies, city, state or federal agencies as well as the private sector.*

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

Secretary will be to:

1. Adhere to policies and procedure
2. Answer telephone in a timely and professional manner. Retrieve recorded messages from answering machine
3. Receive and direct visitors and general public
4. Schedule appointments, meetings, seminars, programs, events
5. Provide prompt clear and concise communication and information of services to the public
6. Generate written correspondence and maintain accurate records on verbal and written communication.

Q5d) The amount time each person devotes to the position.

ORG responded as follows:

"Each person will devote approximately 40 hours weekly to the position and the payment will not be affected by an upward or downward adjustment in time based on the need of the organization."

Q5e) The qualifications (training, background, experience of such persons for the position, duties, services).

ORG responded as follows:

"The qualification and requirements for a counselor/biblical scholar are a willingness to serve, a working knowledge and understanding that the bible is the inspired word of God, that God is the creator, owner and master of all and has retained ultimate control of every event, a commitment to present Gods truth advocating biblically based answers and solutions for daily living, a four year degree, excellent verbal and written communication skills and substantial prior experience in ministry, servanthood, management, public relations, education, counseling and oral presentations, professional appearance and attitude, ability to lift 25 lbs."

"The qualifications and requirements for a secretary are a willingness to serve, high school graduate or equivalent, good verbal and written communication skills, proficient computer skills and knowledge of general office procedures, 45 words per minute typing and 10 key by touch, ability to prioritize work assignments and recognize the importance of work accuracy, professional appearance and attitude, ability to life 25 lbs."

Q5f) If any such person is employed outside the organization, the hours per week and weeks per year devoted to such outside employment.

ORG responded as follows:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

"ORG does not have any compensated employees at present but they would not be employed outside the organization."

Q5g) Who determines compensation to be paid? What criteria is used to determine compensation?

ORG responded as follows:

"The Board of Directors determines compensation to be paid. The criteria will be based on comparable non-profit organizations, ministries, community services and public service organizations throughout the state."

Q5h) How do you or will you insure that all compensation paid is "reasonable" and in return for services rendered?

ORG responded as follows:

"ORG will insure all compensation paid is reasonable based on the salary paid for hours worked providing services to the public based on regular assessment and quality evaluations."

Q5i) Does the organization pay or plan to pay any of the personal living expenses of employees, directors, officers, founders, members, etc?

ORG responded as follows:

"ORG does not plan to pay any of the personal living expenses of employees, directors, officers, founders, or members."

Q6) You state that the organization will be funded through public donations, contributions, and gross receipts from related activities. Provide an indication of your gross receipt income based on a reasonable and good faith estimate of your future finances for a total of 3 years for 20XX-20XX.

ORG responded as follows:

"ORG will be funded through public donations/contributions".

Q7) You have projected occupancy expenses. It appears that you plan to have a facility to conduct your activities. Will any part of your facilities be share with any private practice, office or other commercial operation, or as a personal residence?

ORG responded as follows:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended
ORG	EIN	June 30, 20XX

"ORG facility is not planned to be shared with any private practice, office or commercial operation, or as a personal residence."

Q8) If the organization plans to acquire property for a facility, state how you plan to acquire it and whether it will be acquired from an officer, director, or other related party (including family members, or a company in which any such person has a financial interest).

ORG responded as follows:

"ORG plans to acquire property for a facility from resources collected in the form of grants, contributions, and donations. It does not plan to acquire it from an officer, director or other related party."

Q9) If your organization is/will be involved in any form of credit counseling, debt financing, debt management, money management, or other forms of financial planning, explain fully.

ORG responded as follows:

ORG listed several bible verses in its response, a few examples are shown below.

"Let men regard us in this manner, as servants of Christ, and stewards of the mystery of God, it is required that stewards be found trustworthy." 1Corinthians 4:1-2.

"Do not store up for yourselves treasures on earth where moth and rust destroy and thieves break in and steal. But store up for yourselves treasures in heaven where neither moth nor rust destroy or thieves break in and steal; for where your treasure is there your heart will be also." Matthew 6:19.

"It is better that you should not vow than to make a vow and not pay." Ecclesiastes 5:5

"The wicked borrows and does not repay, but the righteous is gracious and gives." Psalm 37:21

"The rich rules over the poor, and the borrower becomes servant to the lender." Proverbs 22:7

"Let no debt remain outstanding except to love one another; he who loves his neighbor has fulfilled the law." Romans 13:8

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

*"A man lacking in senses pledges and becomes surety in the presence of his neighbor."
Proverbs 17:18*

*"Dishonest money dwindles away, but he who gathers money little by little makes it grow."
Proverbs 13:11*

"He who ignores discipline comes to poverty and shame." Proverbs 13:18

"The heavy drinker and the glutton will come to poverty." Proverb 13:21

On July 12, 20XX, ORG was issued correspondence to inquire as to whether ORG's activities would be engaging in financial management programs, credit counseling programs, debt management programs, etc.

ORG responded to the correspondence on July 24, 20XX. In the correspondence, ORG responded by saying that the organization will utilize the following educational materials:

On September 27, 20XX, ORG was issued another letter inquiring as to the organization's credit counseling activities. ORG responded to the inquiry in a letter of October 4, 20XX.

Q1) The organization's activities will consist of providing answers and solutions to questions and problems posed by individuals coming to the organization for assistance correct? The organization's assistance will encompass all areas of living correct (the organization will not limit itself to providing counseling or assistance to just one topic, such as marriage counseling)?

ORG responded as follows:

ORG will offer families and individuals biblically based guidance for the life circumstances they are contending with therefore your interpretation is accurate.

Q2) provide the following information regarding the organization's financial literacy programs:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

Identify the individuals that organize and conduct the programs, specifically identify the training, knowledge, and experience that each individual has in order to provide counseling in relation to the above topics, such as credit, debt, borrowing, etc.

ORG responded as follows:

Until ORG has the resources to hire staff, the board members will organize and conduct the programs their training, knowledge and experience consist of: AA Theology; PhD Education; BA Divinity.

Provide a detailed narrative describing the specific topics that are discussed during the programs. Submit the agenda or class schedule detailing the specific topics/subjects discussed.

ORG responded as follows:

Counseling/education will be offered on a one on one basis with the need or concerns determined by the individual or family. Class topics/subjects will be requested by the Church Body, School, Civic Organization, Business or Non Profit Community Service Organization. Possible topics/subjects may include but are not limited to: sexual immorality, hatred, discord, jealousy, truth, lies, self ambition, greed, covetousness, respect, death, salvation, wisdom, eternity.

Does the organization conduct its programs in conjunction with any other entity, such as a credit counseling agency, a credit repair organization, and/or an organization issuing credit cards? Does the organization refer its participants to any other entity for services, such as a credit repair organization? If so, identify the entity that the organization refers participants. Also, state how this entity was identified and selected. Submit copies of all contracts entered between the organization and the other entity, if applicable and available.

ORG responded as follows:

No.

Will the organization permit the individuals and/or other entity that are involved in the programs to advertise or promote their products or services? For example, will the organization permit a financial planner to pass out his business card, describe or even mention the services he provides during the programs?

ORG responded as follows:

No.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

On October 18, 20XX, based on the information that ORG provided in its application for exemption and on the assumption that ORG would operate in the manner represented in its application, ORG was recognized as a tax-exempt organization under §501(c)(3) of the Internal Revenue Code.

Form 990, Return of Organization Exempt From Income Tax:

IRS records show that ORG had not filed a return from the date of inception until after it had been notified of a pending examination of its books and records on May 14, 20XX. Subsequent to the notification, a return was filed with the IRS Ogden service center for a tax period ending June 30, 20XX. The signature on the Form 990 stated DIR-2, President, and was dated July 24, 20XX. A copy of the filed return was provided to the Internal Revenue Agent (Agent) in response to IDR #0003, dated December 4, 20XX.

During on-site examination, it was revealed that the organization operated on a fiscal year and that the organization would be filing its first Form 990 in 20XX. Vice-President Vice President had indicated that ORG had not filed because there was no income and no activity in prior years.

The Form 990 reported no officers/directors compensation. Within Part V-A of the 990, ORG reported the officers/directors names, titles, hours worked, and compensation as follows:

Name	Title	Average Hours worked	Compensation
President	President/Director	0	\$0.00
DIR-2	President/Director	0	\$0.00
DIR-5	Vice-President/Director	0	\$0.00
DIR-9	Vice-President/Director	0	\$0.00
Secretary	Secretary/Director	0	\$0.00
DIR-6	Secretary/Director	0	\$0.00
DIR-3	Director	0	\$0.00
DIR-7	Director	0	\$0.00
DIR-8	Director	0	\$0.00

ORG states its activities of exempt purpose(s) as follows:

“ORG provides biblical/scriptural principles for faithful stewardship decisions for daily living, offering stewardship education, counseling and money management tools for financial freedom.”

ORG reported its program service revenue as deriving from “education/counseling” at \$.

ORG reported on Schedule B of Form 990, *Schedule of Contributors*, as follows:

Name of contributor	Contribution amount
---------------------	---------------------

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

ORG's activities:

ORG was notified by the Internal Revenue Service (IRS) on May 14, 20XX, of a pending examination of its books and records. Initially, the examination was scheduled for the 20XX calendar year, in accordance with IRS records and ORG's Form 1023 application declaration indicating operations on a calendar year basis.

During the initial examination visitation, the Agent met with Vice President, Vice president of ORG in 20XX, at the organization's facility located at Address, City, State.

During the initial interview, it was disclosed that the organization operated on a fiscal year ended July 31st.

On October 3, 20XX, ORG was issued Information Document Request (IDR) #0002 advising of a modification to the examination period to the fiscal year ended July 31, 20XX. The correspondence also requested additional information with respect to ORG's credit counseling activities and its books and records. The Agent received taxpayer response to IDR #0002 on November 3, 20XX.

On November 21, 20XX, the Agent reviewed IRS internal records and discovered ORG filed Form 990 directly with IRS Service Campus on November 15, 20XX. The return filed with IRS Service Campus shows a fiscal year ending June 30, 20XX.

On December 4, 20XX, ORG was issued IDR #0003 advising of a modification to the examination period to the fiscal year ended June 30, 20XX. IDR #0003 was also issued to request a copy of the Form 990 for the tax period ended June 30, 20XX, as the return has not yet been fully processed by the IRS Service Campus.

During the initial interview, DIR-10 stated that ORG's primary focus was to educate people on what the Bible has to say about financial management. He stated that ORG uses the following books, " " by , and "The Holy Bible", New King James version. DIR-10 states that ORG teaches financial stewardship based on the Bible— "there are about 2300 verses in the Bible about wealth and finances." DIR-10 also stated that ORG's other activities included ordering and interpreting credit reports for clients, teaching money management, teaching how to establish budgets (including handing out statistical averaging worksheets,) marriage counseling, employment counseling, and financial hardship counseling. ORG's operations are delivered through in-person and telephone counseling sessions.

During the Agent's initial visitation, the agent observed several of ORG's sessions with its clients. Sessions observed were with RA-1, with additional observations done of RA-2, as well as Vice President. RA-1 indicated that he was the primary counselor for the organization. He indicated that when clients were backed up, DIR-10 or RA-2 would step in to take waiting clients.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

All observed sessions with clients took place at the audit site. All sessions were in person, with the exception of follow up calls.

As observed, in all cases, potential clients come in to the ORG office, and are met by the receptionist, who gives clients the application form (Exhibit C). Clients are requested to fill out this form in the ORG waiting room.

Once completed, ORG _____ pick up the completed forms, review the information, and complete the official use only section which summarized income, expenditures, disposable income and a proposed DMP amount.

As observed, at this point, the _____ brings the applicant into the office, discusses the application form, and presents the proposed DMP amount. If clients agree, the _____ will discuss the next steps in the DMP process, and turn the client over to the office clerical staff for the collection of the initial DMP fee, and to process the paperwork necessary to set up a DMP.

As observed, the application paperwork for clients who do not sign up for DMPs are placed into a drop file for possible future follow-up. Several of these follow-up calls were also observed. If a client later decides to obtain ORG services, the file is then pulled and a client account is created on the computer system. The clerical staff would then establish the client account using an assigned # and then log in the payment.

RA-1 said that when he conducts the follow-up calls he would first pull the most recent months file from the drop file. If he cannot reach a client then he would send a note with his business card. For those clients that cannot be reached, DIR-11 would file back the application in the drop file in the month that he took it from and will follow-up later. For those clients that he can reach, DIR-11 would then move the file to the current month.

DIR-11 stated that he conducts follow-up calls when there is no face-to-face counseling session.

At no point during observed contacts did _____ discuss budgeting and or finance, except as it related to the figures in the DMP calculation. At no point during observed contacts did _____ discuss methods to reduce household expenditures or attempts to increase household income.

At no point during observed contacts did _____ offer or make referrals to other organizations, such as social service organizations or housing assistance organizations. During sessions observed with RA-1 and RA-2, no references whatsoever was made to any biblical principles as referred to in ORG's Form 1023 application and 990 return.

During the sessions observed, ORG's employees took notes on a data collection sheet which captured the income, debts and assets of the individuals (client application form). On the back of the client application form is the creditor information sheet. This sheet allows the potential client to

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended
ORG	EIN	June 30, 20XX

list the creditors and all needed information to sign them up for a DMP. The Agent observed organization's employees completing the entries on the sheet, then attempting to enroll potential clients in a debt management plan (DMP), in which the client agrees to enter into a monthly payment plan whereby ORG collects one monthly payment that is distributed to the creditors of the client. ORG calculates the monthly payment required to pay off the creditors included in the plan, typically with plans paying off in three to five years. ORG maintains an active creditor list to record names, addresses, telephone numbers, and other information about creditors. ORG adds a monthly processing fee of approximately \$ or \$ to the monthly client payments. Currently, the monthly fee increased from \$ to \$. It was noted that the sheet did not contain educational content.

ORG's Form 1023 application states that fees will be waived for hardship. No instances of waivers being applied was observed by the Agent. Records of waivers were requested from the organization during the examination. To date, taxpayer only provided an unsupported statement that 407 clients did not pay the fees.

When ORG receives the client's first payment and the creditor information is entered into the system, a proposal is sent to the creditor for the first time. Proposals are delivered by regular mail, fax, or electronically through CO-8. Client information needed for creditor proposals are the following:

- Client's net income (total monthly income)
- Client's living expenses
- Client's scheduled payment—proposed monthly payment (less ORG's fee)
- # of creditors on DMP—total debt payments (less ORG's fee)
- Home #
- Start date of disbursement

The proposal asks the creditor to do the following: accept a regular monthly payment amount, adjust the payment date, eliminate fees, lower or eliminate interest, re-age accounts, contribute a fair share contribution of %, refrain from reporting a client as delinquent to the credit bureaus, and provide updated information regarding the creditor's account. Once the client completes the enrollment process, the client would submit a monthly payment to ORG and ORG disburses this payment to the client's various creditors. Its noted that ORG becomes one of the client's creditors as the client's are unable to pay ORG's monthly service charges. See Exhibit E for samples of client proposals.

A review of the *Authorization and Release form* stated the following with respect to the monthly service charge:

"to pay ORG a membership fee of \$ or \$ for collection accounts. The membership is included in my scheduled payment and may be reduced or waived for hardship."

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

The *Authorization and Release form* gives ORG the ability to contact and get information from creditors in negotiating a repayment or DMP on behalf of ORG's clients. Its noted that the form does not contain any educational content. It was also noted that ORG described the service charged to its clients as a "membership fee" and that the fee was for "collection accounts".

During observations, the Agent also observed several debt settlement sessions. All observed debt settlement sessions were conducted by RA-2. In debt settlement sessions, clients presented ORG with a list of debts for settlement. Offers were made by ORG to creditors to settle accounts in full for less than the amount due.

In debt settlements, ORG charged a fee of ten percent of the negotiated debt to the client. According to the *Settlement Authorization and release form*, the settlement minimum fee charged is \$. A contingency fee is charged of % of any settlement savings calculated as follows: the total balance owed less the settlement amount, % of the difference, or "amount saved". ORG will contact client creditors when required information and minimum fee is received. See Exhibit F for a sampled copy.

ORG charged separate fees for credit reports pulled in conjunction with its services. During the counseling observation, the agent noted that the credit reports were used to determine if the client had any other debts, how best to pay off the outstanding unsecured debt, if the creditor would accept the payment proposal, etc. The credit report fees are as follows:

- Individual \$
- Joint \$

In the POA's protest letter the POA disputed certain facts concerning ORG's sessions with its clients. In the protest, the POA stated that the Agent's observations vastly contrasted DIR-10's description of ORG's sessions with its clients. The POA submitted an affidavit from Vice President. Upon review of Vice President's affidavit, it was noted that Vice President's description of his counseling sessions lacked detail, no specifics as to who the client was and what was counseled. Vice President offered only general descriptions of his counseling activities. In the affidavit, Vice President did not mention that he was also a manager's representative and a previous officer of ORG. DIR-10 did not mention that he completed the backside of the double-sided worksheet. As indicated above, during the Agent's client observations, the client told the Agent that they heard about ORG through advertisements, relatives, from previous clients of CO-6, etc. At no point did the client say that they were referred to ORG by the CO-9, Mental Health, or drug treatment program. At no point during observed contacts did counselors make referrals to the support services as indicated in Vice President's affidavit.

Consequently, on January 14, 20XX, the Agent issued a letter attaching the Agent's transcribed notes describing the client sessions observed during the June 17-20, 20XX on-site visitation to the office of ORG. Please see Exhibit D for detailed descriptions of ORG's sessions with its clients, including corresponding support documents.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

On October 3, 20XX, the Agent issued correspondence (IDR#0002) to ORG requesting for client documentation in ORG's debt management program. ORG responded to IDR#0002 on November 3, 20XX. In the response, ORG stated the following:

- ORG assumed 1,040 active DMP clients/participants from CO-6 (CO-6) in July of 20XX
- ORG had 1,130 participants at the end of its fiscal year as of June 30, 20XX
- 2,117 participants were educated and not enrolled in DMP for the period under examination
- ORG does not document clients referred to a DMP program by other organizations
- 407 clients did not pay any portion of the requested fee for monthly services

Board of Directors/officers of ORG:

During the examination, it was disclosed that Vice President was a former officer/director of CO-6. Vice President stated that ORG took over CO-6 including all of its employees. Additional research of CO-6 revealed that the organization's exemption under §501(c)(3) of the Internal Revenue Code was revoked by the IRS in February 20XX.

It was also discovered that Vice President has an ownership interest in the Address, facility. This was contrary to what was reported on the organization's Form 1023 and 990.

Per telephone conversations with Secretary on February 6, 20XX, and with President on February 11, 20XX, it was stated that Vice President managed and controlled the operation of ORG. He is the primary for all of the outreach classes. RA-3 and RA-4 stated that Vice President came to them to discuss the possibility of opening an in house ministry within the church of CO-1. The operation would include education, counseling, assisting individuals with financial difficulties, etc. This would be accomplished by conducting classes on budgeting, spiritual counseling, etc. The plan was to sublease a facility at the church to conduct those activities. RA-4 stated that the plan was never written out, it was just a verbal discussion with Vice President. RA-4 stated that he is the Associate pastor and officer/director of CO-1. RA-3 stated that he is the Senior Pastor of CO-1.

RA-4's recollection was that ORG applied for tax-exempt status sometime in 20XX or 20XX. RA-4 and RA-3 stated that the idea was abandoned soon after due to advice from their lawyer.

RA-4 stated that he and RA-3 resigned from ORG sometime in June 20XX on the advice of their lawyer. RA-4 stated that he and RA-3 were not involved in the day-to-day operation of ORG. RA-4 stated that he and RA-3 had never been at the ORG facility and had no knowledge of ORG's current activities. The only time they met Vice President was during church service—once a week. RA-4 stated that he and RA-3 had not spoken to Vice President for a while.

The agent spoke with Secretary on March 27, 20XX, with respect to a CO-1 church donation of \$. RA-4 stated that Vice President donated to the church in the amount of \$ about three or four

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

months prior to the discussion on setting up classes on budgeting. When he and RA-3 resigned from ORG, the church returned the money with interest back to Vice President because the church wanted to be disassociated from ORG. RA-4 also stated that the other officers listed on the return were also members of the CO-1 church. This included DIR-3, DIR-2, and DIR-9. They were not sure about the other officers listed. RA-3 stated that DIR-9 was also a member of the church and that he would not have knowledge of ORG's activities. He was not involved in the day-to-day activities of ORG and has never been in ORG's facility or attended any of ORG's meetings.

President and Secretary provided copies of their resignation letters to ORG, as shown below:

1. In a letter of December 13, 20XX, to ORG, President resigned from being a Board member and officer of ORG effective December 13, 20XX.
2. In a letter of October 5, 20XX, to ORG, President resigned from being a Board member and officer of ORG effective October 5, 20XX.
3. In a letter of December 12, 20XX, to ORG, Secretary resigned from being an officer and director of ORG effective December 1, 20XX.
4. In a letter of October 4, 20XX, to ORG, Secretary resigned from being an officer and director of ORG effective November 1, 20XX.

The meeting minutes of the Board of Directors, held on November 18, 20XX, shows that the Directors who were present were President and Secretary. The minutes indicated that Vice President was also present and described his role as an employee and manager of ORG. The meeting minutes further reported that Vice President was voted in as the Director and President of ORG.

During the initial interview, Vice President stated that he was a board member of CO-6, which he resigned in 20XX, and then became an employee of CO-6, serving in that capacity from sometime in 20XX to December 20XX.

During the initial interview, Vice President stated that DIR-2 was the President of ORG from January 20XX to April 20XX, until he was absent due to illness. Vice President stated that he has never been to the office and was not a counselor of ORG. Vice President said that he and RA-2 were left to manage the operations of ORG.

The Agent had a telephone conversation with DIR-2 on April 7, 20XX, with respect to DIR-2's role in ORG's operation. DIR-2 stated that he was the President of ORG only as a figurehead with no actual interactions with ORG's activities or personnel. DIR-2 said that he did not sign the Form 990 tax return for the period ending June 30, 20XX. DIR-2 stated that he has never been at

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

ORG's facility and has never been involved in the daily operations of ORG. DIR-2 has no knowledge of ORG's current activities.

DIR-2 went on to say that he met Vice President at the CO-1 church where he was a member. Vice President recruited him at church to form a nonprofit organization that would provide for drug treatments, open a halfway house, Christian training classes, etc. The only meetings with Vice President were at the church or when DIR-10 wanted documents to be signed (RA-2 would bring him the documents to sign at church). DIR-2 said that he has been on workmen's compensation due to injury from the job for a while. He was told by DIR-10 that his name would be on the paperwork as a figurehead only and that there would be no liability against him. DIR-2 stated he has never attended any of ORG's meetings.

During the initial interview, Vice President stated that RA-1, RA-2, and he are the primary counselors. The counselor in training is DIR-5. It was noted that DIR-5 is the Vice-President, director and employee of ORG. Vice President and RA-2 are the managers of ORG.

According to ORG's general ledger, the following officers/managers are compensated for their services: Vice President, RA-2, DIR-5 and DIR-6. This is contrary to what was reported on Form 990.

In IDR #0004, the IRS asked ORG to provide a brief biographical summary for each officer and board member listed on the Form 990 and to include specific details regarding their prior training, education, and work experience in the credit or financial counseling industries.

ORG responded as follows:

- President is the Senior Pastor of CO-1 of a 1000 member church and also established a K-8th grade school of CO-10.
- DIR-9 is from the Department of Education, State of State, in counseling and career development
- Secretary is the Associate Pastor of CO-1, and is an accountant and financial counselor
- DIR-2 has an AA & NA ATS/CO-9 counselor
- DIR-5, Credit Counseling Systems Operation
- DIR-6, Credit Counseling Customer Service, Assistant bookkeeper
- DIR-3, Pharmacist
- DIR-7, paralegal, bankruptcy, wills, trust&probate, business, family law
- DIR-8, PHD International Business & Finance

Outreach/educational classes:

During the on-site examination, Vice President stated that ORG conducts some outreach classes. Vice President presented a sign in sheet showing eight (8) people in attendance. The Agent reviewed the sign in sheet and noted that the sheet did not show where the class was held and

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

how the class was promoted. The sheet did not include details such as length of time of each event; the number of participants; any fees charged; samples of forms, letters, and agreements used, etc. There was no other information shown on the sheet. When the Agent inquired, Vice President said that the class was at the . No other information was provided.

Vice President did not provide supporting documents for the above attendee during the on-site examination. The Agent subsequently issued an IDR to ask for the information. The information was received by the Agent on November 3, 20XX. Upon review, the Agent noticed that the sign in sheets still did not indicate where the classes were held and how the classes were promoted. The Agent noticed that some of the sign in sheets looked like the same sign in sheet a prospective client would use to sign in to the ORG facility. The Agent also noticed that the same client name appeared more than once on the sign in sheets. See Exhibit H.

In the examination report, the Agent mentioned that Vice President submitted some copies of documents titled "Client Action Plan" for review. The heading on the right top corner shows the street address and telephone number of ORG as:

Address
City, State
Tel#: #

The logo of ORG shown as follows:

ORG
LOGO
Non-profit organization

The heading, street address, and telephone number are the same as CO-6 and CO-15.

The examination report also mentioned that ORG submitted The State of State for review. In the examination report, the Agent mentioned the following regarding :

The State of State , offers grants and contracts to company's that offer substance abuse treatments to individuals and families. The State is part of the services. According to the State of State web site, offers individualized, self-directed recovery for individuals with substance abuse disorders. Client served include substance abusing adults that need treatment, adults currently in treatment for substance abuse, and those discharged from substance abuse treatment within the last 2 years. offers vouchers to individuals to pay for community-based assessment and recovery support services. It is a fee-for-service program and does not pay for substance abuse treatment.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

ORG applied to be one of the recovery support service providers. The Memorandum of Understanding (MOU) shows an agreement with ORG to deliver recovery support services to clients for housing support and spiritual support services. The MOU agreement was signed by Vice President as management representative, dated June 6, 20XX. The signature line for authorization was left blank. It was noted that the MOU agreement ended by saying "It is understood that this MOU is contingent upon the awarding of an Cooperative Agreement award from the U.S. Department of Health and Human Services, Center for Substance Abuse Treatment in support of in State."

ORG's application reported the following information:

- DIR-5 was listed as the Vice-president of ORG
- ORG was incorporated in July 20XX
- ORG was established in 20XX
- The number of staff in the organization = 8
- Current number of board members = 3
- President of ORG was DIR-2 located at Address, City, State
- Contact person regarding process approval was Vice President
- Recovery support program Director was Vice President.
- ORG described its organization as:

"a non-profit organization founded by a religious congregation or religiously-motivated incorporators and board members that clearly states in its name, incorporation, or mission statement that it is a religiously motivated institution".

- ORG described its eligibility requirements to participate in the program as follows:

"ORG are offered to families and individuals regardless of age, race, religion, creed, sex, social position or financial status."

- ORG listed the credentials of staff members as follows:

- RA-2, certified counselor
- Vice President,
-

In IDR #0004, the IRS inquired as to ORG's roll with respect to the housing support and spiritual support programs with . ORG responded as follows:

"ORG provides biblical/spiritual principles for faithful stewardship decisions for daily living with everything that God has entrusted based on the clear understanding that God is the owner of everything with joyous contentment with what God has provided and the ability to respond to God's call to service."

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Below the description appears to be an advertising window that states ORG would help clients with budget education and planning, provide a credit report, lower interest and fees, reduce monthly payments and free counseling.

The location address shown on the home page is: Address, City, State. The mailing address shown is: Address, City, State, telephone #: #.

In the "About Us" page, ORG described its services as follows:

"At ORG our goal is to help you determine a road map with a specific path for you to follow on your journey to personal freedom. We will help you achieve your goals and support you every step of the way by providing you nothing but the truth, honestly sincerely and confidentially. We offer you the highest degree of professionalism and strive to improve our quality and level of education and services and will be there for you."

The "Solutions" page, links to different web pages of ORG services:

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Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

In the "Debt repayment" page, potential clients are encouraged to call ORG's office and explain their situations. Appointments would be scheduled to go over the client's financial condition. The potential client completes the application form and mails or faxes the information to ORG. In the "why does it work?" section, ORG described its activity as:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

"both the debtor(person who owes) and the creditor (the person owed) benefit win/win...ORG offers counseling on budget and financial planning with emphasis on re-establishing credit. ORG can pull a comprehensive credit report. Our professionals can provide detailed analysis to help resolve and reestablish your credit. ORG will help you save money..."

The downloadable application form was viewed and it showed the following information:

- ORG's address:Address, City, State
- ORG's mailing address: Address, City, State
- ORG's telephone #: #
- The application described ORG as "an accredited non-profit community service organization, open Monday – Friday 8:30 am to 5:00 pm".
- The application form asked for the applicant's personal information, income, monthly living expenses, and secured debts. In the official use box, it shows the proposed DMP amounts.

In the "How it works" page, ORG described the benefits of credit counseling as

ORG describes "how its program works" as follows:

1. The applicant sends in an agreed monthly payment to ORG.
2. Then ORG deposits those funds in a trust fund bank account in which payments to creditors come out of the account.
3. ORG keeps records of all deposits and payments and any correspondence.
4. A fee of \$ to \$ per month is charged to cover stationary, postage, correspondence, documentation, monitoring, and handling of other expenses. The charge depends on the creditors. The fee can be waived for hardship.

ORG's *Authorization and Release* form indicates the following:

- By signing the form, the applicant is allowing ORG to negotiate a repayment or debt management program (DMP). Payments are directly disbursed through ORG.
- Charge a monthly service fee of \$ or \$.
- ORG's fundings are from "*voluntary donations and contributions from creditors who participate in DMP's*".

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

In the "Facts" page, the title (in bold) states "**Facts About State ORG**". ORG went on to describe itself as a community service organization designed to help people, it's purpose to help people with paying off their debt, educate consumers in stewardship and money management. The facts page also reports that the source of ORG's funding comes from tax deductible contributions and donations, business firms, banks, retail merchant, credit unions, and the community. Additionally, the facts page states that ORG services are provided to "*families and individuals regardless of age, race, creed, sex, social position, or financial status*".

In the "Links" page, ORG shows links to CO-11, Focus on the Family, and CO-12.

The "Doctrinal Statement" page, lists what appears to be bible scriptures and biblical passages.

Advertisements:

ORG advertised its services through referrals, TV, radio, and yellow pages. The yellow page ads were in the telephone books and online. During the client observations, ORG's potential clients told the Agent that they heard of ORG services through referrals from friends, relatives, prior clients of CO-6 Service, TV, radio, etc.

In IDR #0004, the IRS asked ORG to provide advertising material with respect to internet advertising. ORG responded by saying that they do not utilize internet advertising. In ORG's protest letter, the POA acknowledged that there was some internet advertising but did not provide copies of the advertisements.

Research of the internet found internet advertising by ORG. At Yellowpages.com there was an ad for CO-6, attached to the link was an ad for both ORG and CO-6. Research via an internet research engine yielded an ad for CO-6 with links to ORG. Contrary to the POA's claim, an analysis of the internet ads shows ORG's services as primarily in debt consolidations, debt settlement, credit report reestablishment. See Exhibit G.

ORG's radio advertisements:

ORG submitted scripts for a paid radio advertisement for the period 12/31/XX – 3/13/XX and 3/14/XX – 6/16/XX. The advertisement states that ORG will "*pull your credit reports evaluate your credit history and even talk to your creditors on your behalf. Say goodbye to the stress caused by collection phone calls, threats and anxiety.*" The advertisement also claimed that ORG would "*talk to creditors and stop the calls and even have lowered credit card interest rates and monthly payments*". (See also Exhibit G).

ORG's operational manual is called the certificate of registration from

The
was issued to ORG on August

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

15, 20XX, with an expiration date of August 14, 20XX. The certificate of registration also showed an original registration date of September 25, 20XX. The stated purpose of ORG was reported as

The manual was written to conform to _____, which relates to debt-management and credit counseling services provided to consumers to help minimize their economic stress. The manual states that ORG's goal is to "*relieve unwarranted financial burdens on wage earners and their dependents and to decrease the economic losses to individuals, creditors and the community by providing Biblical principals for faithful decisions for daily living.*" The manual states that ORG's counseling programs are free of charge to their consumers. The debt management service has no start-up fee. A monthly membership fee is charged but not to exceed \$ _____ and is waived for hardship. The manual goes on to describe that ORG relies on grants, individuals, creditor and community contributions to cover its operating expenses and educational programs. ORG has certified counselors to counsel clients via telephone or face-to-face meetings. Once clients complete the enrollment process, the client would submit a monthly payment to ORG and ORG disburses this payment to the client's various creditors. The manual also states that ORG maintained industry standards to qualify for membership with the _____.

Internet research did not show a membership at the _____ . ORG's financial records did not show paid membership dues to _____.

The manual defines "supplier" as the creditors to whom payments are disbursed and its definition of "customer" is that of the client or consumer. _____ also states that ORG counselors are not paid based on the results of the counseling process, no commissions provided and are paid on an hourly or salaried basis. ORG's quality objective is considered met if the following occurs:

- A growth rate of 30 new clients per month for the 20XX fiscal year
- Maintain operating expenses within % of 20XX & seek educational grant funding
- Fair share contributions at % of funds distributed
- Quality Service survey response rate at % or greater. With 80 or more answering in the 8-10 satisfaction range.
- Minimize number of customer complaints

According to the _____ manual, ORG's management team includes the executive director, director of operations, and management representative. The management team is in charge of ORG's operation. The Board of directors is responsible to ensure that ORG achieves its quality objectives.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

ORG maintains an active creditor list to record names, addresses, telephone numbers, and other information about creditors. The _____ displays a flowchart showing ORG's operational steps:

1. client inquires about ORG
2. appointment scheduled
3. counseling session
4. debt management initiated
5. entered into ORG database
6. data verification
7. payment entered into database, creditor payments programmed
8. creditor payments and proposal sent

The _____ reported ORG's 20XX officers/directors as:

- President, President/director
- Vice President, Vice president/director, management representative
- DIR-9, Vice president/director
- Secretary, Secretary

The document was authorized for issue by Vice President, Management Representative, July 10, 20XX. According to ORG's _____, the following are procedures for accepting client enrollment into the debt consolidation program.

- The purpose is to "ensure that ORG supports community education regarding credit and money management"
- Showed the following references: _____
- ORG counselors will provide the following certification programs or applicable experience: _____ through the _____ and _____ Planning Education, _____, Counselor Certification through the _____, CO-11, _____ Counselors
- Records kept by the director of operations: daily receipts report, bank deposit receipts, annual financial audit.
- With respect to internal communication, "the management team will conduct an employee meeting monthly or as necessary. An agenda for the meeting will be maintained by the _____"

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

management team representative to document the topics discussed and employees will sign a roster to certify their attendance at the meetings. The management team may also review staff responsibilities, staff authority and accountability, updates to procedures..."

- The Management Representative is responsible for ensuring that Management Reviews are conducted effectively. The management representative is responsible for:
 - Advising the management team about the frequency of management reviews,
 - Making necessary arrangements for holding the meetings,
 - Preparing and circulating before the meeting any necessary documents and information,
 - Acting as secretary to the management review meetings including recording the proceedings,
 - Ensuring that any corrective, preventive or other actions are implemented,
 - Reporting to the management team when these actions have been successfully completed.
- The management representative, director of operations and the executive director will attend the management review meetings. One of the agenda of the meeting is "performance in meeting goals, targets and trend analysis (fair share %)".
- The management representative and individual department supervisors are responsible for the overall training of employees.
- All new employees will meet with the management representative of ORG on their first day to review the employee handbook, to complete the forms mentioned above, to review safety requirements, to review confidentiality issues and to receive a general overview of the services provided by ORG.
- Receipt of client forms:
 - The management team is responsible for the accurate client enrollment
 - All pertinent information is completed on the application form
 - The authorization and release is signed by the applicant and co-applicant as necessary
 - Upon receipt of the first payment, the applicant is entered into the database and becomes an active client.
- Review of client forms:
 - Upon activation, the appropriate ORG staff member verifies the accuracy of the creditor name and account numbers. Any necessary corrections are made at that

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

time. Once approved or corrected, the staff member inputs in data in the ORG system.

- o A client may cancel his/her agreement with ORG provided the request is made in writing. Upon receipt of the written cancellation, ORG confirms the cancellation in writing with the client and notifies the client's creditors. ORG may also cancel an agreement due to a failure to pay or for other reasons. ORG notifies the client in writing of this cancellation and also notifies the client's creditors in writing.
- Purchases: the executive director will authorize purchases, or will authorize other staff to make purchases, from vendors. Those purchases will be reviewed for accuracy and the products/services purchased will be verified.

The manual described ORG's counseling process as follows:

1. Potential client would initially fill out an application detailing all of their contact information and a listing of creditors that they would like to include in the counseling program. Upon receipt of the application, a counselor contacts the client to review the application and determine whether the client can benefit from the program.
2. Each client is faxed ORG's service agreement which details the allocation of up front fees.
3. Each debt management plan is created in the ORG system, along with the agreements sent to each client.

Work Instructions manual:

The Work Instructions contained the following information:

- With respect to payments to creditors on behalf of ORG clients:
 - o Payments include electronic payments, checks issued from the ORG trust account, regularly scheduled payment or one-time payments made in special circumstances
 - o Have two regularly scheduled disbursement dates to creditors:
 1. Cycle A: client payments received between the 20th and the 9th of the following month will be sent to creditors on the 11th of the month.
 2. Cycle B: client payments received between the 10th and the 19th of each month will be sent to creditors on the 21st of the month.
 - o Payment format:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

payments sent to creditors primarily via electronic transfer (RPS) and check from the ORG trust account. The check payment will contain payments for all clients of that given creditor from whom ORG has received payments in that given cycle.

- o Proposals:
 - o The creditor proposals are created using the ORG database software program. When the first payment of a client is processed, each creditor is sent a proposal. Electronic proposals are posted to a computer file that is electronically transmitted to CO-13 for processing. CO-13 then forwards the electronic proposals to the various creditors.
 - o All records of client payments are maintained for 7 years.

Employee manual:

ORG's employee manual, revised July 20XX. The employee manual was prepared and maintained in accordance to ISO 9001(20XX). The employee manual indicates, under the title compensation--performance evaluation, that each year the manager evaluates the employee performance. The president sets guidelines for salary increases with each department manager. The company paid benefits include: worker compensation, unemployment compensation insurance, medical insurance, dental insurance, as well as paying for tuition for continuing education.

The BSI management systems, assessment report, dated August 6, 20XX, listed the name and position of ORG's personnel:

<u>Name</u>	<u>Position</u>
Vice President	Management Representative
RA-5	Systems Operation
RA-6	Admin/client relations
RA-7	Systems Operation
RA-8	Admin/customer service
RA-2	Operations/Dept. management Rep.
RA-9	Administration
RA-1	Counselor

The manual also shows ORG's Education and Training Requirements exhibit. The exhibits indicated the following:

- The "How can ORG Help You?" exhibit states the following:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

"ORG offers a repayment plan with your creditors, mastercard, visa, department stores, medical and professional bills, banks, etc. In almost all cases your creditors will help you by accepting a win/win proposal, waive late and/or service charges and occasionally even reduce or waive interest charges."

- The "How Does This Program Work?" exhibit states the following:

"ORG receives the mutually agreed upon amount of payment from you each month. Your payment is deposited into a local trust fund bank account and payments are made out to each creditor. ORG keeps a complete accounting record and documentation of all you deposits and payments as well as any correspondence on your behalf. The charge to handle the expense of accounting, stationary, postage, correspondence, documentation, and monitoring on your behalf is \$ to \$ per month depending on your creditors, and waved for hardship."

"Definition: Education and Training programs and activities are designed to assist the client in obtaining necessary skills to be a successful and productive member of the community and offers skill building topics including, but not limited to, money management, personal growth, responsible decision making, and vocational training. It is also meant to provide the client with tools that promote a healthy lifestyle and strengthen family, work, and social environments."

"Scope of Services: Education and Training programs and activities include a broad variety of unique perspectives and approaches and shall be designed to support the client's treatment and recovery. Each Education and Training Provider shall submit a brief outline or description of [the] proposed program or activity. Multiple programs and activities from the same individual or organization are acceptable."

In IDR #0004, the IRS asked for a list of the management team. ORG responded by saying that the management team consists of the Director of Operations—RA-2 and management representative-- Vice President.

Books and records:

ORG's sources of revenue are derived from credit counseling fees. The credit counseling fees include initial payments to set potential clients up on DMPs (the monthly service charge), fair share payments from creditors, credit report fees. ORG labeled these fees as "education/counseling" and as "public support and grants" on its Form 990 return.

The following shows ORG's financial records with respect to revenues and expenses.

Revenues (taken from Profit & Loss statement):

Credit report fee	\$
DMP fees-client share	\$

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

Creditor donations-fair share \$
Corporate & business grants \$
Individual/business contributions \$

A review of ORG's financial records indicated that the funds received from creditors were identified as grants. Payments were received from credit card companies that were attributable to debt management plan services.

According to ORG's financial records, ORG also received its funding from client donations.

Fair share payments were labeled as client or creditor donations or grants.

ORG submitted copies of correspondence from the CO-14 grant program, as indicated below:

- Letter dated 3/14/20XX, addressed to ORG, c/o Vice President, Address, City, Street. The letter states that ORG received a grant from CO-14 for \$ for the first quarter of 20XX.
- Letter dated 6/24/20XX, addressed to ORG, c/o Vice President, Address, City, Street. The letter states that ORG received a grant from CO-14 for \$ for the second quarter of 20XX.
- Letter dated 12/12/20XX, addressed to ORG, c/o Vice President, Address, City, Street. The letter states that ORG received a grant from CO-14 for \$ for the third quarter of 20XX.

The term "fair share" refers to a payment made by the credit card companies who are receiving payments from their debtors via the DMPs set up by the organization. The amount paid is determined by each separate creditor in advance. Credit card companies generally will only make "fair share" payments to organizations recognized as exempt under section 501(c)(3) of the Code.

It was noted that ORG does not receive any contributions from the general public, people who are not in ORG's DMP activities. ORG receives no donations from community groups, churches, labor unions, or any other groups or private citizens. Based on the information provided, ORG does not have a fundraising program.

ORG's profit and loss statement and balance sheet shows that after ORG's takeover of CO-6 Service, ORG's income increased dramatically. ORG's trust fund account jumped from statement period 6/30/XX – 7/31/XX of \$ to \$ on statement period 7/31/XX – 8/31/XX. This was about the same time CO-6 was in process of losing its tax-exempt status.

It was also noted that ORG does not report funds received from their clients held in trust to pay creditors as income on the Form 990. Its noted that ORG has no title or ownership in those funds, because ORG, as a service provider, is required to send those funds to creditors. According to ORG's financial records, the trust funds account total deposits were approximately \$ from statement period June 30, 20XX to June 30, 20XX. This information is noted here for

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

informational purposes. The total deposits in the trust funds account show substantial DMP activities.

The agent further noted, there was no indication that the deposits were from CO-6 DMP clients. The transaction was described as ORG's transaction.

Expenses (taken from Profit & Loss statement):

ORG's primary expenses are other salaries and wages, other employee benefits, payroll taxes, telephone, occupancy, and advertising expenses.

The primary expenses are:

Other salaries & wages	\$
Other employee benefits	\$
Payroll taxes	\$
Telephone	\$
Occupancy	\$
Advertising	\$

See Exhibit K for sample list of client DMP fees.

Related organizations:

ORG's operation is related to CO-6 and CO-15. ORG's operations were established in the same period in which the previous non-profit entity CO-6 was being revoked by the IRS in February 20XX.

The POA's protest letter is silent with respect to ORG's relationships with CO-6 and CO-15.

CO-15:

During the examination, it was discovered that CO-15 was using ORG to answer telephone calls for the organization. It was also discovered that CO-15 was also claiming to be CO-6. Both organizations were revoked by the IRS for conducting non-exempt activities.

RA-10 was the officer/counselor of CO-15. RA-10 is the father of Vice President. The officers and board members of CO-15 are the same board members in CO-6. According to RA-10, the board members were just listed for show, with no actual authority.

It was noted that the content of CO-15 web site mirrors that of ORG and CO-6.

CO-6:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

It was noted that the content of CO-6 web site mirrors that of ORG and CO-15.

According to the State Secretary of State web site, CO-6 Service is a domestic nonprofit corporation incorporated on November 9, 19XX. The corporate status is shown as active. The stated purpose of the organization is reported as "comprehensive credit counseling education & establishing voluntary debt repayment programs". The mailing address is Address, City, State. The registered agent's name and address is RA-10, Address, City, State. The officers listed are:

Officers name	Title
RA-10	President
RA-11	Vice-president
RA-12	Secretary
RA-13	Treasurer

During the initial interview, Vice President stated that he was a board member of CO-6, which he resigned in 20XX, and then became an employee of CO-6, serving in that capacity from sometime in 20XX to December 20XX.

CO-6 web site address is website. A copy of the home page was printed and shown as Exhibit A. See also Exhibit J. According to Exhibit A, the opening page of the web site contained the introduction heading, "CO-6 Service" below the heading the statement, "Welcome to CO-15!" was displayed. After the introduction heading, the following statement was displayed:

CO-15 (CO-15) is a non-profit community service offering:

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-

Our consumer advocates are here to help!

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Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

On the same page, the web site showed the address and telephone number for contact information as follows:

Address
City, State
Tel: Phone Fax: Fax
Toll free: Phone

The CO-6 Service Form 990 return for tax period ending December 31, 20XX shows the following information:

- The initial return box was checked
- Address shown as Address, City, State, telephone ##
- Web site address: website
- Primary revenues:

Contributions, gifts, grants	\$
Interest/dividends from securities	\$
Total	\$

Part VII of the Form 990, described the revenues of \$ deriving from debt management program.

- Primary expenditures:

Compensation of officers/directors	\$
Other compensation	\$
Salaries & wages of employees	\$
Employee benefits	\$
Payroll taxes	\$
Occupancy	\$
Advertising	\$
Dues/subscription	\$

- Part III of the Form 990, *Statement of Program Service Accomplishments*, states the exempt purpose of CO-6 as "providing confidential personal stewardship counseling, education, debt management programs and negotiating with creditors in eliminating debt."
- Part VIII of the Form 990, *Relationship of Activities to the Accomplishment of Exempt Purposes*, states the exempt purpose as "providing confidential personal stewardship counseling, education debt management programs and negotiating with creditors in eliminating debt."
- Part IV of Form 990, *Balance Sheet*, reported end of year balance in the amount of \$

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

- Part V-A of Form 990, listed current officers, directors, and key employees:

Name	Title	Average hours worked	Compensation
Vice President	Executive Director	40	\$
RA-10 President	0		\$

- Line 91a of Form 990 reported that the books are in the care of RA-14, located at Address, City, State, telephone # #.
- The 990 return was signed by RA-10, President, dated March 8, 20XX.

ORG's books and records also show evidence of activities commingled with CO-6. For example, a review of cancelled check # and invoice # from CO-16 shows that the invoice was addressed to CO-6 with contact person of Vice President. The invoice shows the expense was for radio advertisement on CO-17 from September 4, 20XX to October 1, 20XX. The expenditure of \$ was written out from CO-6 operating checking account and was signed by Vice President. A review of cancelled check #, paid to CO-18, was written from CO-6 operating checking account and was signed by Vice President for \$. The bill was addressed to CO-6 and was for "finance insurance: RA-13" for the period July 1, 20XX – October 1, 20XX. RA-13 was listed as one of CO-6 officers/directors.

A review of check # for \$ CO-19, was paid from CO-6 operating checking account and was signed by Vice President. The invoice was addressed to CO-6, attn: DIR-9, at Address, City, State. The person covered was DIR-5 and RA-10.

A review of check # 1031 for \$, CO-20, invoice was billed to DIR-9 (wife of Vice President), CO-6, for service period of 12/1/XX to 12/31/XX. The source document stated the charges were for client credit checks (see Exhibit L).

The reported \$ in transactions as Notes/Loans Receivable with CO-6 for:

- Cancelled check # dated 12/XX/XX \$
- Cancelled check # dated 10/03/XX \$
- Cancelled check # dated 9/XX/XX \$

A review of the advertising payments shows that payments were made to CO-21 for CO-6 at the location of Address, in 20XX and 20XX.

There were no meeting minutes regarding the acceptance of CO-6 takeover with respect to ORG. In fact, the ORG "officers" (President, Secretary, and DIR-2) was not even aware that this activity was going on. They have never been at the facility and had not attended any of the board meetings.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

It was noted that ORG continues to describe in its flyers, web site, and advertisements that CO-6 is still a non-profit entity, when it is not. This is misleading because after the revocation of CO-6, the organization became a for profit entity. It was also noted that the content of CO-6 web site mirrors that of ORG and CO-15.

Attached as Exhibit O, details the courts decisions to revoke CO-6. In CO-6 Service vs. Commissioner of Internal Revenue Service, the court ruled to dismiss the case for failure to state a claim upon which relief can be granted. On November 29, 20XX, the Office of Appeals issued a final adverse determination letter to CO-6 Service revoking the organization's tax-exempt status effective January 1, 20XX. The final adverse determination letter states in part, "Our adverse determination was made for the following reason(s): You are not operated exclusively for charitable, educational, or other exempt purposes. You did not engage primarily in activities which accomplish one or more exempt purposes specified in section 501(c)(3). More than an insubstantial part of your activities were in furtherance of a non-exempt purpose and you were operated for the purpose of serving a private benefit rather than public interests."

It was further noted that in 20XX and 20XX, Vice President operated CO-6 and was compensated for his work.

Other related organizations:

Additional extensive research revealed RA-10 and Vice President's association with CO-22 The State Secretary of State web site shows that the corporation is a domestic profit corporation, incorporated December 16, 19XX. The corporation was rated as active and in good standing. The description of its purpose was "real estate sales and development". The mailing address shown was Address, City, State, Tel#. The registered agent's name was RA-10. The officers listed are:

<u>Officers name</u>	<u>Title</u>
RA-10	President
Vice President	Vice-President
DIR-9	Secretary/Treasury.

It was subsequently disclosed, in ORG's response to IDR #0004, that Vice President has an ownership interest in the facility located at Address,, which ORG occupies and paid rent of \$ per month from January 1, 20XX, to June 1, 20XX, totaling \$.

Research of Address, revealed that this facility address is shared with a pair of limited liability companies. According to the State Secretary of State web site, a search of Address, resulted in CO-23 and CO-24. Both LLC's show an active status.

The CO-23 entity shows that it is a domestic limited liability company (LLC), managed by a manager. The LLC was registered and incorporated on July 28, 20XX, at the address of Address,

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

City, State. The registered agent's name is RA-15, who is also a member/manager of the LLC. The registered agent's address is the same as the registration mailing address.

In IDR #0004, the IRS asked for financial documentation of a payment of \$ paid to CO-23 on January 1, 20XX from ORG's operating account for rental expenses. ORG responded on March 5, 20XX, by submitting a copy of cancelled check #. A review of the check revealed that the facility address was the same as ORG's facility. The check was signed by Vice President (see Exhibit N).

Law

Section 501(q) of the Internal Revenue Code establishes standards that a credit counseling organization must satisfy for exemption under section 501(c)(3) or section 501(c)(4), as follows:

1. the organization provides credit counseling services tailored to the specific needs and circumstances of consumers,
2. the organization makes no loans to debtors and does not negotiate the making of loans on behalf of debtors,
3. the organization provides services for the purpose of improving a consumer's credit record, credit history, or credit rating only to the extent that such services are incidental to providing credit counseling services, and
4. the organization does not charge any separately stated fee for services for the purpose of improving any consumer's credit record, credit history, or credit rating.
5. the organization does not refuse to provide credit counseling services to a consumer due to the inability of the consumer to pay, the ineligibility of the consumer for debt management plan enrollment, or the unwillingness of the consumer to enroll in a debt management plan.
6. the organization establishes and implements a fee policy which requires that any fees charged to a consumer for services are reasonable, allows for the waiver of fees if the consumer is unable to pay, and except to the extent allowed by State law, prohibits charging any fee based in whole or in part on a percentage of the consumer's debt, the consumer's payments to be made pursuant to a debt management plan, or the projected or actual savings to the consumer resulting from enrolling in a debt management plan.
7. at all times the organization has a board of directors or other governing body which is controlled by persons who represent the broad interests of the public, such as public officials acting in their capacities as such, persons having special knowledge or expertise in credit or financial education, and community leaders,
8. not more than 20 percent of the voting power of which is vested in persons who are employed by the organization or who will benefit financially, directly or indirectly, from the organization's activities, and
9. not more than 49 percent of the voting power of which is vested in persons who are employed by the organization or who will benefit financially, directly or indirectly, from the organization's activities.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

10. the organization does not own more than 35 percent of the total combined voting power of any corporation, the profits interest of any partnership which is in the trade or business of lending money, repairing credit, or providing debt management plan services, payments processing, or similar services, and
11. the organization receives no amount for providing referrals to others for debt management plan services, and pays no amount to others for obtaining referrals of consumers.

Section 501(q) also sets additional requirements for section 501(c)(3) with respect to credit counseling service as their primary activity:

- Cannot solicit contributions from consumers during the initial counseling process, or while consumer is receiving services from organization;
- For existing organizations, the amount of revenues an organization may receive from its customers' creditors which is attributable to DMP services is limited to 80 percent in 20XX and 70 percent in 20XX.
- Sets restrictions on who may serve on the governing board of a credit counseling organization. A majority, at least 51 percent, of the board members must represent the broad interests of the public. This includes public officials, community leaders, and persons having special knowledge or expertise in credit or financial education. No more than 49 percent of the board may be employees of the organization, creditors, or those who will benefit financially in any other way.

The credit counseling provision of the Pension Protection Act of 20XX defines credit counseling services as:

Credit counseling services are 1) the provision of educational information to the general public on budgeting, personal finance, financial literacy, saving and spending practices, and the sound use of consumer credit; 2) the assisting of individuals and families with financial problems by providing them with counseling; or 3) any combination of such activities.

The provision defines debt management plan services as:

Debt management plan services are services related to the repayment, consolidation, or restructuring of a consumer's debt, and includes the negotiation with creditors of lower interest rates, the waiver or reduction of fees, and the marketing and processing of debt management plans.

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

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

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.

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

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

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

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

Section 1.501(c)-1(d)(3) of the regulations defines the term "educational" as including the instruction or training of the individual for the purpose of improving or developing his capabilities, or the instruction of the public on subjects useful to the individual and beneficial to the community.

In Revenue Ruling 69-441, 1969-2 C.B. 115, the Service found that a nonprofit organization formed to help reduce personal bankruptcy by informing the public on personal money management and aiding low-income individuals and families with financial problems was exempt under section 501(c)(3) of the Code. Its Board of Directors was comprised of representatives from religious organizations, civic groups, labor unions, business groups, and educational institutions.

The organization provided information to the public on budgeting, buying practices, and the sound use of consumer credit through the use of films, speakers, and publications. It aided low-income

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

individuals and families who have financial problems by providing them with individual counseling, and if necessary, by establishing budget plans. Under the budget plan, the debtor voluntarily made fixed payments to the organization, holding the funds in a trust account and disbursing the funds on a partial payment basis to the creditors. The organization did not charge fees for counseling services or proration services. The debtor received full credit against his debts for all amounts paid. The organization did not make loans to debtors or negotiate loans on their behalf. Finally, the organization relied upon voluntary contributions, primarily from the creditors participating in the organization's budget plans, for its support.

The Service found that, by aiding low-income individuals and families who have financial problems and by providing, without charge, counseling and a means for the orderly discharge of indebtedness, the organization was relieving the poor and distressed. Moreover, by providing the public with information on budgeting, buying practices, and the sound use of consumer credit, the organization was instructing the public on subjects useful to the individual and beneficial to the community. Thus, the organization was exempt from federal income tax under section 501(c)(3) of the Code.

Revenue Ruling 65-299, 1965-2 CB 165, states in part, that a nonprofit organization formed to advise, counsel, and assist individuals in solving their financial difficulties and to help reduce the incidence of personal bankruptcy was exempt under section 501(c)(4) of the Code. It also states that individuals with financial problems are not part of a charitable class.

Revenue Ruling 78-50, 1978-1 CB 155, (Jan. 01, 1978), states in part, that a nonprofit organization that processes consumer complaints concerning products and services provided by business establishments, meets with the parties involved to encourage resolution of the problem, recommends a fair solution and, if the proposed solution is not accepted, informs the parties about appropriate judicial or administrative bodies that may be used to resolve the disputes qualifies for exemption under §501(c)(4) of the Code.

Revenue Ruling 66-220, 1966-2 CB 209, (Jan. 01, 1966), states the term "educational" is defined in the Income Tax Regulations applicable to section 501(c)(3) of the Code as the instruction of the public on subjects useful to the individual and beneficial to the community. An example of an educational organization described in the regulations is one whose activities include public discussions, forums, lectures, panels, and other similar programs broadcast on radio and television with a full and fair exposition of the pertinent facts.

In Revenue Ruling 77-377, 1977-2 C.B. 192, concerns a nonprofit organization that arranges and conducts winter-time ocean cruises during which activities to further religious and educational purposes are provided in addition to extensive social and recreational activities. This organization is not operated exclusively for exempt purposes under IRC 501(c)(3).

In Consumer Credit Counseling Service of Alabama, Inc. v. United States, 78-2 U.S.T.C. 9660 (D.D.C. 1978), the court held an organization that provided free information on budgeting, buying

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

practices, and the sound use of consumer credit qualified for exemption from income tax because its activities were charitable and educational.

The Consumer Credit Counseling Service, which has been recognized as exempt under section 501(c)(3), is an umbrella organization made up of numerous credit counseling service agencies. In this case, these agencies provided information to the general public through the use of speakers, films, and publications on the subjects of budgeting, buying practices, and the sound use of consumer credit. They also provided counseling on budgeting and the appropriate use of consumer credit to debt-distressed individuals and families. They did not limit these services to low-income individuals and families, but they provided such services free of charge. As an adjunct to the counseling function, they offered a DMP. Approximately 12 percent of a professional counselor's time was applied to the DMP activity as opposed to an educational activity. Moreover, the agencies charged a nominal fee of up to \$10 per month for the DMP. This fee was waived in instances when payment of the fee would work a financial hardship.

The agencies received the bulk of their support from government and private foundation grants, contributions, and assistance from labor agencies and the United Way. An incidental amount of their revenue was from counseling fees. In 1974, the Service ruled that each of the agencies constituted organizations described in section 501(c)(3). However, two years later, the Service notified the agencies that it had made a mistake and was reclassifying them under section 501(c)(4). The reasons given by the Service for revocation of section 501(c)(3) were that: (1) the agencies were not organized and operated exclusively for charitable or educational purposes; (2) the debt management service is not limited to low-income individuals or families; and (3) fees are charged for the services rendered.

The court did not agree with the Service and directed verdicts for the plaintiff. Providing information regarding the sound use of consumer credit is charitable because it advances and promotes education and social welfare. These programs were also educational because they instructed the public on subjects useful to the individual and beneficial to the community. The counseling assistance programs were likewise charitable and educational in nature. Because the community education and counseling assistance programs were the agencies' primary activities, the agencies were organized and operated for charitable and educational purposes. The court also concluded that the limited debt management services were an integral part of the agencies' counseling function, and thus were charitable and educational undertakings, but stated further that even if this were not the case, these activities were incidental to the agencies' principal functions.

Finally, the court found that the law did not require that an organization must perform its exempt functions solely for the benefit of low-income individuals to qualify under section 501(c)(3). Nonetheless, the agencies did not charge a fee for the programs that constituted their principal activities. A fee may be charged for a service that was an incidental part of an agency's function, but even when a fee was so charged, it was nominal. Moreover, even this nominal fee was waived when payment would work a financial hardship. Thus, the court ordered that "each of the plaintiff consumer credit counseling agencies was an organization described in section 501(c)(3) as a charitable and educational organization." See also, Credit Counseling Centers of Oklahoma,

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

Inc. v. United States, 79-2 U.S.T.C. 9468 (D.D.C. 1979), in which the facts were virtually identical and the law was identical to those in Consumer Credit Counseling Centers of Alabama, Inc. v. United States, discussed immediately above. Thus, the court ordered that the consumer credit counseling agencies were described in section 501(c)(3) as charitable and educational organizations.

Easter House v. United States, 846 F. 2d 78 (Fed. Cir. 1988), aff'g 12 Cl.Ct. 476 (1987), the court found an organization that operated an adoption agency was not exempt under section 501(c)(3) of the Code because a substantial purpose of the adoption activity was a non-exempt commercial purpose. It found that the adoption services did not further the exempt purposes of providing educational and charitable services to the unwed mothers and children. Rather, the services for unwed mothers and children were merely provided "incident" to the organization's adoption service business. Moreover, the court found that "adoption services do not in and of themselves constitute an exempt purpose."

The court also agreed with the IRS' determination that the agency operated in a manner not "distinguishable from a commercial adoption agency" because it lacked the traditional attributes of a charity. First, the agency's operation made substantial profits, and there was a substantial accumulation of capital surplus in comparison to direct expenditures by the agency for charitable and educational purposes. Second, the agency's operation was funded completely by substantial fixed fees charged adoptive parents. It relied entirely on those fees and sought no funds from federal, state or local sources, nor engaged in fund raising programs, nor did it solicit contributions. In fact, the agency had no plans, nor intention to seek contributions, government grants or engage in fund raising relative to its operations. Third, the fixed fees the agency charged adoptive parents were not subject to downward adjustment to meet potential adoptive parents' income or ability to pay. Fourth, the agency's single life member had near total control of the operations of the agency. And fifth, the agency functioned by means of a paid staff of 15 to 20 persons, with no volunteer help.

In addition to furthering a substantial non-exempt purpose, the court ruled that the taxpayer failed to show that no part of its earnings inured to the benefit of any private individual or shareholder as defined by sections 1.501(c)(3)-1(c)(2) and 1.501(a)-1(c) of the regulations. The court found the organization provided a source of credit (i.e. loans) to companies in which the private shareholder was either employed or owned. The fact that the loans were made showed that the companies controlled by the private shareholders had a "source of loan credit" in the organization and the ability to use the organization's assets for their personal benefit.

In Living Faith, Inc. v. Commissioner, 950 F. 2d 365, a nonprofit organization which operated restaurants and health food stores in accordance with the doctrines of the Seventh-day Adventist Church. The court found that Living Faith conducted its operations with a substantial commercial purpose, and therefore does not qualify as a tax-exempt organization.

In Schoger Found. v. Commissioner, 76 T.C. 380, 386 (1981), a not-for-profit corporation, operated a lodge located in the mountains of Colorado, and promoted the facility as a lodge "for

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Christian families." The lodge offered various recreational activities. It also offered religious activities--operated without a set program--including daily devotions and Scripture reading after breakfast, Sunday morning worship for guests requesting the service, and discussion seminars, Christian song sessions, and "share sessions" conducted by staff members. Attendance at both the recreational and religious activities was strictly optional. Although the lodge conducted only minimal advertising, a brochure--which referenced recreational activities and accommodations as well as religion--was provided to potential guests. While the court recognized that "specific mandatory religious activities are not necessarily required" to obtain exempt status, it added:

[T]here must be something more than the fact that Christ Haven Lodge is promoted as a lodge "for Christian families."It is difficult to see how that experience differs, if it does, from the same experience one can have at any quiet inn or lodge located in the beautiful mountains of Colorado.

Section 501(c)(3) of the code provides for the exemption from Federal income tax of organizations that are organized and operated exclusively for religious, charitable or educational purposes. This statute has been construed as requiring all the resources of the organization to be applied to the pursuit of one or more of the exempt purposes therein specified. The presence of a single nonexempt purpose, if substantial in nature, will preclude exemption. Better Business Bureau v. United States, 326 U.S. 279

In United States v. Ballard, 322 U.S. 78 (1944), state in part, that although the government may question the sincerity of a claimant's religious belief, the truth or veracity of that belief is not questionable.

In Puritan Church of America v. Commissioner, 10 TCM (CCH) 485, (1951), affirmed per curiam 209 F. 2d 306 (D.C. Cir., 1953), cert. denied, 350 U.S. 810 (1955), the court found that the organization's purpose was to carry on the founder's personal feud with a local newspaper. The court did not examine the validity or sincerity of the beliefs held. However, it found that the actual activities of the organization had no relation to the observance of the religious beliefs of its members. Therefore, the court held that the organization was not exempt.

In B.S.W. Group, Inc. v. Commissioner, 70 T.C. 352, 356-57 (1978), state in part, that the focus of the issues should be "toward which an organization's activities are directed, and not the nature of the activities."

In Kentucky Bar Foundation v. Commissioner, 78 T.C. 921, 923-924 (1982) and Ohio Teamsters Education and safety Training Fund v. Commissioner, 77 T.C. 189, 196 (1981), affd. 692 F.2d 432 (6th Cir. 1982), state in part, the operational test examines the actual purpose for the organization's activities and not the nature of the activities or the organization's statement of purpose.

In Credit Counseling Centers v. S. Portland, 814 A.2d 458 (S. C. Me. 20XX), the Supreme Court of Maine denied state tax exemption to a credit counseling agency that provided significant

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

benefits to creditors. Credit card companies commonly make payments to credit counseling agencies of a portion of the funds they receive from clients of the agencies. These payments are known as "fair share" payments and are a source of substantial funding for credit counseling agencies. In this case, the credit counseling agency received 60 percent of its income from "fair share" payments from credit card companies, at the rate of 8.5% to 9% of debt payments.

In Solution Plus, Inc. v. Commissioner, T.C. Memo. 20XX-21, the Tax Court has held that a credit counseling organization, Solutions Plus, is not exempt under section 501(c)(3).

The Court held that the organization's purposes are not educational because its "activities are primarily structured to market, determine eligibility for, and enroll individuals in DMPs." Its purposes are not to inform consumers "about understanding the cause of, and devising personal solutions to, consumers' financial problems," or "to consider the particular knowledge of individual callers about managing their personal finances."

The Court held that the organization's purposes are not charitable because "its potential customers are not members of a [charitable] class that are benefited in a 'non-select manner ... because they will be turned away unless they meet the criteria of the participating creditors." The Court also held that the Solutions Plus would operate for the private interests of its founder and participating creditors. The Court stated that the facts in Credit Counseling Services of Alabama "stand in stark contrast" because "the sale of DMPs is the primary reason for [Solution Plus's] existence, and its charitable and educational purposes are, at best, minimal."

Rev. Proc. 20XX-52, with respect to revocation or modification of a determination, states in part, the revocation or modification of a determination letter or ruling recognizing exemption may be retroactive if the organization omitted or misstated a material fact, operated in a manner materially different from that originally represented, or, in the case of organizations to which section 503 of the Code applies, engaged in a prohibited transaction with the purpose of diverting corpus or income of the organization from its exempt purpose and such transaction involved a substantial part of the corpus or income of such organization. See also Rev. Proc. 20XX-9 and 20XX-9.

The Credit Repair Organizations Act ("CROA"), 15 U.S.C. section 1679 et seq., effective April 1, 1997, imposes restrictions on credit repair organizations, including forbidding the making of untrue or misleading statements and forbidding advance payment, before services are fully performed. 15 U.S.C. section 1679b. Section 501(c)(3) organizations are excluded from regulation under the CROA. The CROA defines a credit repair organization as:

(A) any person who uses any instrumentality of interstate commerce or the mails to sell, provide, or perform (or represent that such person can or will sell, provide, or perform) any service, in return for the payment of money or other valuable consideration, for the express or implied purpose of—

(i) improving any consumer's credit record, credit history, or credit rating, or

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

(ii) providing advice or assistance to any consumer with regard to any activity or service described in clause (i).

15 U.S.C. section 1679a(3). The courts have interpreted this definition broadly to apply to credit counseling agencies. The Federal Trade Commission's policy is that if an entity communicates with consumers in any way about the consumers' credit situation, it is providing a service covered by the CROA. In Re National Credit Management Group, LLC, 21 F. Supp. 2d 424, 458 (N.D.N.J. 1998).

16 C.F.R. section 310.4(b)(1)(iii)(B); 47 C.F.R. section 64.1200(c)(2) prohibits businesses from cold-calling consumers who have put their phone numbers on the National Do-Not-Call Registry, which is maintained by the Federal Trade Commission ("FTC"). Nonprofit organizations are not subject to this rule. This registry was created by rules promulgated by the FTC and the Federal Communications Commission.

Taxpayer's position

ORG does not agree with the proposed revocation. As indicated in correspondence dated August 20, 20XX and in the protest letter, requesting review by Appeals, dated August 20, 20XX (a revision of October 22, 20XX "bare bones" protest letter).

In correspondence dated August 20, 20XX, ORG states that their primary activities are community education and counseling assistance programs. ORG contends that their debt management plan credit counseling services are incidental to ORG's total scope of principal functions.

ORG's letter of August 20, 20XX also states that the contributors listed on the Form 990 return did not consist of creditors that ORG serviced, but rather *"funds received from grants that were used for educational purposes and not based upon administration of a DMP or in exchange for services"*.

On October 22, 20XX, ORG's Power of Attorney (POA), POA, submitted a "bare bones" protest letter. In the letter, POA states that he submitted a bare bones protest letter so that he could meet the 30-day timeframe. In the "Summary Statement of Facts" section, the POA affirms that he was unable to *"gather adequate facts in the limited time available to timely respond to the IRS '30 day letter'...I am in the process of obtaining relevant factual information and supporting documents to adequately address the very broad issue at hand. With ample time prior to the appellate conference yet to be scheduled, I intend to provide the IRS Appeals Officer with Supplemental Memorandum containing the necessary factual information and supporting documents concerning this very broad issue."*

Upon request, the POA submitted a subsequent Appeals protest in a letter dated August 20, 20XX.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

In the protest, the POA states that ORG's activities were substantially providing credit counseling services. The types of credit counseling services provided by ORG were the following:

- *Provides credit counseling services to financially distressed individuals and families without limiting such services to the poor*
- *Conducts its counseling program to improve debtors' understanding of their financial problems and improve their ability to address those problems*

The POA states that ORG settled "into a more limited range of activities than originally envisioned". The POA states that the "ORG's Credit Counseling Services developed into a substantial activity, but it should qualify as an IRC §501(c)(3) tax exempt organization because its Counseling Services Methodology shows it furthers 'educational' purposes".

The POA states that ORG did not agree with the proposed revocation based on the following primary reasons:

1. The POA states that ORG provides various services to the community. The POA claimed that the "ORG entered into an agreement with the _____ of the State of State to deliver recovery support services to clients for housing support and spiritual support services. ORG also provided credit counseling services to the general public."
2. The POA agreed that ORG activities were substantially consisting of credit counseling, but that ORG's credit counseling service served an educational purpose rather than commercial—"sellers of debt management plans". The POA cited CCA 20XX20XX1 at 2 as a factor in determining whether the organization's activities primarily furthered an educational purpose, stating that the organization's methodology should be used to determine if ORG is conducting credit counseling activities.
3. The new additional statutory requirements applicable to credit counseling organizations under IRC §501(q) is not applicable to the audited tax return for the fiscal year ended June 30, 20XX.
4. IRC §501(q) provisions apply to ORG beginning on July 1, 20XX, but ORG was already complying with these new additional statutory requirements even during the period of the audited tax return for the fiscal year ended June 30, 20XX.

For more detail, please see the POA's Appeal protest letter dated August 20, 20XX.

Government's position

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

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

ORG's operation is in a manner that is materially different from that represented in its application for exemption. In fact, ORG's activities are nothing more than the continuation of the activities of CO-6 Service, an organization no longer tax exempt under section 501(c)(3) of the Internal Revenue Code.

In ORG's statements of activities, ORG indicated that 100% of its efforts would be spent "educating people of the truth found in the bible and providing those applicable tools to the burdened, underprivileged, and distressed". However, aside from some biblical references strewn into the organizations web site and documentation, ORG is nothing more than an organization in the business of selling debt management plans and debt negotiation plans.

ORG's operations do not include the biblical/scriptural principles for faithful stewardship decision for daily living touted in its exemption application.

ORG's actual operation is not limited to the poor and distressed or underprivileged individuals. ORG did not set a financial test or income limit for those who may engage in ORG's services. Therefore, ORG is not operating to further a charitable purpose in the sense of providing relief to the poor or distressed.

In the POA's protest letter, POA questioned why the above statement affected ORG. POA states that the fact as stated above "may in fact be accurate, such facts are not determinative on the issue of whether an organization qualifies for tax exemption under IRC §501(c)(3)". In response, the facts as shown above are evidence that ORG's actual operation was not as stated in its tax-exempt application and a factor toward disfavoring exemption. ORG's actual operation was not spent 100% of the time on educating people of the truth found in the bible nor was it primarily toward providing "those applicable tools to the burdened, underprivileged, and distressed".

ORG makes its services available to the general public, thus ORG cannot claim that its activities benefit a charitable class. See Rev. Rul. 69-441, 1969-2 C.B. 115 and Rev. Rul. 65-299, 1965-2, C.B. 165 (individuals with financial problems are not a charitable class). In addition, no case, ruling or statute specifically has recognized members of the general public with financial problems as a charitable class.

The examination of ORG's operation revealed that the organization was not operating as represented in its application. Rev. Proc. 20XX-9, 20XX-9, and 20XX-52. The POA also confirmed that ORG was not limiting its services to the poor, "it provides credit counseling services to financially distressed individuals and families without limiting such services to the poor", thus contradicting its own statements. The POA went on to say "as ORG became operational in 20XX, it focused its counseling and educational services on financial, housing, substance abuse recovery support services and related matters". Even this statement is inaccurate, based upon the observed and documented activities of the organization.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX	

In its application, ORG cited several biblical scriptures and stated that bible scholars were to provide ORG services. During the examination of ORG activities, books and records, and counseling observations, it was determined that ORG counselors were not biblical scholars and did not provide biblically based or any other counseling services. Rather it was determined that the counselors of ORG were the same counselors of CO-6, a nonprofit organization that was revoked previously for the same impermissible activities.

Aside from a few scattered quotes by DIR-10, ORG did not provide the biblical based teaching nor did it use the CO-11 materials as the POA contends. Further, the POA confirmed that the organization's primary activities were that of credit counseling services. ORG's manuals and the ISO report issued to the organization also confirm that ORG's actual operation was not religious in nature but instead was simply the sale of debt management and debt settlement services.

Lack of public involvement was cited as a factor for denying exemption in Easter House v. United States, supra. ORG has shown none of the public involvement that characterizes public charities. Its purported public board members have stated that they were only figureheads and marginally involved with ORG prior to their resignation. Additionally, although the POA claims otherwise, ORG's operation is similar to the organization described in B.S.W. Group, supra, in which the court cited lack of solicitation and sole support from fees as factors disfavoring exemption. ORG is almost solely supported by receipts from debt management and debt settlement agreements. Amounts classified as grants and contributions by the organization are simply re-labeled fair share fees, and in one case the return of a contribution from an organization wishing to disassociate itself with ORG.

ORG receives no support from the general public and has no fundraising program to solicit such contributions. ORG receives all of its revenue from fees from setting up and processing client's DMPs, debt settlement plans and fair share payments from creditors. The DMPs ORG offers are sold to anyone who has unsecured debt, is willing to pay and is willing to purchase ORG's services. Since the sale of DMPs to the general public is the primary purpose of ORG, we cannot conclude that ORG is operating for charitable purposes.

In ORG's application for exemption, Form 1023, ORG represented that its purpose was as follows:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

ORG responded "no" to Part III of Form 990, *Statements About Activities*, question 3d, with respect to providing credit counseling, debt management, credit repair, or debt negotiation services.

The examination revealed that ORG's actual activity was not as originally presented. Saying one's purpose is exclusively religious does not necessarily make it so. Living Faith, Inc. v. Commissioner 950 F. 2d. 365. ORG's religious activities are an incidental portion of their activities. ORG's actual activities are credit counseling and operating a debt management program (DMP).

Revocation of a determination letter may be retroactive if the organization operated in a manner materially different from that originally represented. Rev. Proc. 20XX-9, 20XX-9, and 20XX-52, Treas. Reg. § 601.201(n)(6)(i), § 14.01; Rev. Proc. 20XX-4, § 14.01.

Section 501(q) of the Internal Revenue Code sets forth the following requirements with respect to credit counseling organizations:

- Credit counseling organizations cannot solicit contributions from consumers during the initial counseling process, or while consumer is receiving services from organization;
- For existing organizations, the amount of revenues an organization may receive from its customers' creditors which is attributable to DMP services is limited to 80 percent in 20XX and 70 percent in 20XX.

Section 501(q) also sets the following restrictions on who may serve on the governing board of a credit counseling organization. A majority, at least 51 percent, of the board members must represent the broad interests of the public. This includes public officials, community leaders, and persons having special knowledge or expertise in credit or financial education. No more than 49 percent of the board may be employees of the organization, creditors, or those who will benefit financially in any other way.

ORG does not have a board of directors or a governing body that is controlled by persons who represent a broad interest of the public, such as public officials acting in their capacities such as persons having special knowledge or expertise in credit or financial education, and community leaders.

Furthermore, ORG's actual operation does not follow its bylaws. ORG's bylaws state that the Board of Directors oversees the operation of ORG and that the only officer required to be a director is the President. The bylaws also state that there can be more than one Vice-President, one Secretary, and one Treasurer. According to the 990 return, there were more than one each of Presidents, Secretaries, and Treasurers. ORG's bylaws also dictate that the Board of Directors elects the officers. Since the officers and directors are essentially the same individuals, they are electing themselves to office.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

The officers/directors listed on ORG's application for exemption were not necessarily counselors of ORG.

The Form 990 return reported no income for its officers/directors. However, in actual practice some of the officers/directors were compensated. The officers/directors that were compensated were employees of ORG. Moreover, it was revealed that the officers/directors that were not employees of ORG were not involved in the day-to-day activities of ORG. The officers/directors that were not employees of ORG had no knowledge of ORG's activities with respect to credit counseling and DMP program or they were just figureheads with no actual official power. The person running ORG's operation and administrative affairs is Vice President. According to ORG operating manual, the salaries of the managers are set by the managers. The officers/directors of ORG did not represent a broad interest of the public as required by section 501(q) which was enacted by the Pension Protection Act of 20XX.

In the POA's protest letter, the POA states that the above statement does not make sense to him and that it did not support the government's position. ORG states that there is no prohibition under IRC §501(c)(3) against an employee being a member of the Board of Directors or an officer of the tax exempt corporation. The POA also states in his protest that ORG disagreed with the examining agent statement regarding the ORG directors and officers who were not employees.

ORG's rebuttal states, *"it is a rare situation where a non-employee director is involved in an organization's day-to-day activities. In fact it would be a contradiction to require a director to be a public official and to simultaneously be involved in the day-to-day activities of the organization. Generally, only an employee would be involved in the day-to-day activities of an organization"*. ORG also argued that the requirement for the Board of Directors to represent a broad interest of the public for credit counseling organizations did not apply to ORG in the tax year under audit.

The Agent does not disagree that IRC §501(q) did not apply to ORG with respect to the requirement of having a broad board that represents the public's interest in the year under exam. However, IRC §501 (q) is in addition to the requirements of IRC §501(c)(3) that were previously applicable to the organization. Consequently, the lack of a broad board or third party involvement is another factor disfavoring exemption, as the organization's lack of an independent board is evidence of a non-charitable operation. Credit Counseling Centers of Oklahoma, Inc. v. United States, 79-2 U.S.T.C 9468 (D.D.C. 1979).

Further, it should be noted that after the effective date of section 501(q), ORG continued with its same board structure as in previous years. The State Secretary of State web site listed the officers of ORG as follows, with an effective date of July 1, 20XX:

Name	Title	Effective date
DIR-2	President/Director	July 1, 20XX
DIR-5	Vice-President/Director	July 1, 20XX

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX
DIR-6	Secretary/Director	July 1, 20XX	
DIR-7	Director	July 1, 20XX	
DIR-3	Director	July 1, 20XX	
DIR-8	Director	July 1, 20XX	

As indicated in this report, the ORG officers, directors, and employees are one and the same. ORG's board does not consist of independent members. For example, Vice President's position in ORG is that of an officer, counselor, and Management Representative. Vice President has an ownership interest in the Address,, LLC that ORG pays rent to. Vice President was also an officer and employee of CO-6 Service and CO-22, who also operate the same facility at Address,

It was discovered that RA-1, the primary counselor, was once director and counselor of CO-6 Service.

During the period under exam, RA-7 was an officer, systems operation, and counselor in training. DIR-6 was an officer, director, assistant bookkeeper, and administrative support. RA-7 also took care of CO-6 books. RA-2 was the operation manager and a counselor. RA-7, DIR-6, RA-2, and Vice President were also employees of CO-6, the previously revoked organization.

It was determined that Vice President controlled and managed ORG. As was stated by one of the board members, the board were simply figureheads and all actual and perceived authority rests with DIR-10. Vice President sets his own compensation and writes all checks. He can also hire, fire, give pay raises and annual appraisals to ORG employees. Consequently, Vice President is an insider, who has a financial interest in ORG. The other officer/employees are also benefiting financially from the activities of the organization. The other board members/officers were listed in name only and had no actual authority.

The enactment of IRC §501(q) further stresses the need for credit counseling organizations to address the broad interests of the public by requiring credit counseling organizations to have a broad board of directors to oversee the organization's operations. As indicated in this report, ORG's bylaws state that there is a Board of Directors and that the Board of Directors manages ORG. The bylaws also state that ORG shall have officers, consisting of the President, Vice-President, Treasurer, and Secretary. The ORG bylaws also state that they have a written conflict of interest policy, which ORG does not follow. ORG bylaws do not state that an individual can be both Director and officer. ORG bylaws do not state that the Management Representatives or the Operation Supervisor would be managing the operations of ORG. The bylaws state that the only individual that can hold an officer and director position was the President of ORG.

As shown in this report, the President of ORG, DIR-2, was never involved in the day-to-day activities of ORG. DIR-2 never attended ORG's board or general meetings, was never at the facility, and was not even aware that the organization was conducting credit counseling activities or merged with CO-6. The POA's protest letter affirms this fact when he states the following:

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

"ORG's initial plans to move to church property did not materialize because its initial leadership group (i.e., DIR-2, DIR-1, and DIR-4) left the organization, but ORG remained determined to offer counseling and educational services in a biblically based manner".

Research shows that DIR-1 was employed with CO-6 in 20XX and 20XX year. Additionally, ORG's report confirmed that DIR-1 was still employed with ORG in 20XX. The report also shows that there were no officers/board members present at ORG.

As indicated by DIR-2 on April 7, 20XX, although it bore his name, he did not sign the Form 990 return for fiscal year ended June 30, 20XX. In addition, the examination of ORG records found that the same activities were the same in prior and subsequent years.

The review of ORG's 20XX Form 990 shows the same individual as officers and board members, with the board members contributing no activities to the organization, as indicated below.

<u>Officer/board members</u>	<u>Title</u>	<u>Average hours worked</u>
DIR-6	Director	0
DIR-3	Director	0
DIR-8	Director	0
DIR-7	Director	0
Vice President	Mgm Rep	40+
RA-2	Op Sup	40+

In the protest letter, the POA states that currently ORG has three directors and they are:

- DIR-3
- DIR-8
- RA-16

It was noted that DIR-3 and DIR-8 were previously listed as ORG's board and it was determined that they had no authority in ORG's operation, and were directors in name only. It was also noted that the description of their qualifications was inconsistent with ORG's application for exemption and in previous correspondence with the IRS.

RA-16 appears to be a new board member. The POA states that RA-16 was not employed or received compensation from ORG's activities. However, it was noted that RA-16 signed the perjury statement using the title, "Corporate Secretary", an officer of ORG. It appears that RA-16 is an officer and director of ORG. It is not clear whether she was also an employee and was actually compensated. Accordingly, the lack of public control is evidence of non-exempt purpose

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

and a factor disfavoring exemption as the purpose of ORG is to serve a private interest rather than a public interest.

ORG also argued that *"the drama created by the 'revelation' that ORG directors and officers who were not employees '...were not involved in the day-to-day activities of ORG' may imply some sort of wrongdoing, but in fact is a rare situation where a non-employee director is involved in an organization's day-to-day activities"*. In response, in addition to what was stated above, a review of ORG's books and records, specifically the general ledger as of August 10, 20XX, shows that payments were made to non-employees (i.e. RA-10) under the following accounts:

- 40100 Credit Report Fee Income of \$
- 41300 Client Share (DMP Fees) of \$
- 41400 Fair Share (Creditor Donations) of \$
- 41500 Settlement Fees of \$

The general ledger also showed payments of insurance to non-employees totaling \$

The attached Exhibit L shows a sampling of the insurance expense paid to non-employees.

Like Easter House, ORG functions by means of a paid staff with no volunteer help. ORG has nine workers who provide support and client services. The majority of the workers were prior employees of CO-6. An exclusively paid staff is characteristic of a commercial corporation, rather than a charitable non-profit organization. ORG's operation is unlike the organization described in Rev. Rul. 69-441, *supra*, in which the organization's Board of Directors is comprised of representatives from religious organizations, civic groups, labor unions, business groups, and educational institutions.

The primary contributors listed on the Form 990 return consisted mainly of creditors that ORG serviced. The contribution of \$ was not actually a contribution from CO-1 it was a return of a donation back to ORG by CO-1. The contribution of \$ was by the mother of Vice President (RA-14). This was also evidence of ORG's activities that are for a non-exempt purpose, thus another factor for disfavoring exemption.

Section 1.501(c)(3)-1(c)(1) of the regulations explains that an organization will be regarded as operating exclusively for exempt purposes only if it engages primarily in activities that accomplish one or more of the exempt purposes specified in Section 501(c)(3) of the Code.

ORG responded to the IRS determination specialist's questions regarding ORG's activity of providing *"biblical principles for faithful stewardship decisions"* by stating that it *"will accomplish advocating biblically based answers and solutions for daily living. How we view God will determine how we live"*. ORG went on to say *"% of the total time and effort will be devoted to advocating biblically based answers and solutions for daily living."* The fact page of ORG's web

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX	

site reported that the source of ORG's funding came from tax deductible contributions and donations, business firms, banks, retail merchant, credit unions, and the community.

On the contrary, during the examination of ORG's books and records, it was revealed that ORG's actual activity is to provide credit counseling and debt management programs to its clients. The lists of contributors on the Form 990 return were income from the credit card companies to whom ORG clients owe money. The grants received from CO-25 and others were characterized as donor contributions on the Form 990 and as business grants on the organization's Profit and Loss statement. ORG's books and records show fair share payments received from the credit card companies. The grants received are in return for services by ORG. The transaction is not a grant but a fee for service arrangement. See Exhibit M for list of creditors that ORG serviced as well as sampled copies of ORG's client contributions.

Credit counseling is not an inherently exempt purpose under section 501(c)(3) but can be conducted in a manner that furthers nonexempt purposes. Nothing in ORG's Articles of Incorporation, bylaws, or other materials restricted ORG to conduct credit counseling activities in a manner that would exclusively further charitable, educational or other exempt purposes.

ORG claimed to have conducted seminar or out reach programs during the examination period. ORG stated that it had no activities from inception to 20XX. However, a review of ORG books and records shows otherwise. The copies ORG provided of the materials used in the seminar did not demonstrate that the seminar had any educational value.

The documents submitted for seminars do not show an in-depth educational content directed to the particular needs of the client or to dedicate the time necessary to address the financial problems faced by a particular client. The consultation format of the documents appears to be designed to expedite the enrollment of clients in DMPs (see Exhibit H).

The services that ORG provides to individuals are entirely devoted to the business of marketing the benefits of ORG's debt management plans. The majority of the time of all of ORG's counselors is spent in marketing DMPs, with no time spent on public education or on meaningful personal counseling.

ORG has not demonstrated that the services ORG provided are educational in the sense recognized by law. A review of ORG's activities discloses no institutional support for education. The presentation and web site material was inadequate to provide financial education and any outreach seminars done were to primarily market ORG's DMP program (see Exhibit I). ORG's web site is primarily used to inform potential clients about the organization's DMP and to contact ORG regarding its DMP.

The services that ORG provides to individuals are entirely devoted to marketing the benefits of ORG's debt management plans. When a counselor is enrolling a potential client in a DMP or reviewing budget information, the counseling session lasts about 10 minutes or less to gather the

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended	
ORG	EIN	June 30, 20XX	

necessary information from a client once a counselor has made the determination that the DMP would be beneficial. According to ORG's manual, the goal of ORG was to increase its fair share funds. In response to ORG's letter of August 20, 20XX and August 20, 20XX, the examining agent is attaching Exhibit D, which describes the client sessions observed during the June 17 – 20 observations. The way that ORG's counselors interview clients shows that ORG is offering counseling as a way to enroll individuals in debt management plans.

ORG's follow-up calls to clients who initially did not sign up for a DMP were to determine whether they were interested in purchasing a DMP are neither counseling nor educational. You have not demonstrated that you speak with individuals in any systematic or substantive way about any subject other than DMPs and their potential eligibility. The conversations serve as merely part of your efforts to sell DMPs. ORG's *Authorization and Release form* shows that ORG's funding is from creditors who participate in the DMP program (see Exhibit I for copies of the release form).

Like Solution Plus, Inc. v. Commissioner, T.C. Memo. 20XX-21, ORG did not have any meaningful educational program or materials for providing to people who contacted the organization, and its financial education seminars constituted an insignificant part of the organization's overall activities. In Solution Plus, Inc. v. Commissioner the Court held that the organization's purposes were not educational because its "*activities are primarily structured to market, determine eligibility for, and enroll individuals in DMPs.*" The Court also held that its purposes are not to inform consumers "*about understanding the cause of, and devising personal solutions to, consumers' financial problems,*" or "*to consider the particular knowledge of individual callers about managing their personal finances.*"

The Tax Court further held that the organization would operate for the private interests of its founder because the founder and spouse were the only directors, the founder was the only officer and employee, and his compensation was based in part on the organization's DMP sales activity levels. The organization was "*a family-controlled business that he personally would run for financial gain, using his past professional experience marketing DMPs and managing a DMP call center.*"

Based on the amount of time that ORG counselors spend with each client and the type of information discussed with clients, its clear that ORG's intent is to market DMPs to the general public. Thus, we cannot conclude that ORG convey any meaningful information or skills instruction to the individuals ORG claim to counsel or to the public at large.

In the POA's protest letter, the POA contends that ORG counselors conduct their client interviews to ascertain their client's financial information and to address their financial problems. The POA also claimed that the counselors used information obtained from the client interviews to "*discuss the advantages and disadvantages of each options with their clients and make recommendations on options that are best suited to meet their client's needs, goals, and circumstances*". It was noted that the POA did not argue the process by which ORG enters clients into their monthly payment plan or the completion of the back-side of the double-sided worksheet. The POA also

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

did not provide supporting documentation showing the completion of the worksheets by potential or existing clients.

As indicated in the attached exhibits and as stated in ORG's manual, ORG's counseling sessions were nothing more than to solicit clients to enroll in their DMP. The educational aspects were and are an incidental part of ORG's credit counseling activities.

On several occasions during the examination, the examining agent requested supporting documents to show ORG educational activities. What ORG finally provided, as indicated in the fact section of this report, were copies of the MOU and the client action forms. Both of the information items submitted did not clearly show their educational purposes. The other material that was provided by the organization was the sign in sheets. The sign-in sheets only showed individual signatures. The majority of the sign-in sheets were the organization's visitor sign-in sheets to the ORG facility, not to a seminar, see Exhibit H.

As indicated in the fact section of this report, ORG's primary income was derived from DMP activities. ORG's operating manuals, Authorization and Release form, and their web site under "website" affirms that their activities substantially consisted (and continue to consist) of DMPs. Moreover, ORG's related organization (CO-6) activities primarily consisted (and continue to consist) of DMPs.

ORG reported as its program service revenues the following income source:

Credit report fee	\$
DMP fees-client share	\$
Creditor donations-fair share	\$

As indicated in the fact section of this report, ORG charges a fee to pull potential client's credit reports and a separate fee for debt negotiations. ORG also received income from credit card companies that they serve, labeled as grants and contributions, as indicated below.

Corporate & business grants	\$
Individual/business contributions	\$

During the review of grant contracts and supporting documents, it was discovered that the grants were actually payments received from the credit card companies that were attributable to their DMPs. It was also discovered that the fair share payments were characterized as creditor donations or individual/business contributions. The POA did not address this fact in his protest letter. Consequently, ORG is offering a private benefit to the credit card companies, an impermissible activity under IRC §501(c)(3). See also Solution Plus, Inc. v. Commissioner, T.C. Memo. 20XX-21.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

ORG's letter of August 20, 20XX also state that the contributors listed on the Form 990 return did not consist of creditors that ORG serviced, but rather *"funds received from grants that were used for educational purposes and not based upon administration of a DMP or in exchange for services"*. On the contrary, as indicated in the fact section of this report and in the above statement, ORG did provide service to those creditors and review of the grant contract affirms that position. Accordingly, ORG's primary support was derived from DMPs.

In the *"How Does This Program Work?"* section of ORG's employee manual, it described the education and training requirements of ORG as follows:

The description of how ORG's program works does not entail biblical scriptures or the referral to other agencies, such as welfare, food stamps, drug treatment as claimed in the protest letter or in ORG's correspondence dated August 20, 20XX. Further, in the *"How can ORG Help You?"* section of the employee manual, the exhibit describes ORG's repayment plan, which reaffirms that ORG's primary activities are that of DMPs.

The educational aspect of ORG was the education of clients with respect to its DMPs and its debt settlement services. ORG manuals primarily describe the organization's DMP and debt settlement services. The educational aspect was not described or was minimally described.

ORG manual shows that Vice President was the Management Representative of ORG since its inception. Discussions with previous officers of ORG also confirmed that ORG was established and operated by Vice President. In 20XX, Vice President was the Vice-President of ORG. It was also revealed that during the same time, Vice President, was also operating the CO-6.

As mentioned previously, the employees, officers, and board members of ORG hold multiple positions in ORG. Because of the role Vice President, RA-7, and RA-2 play in ORG, their affidavits would be considered a conflict of interest. The same applies to employees of ORG if affidavits were received for review by the examining agent. The employees of ORG have a financial benefit in ORG, Vice President would have a greater financial interest because he established and operated the organization.

The POA contends that the percentage of DMP revenues attributable to ORG are as follows:

FYE	DMP/total revenues	percentage
6/30/XX	\$/ \$	%

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax identification Number	Year/Period ended
ORG	EIN	June 30, 20XX

6/30/XX	\$\$	%
6/30/XX	\$\$	%

The examining agent agrees with the POA with respect to IRC §501(q) not applying to ORG in the fiscal year under exam, fiscal year ended June 30, 20XX. However, the percentage of debt management plan conducted by ORG reaffirms that the organization's primary activities were that of DMP and little or no educational activities.

The POA did not account for the grant monies that were attributable to DMPs.

As reported in a separate report and as indicated in the facts section of this report, the \$ derived from CO-25 were actually fair share payments. As indicated in a separate report, the creditor donations—fair share should be \$ instead of \$. A review of the ORG financial records shows that ORG characterized some fair share payments as "creditor donations" or "contributions". \$ contributed from CO-3 was determined to be fair share payments and not grant money. The agent noticed that ORG characterized the fair share payments as "creditor donations". The agent also noticed that the "business contributions" and "corporate and business grants" line items were also fair share income but labeled as public grants or support.

Additionally, a review of ORG's financial records (Deposit Detail) shows that the total settlement fee was \$ instead of the reported \$. As indicated in a separate report, a review of ORG's financial records (Deposit Detail report) shows that the total DMP fees were \$ rather than the reported general ledger amount of \$. Furthermore, a review of ORG's financial records and other supporting documents determined that the individual contributions were not contributions from the general public but rather contributions from the clients they serve (see Exhibit M).

With respect to the direct public support, individual/business contributions of \$, a review of the itemized deposits in the general ledger shows amounts at \$ \$ and \$. A review of financial records, source documents, and oral testimony revealed that the reported \$ was a return of funds from CO-1 church to ORG. The CO-1 church declined ORG's donation to their church. Effectively, this amount was not income to ORG. The \$ was from an immediate family member (Vice President's mother), and \$ was claimed to be furniture and equipment from CO-6. Since CO-6 Service is an extension of ORG, this would not be an actual contribution.

Accordingly, the individual/business contributions were actually \$.

The following table shows the per examination results of ORG revenues.

Revenues:

	Per 990	Per Audit
Direct public support:	\$	
Direct public grant—corporate/business grants		\$

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Individual/business contributions		\$
Program service revenue:	\$	
Credit report fee		\$
Returned check fee		\$
DMP fees--client share		\$
Creditor donations--fair share		\$
Settlement fees		\$

 Total Revenue	 \$	 \$

As a result of the above analysis, the portion of revenues attributable to debt management plan services are as follows for fiscal year ended June 30, 20XX:

<u>FYE</u>	<u>DMP/total revenues</u>	<u>percentage</u>
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6/30/XX	\$/	%
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The examining agent noticed that ORG also reported fair share payments as contributions. ORG will split the recording of income as either fair share or contributions from businesses. Actually, they are all fair share payments. The following shows an example of this.

A review of Schedule B—Schedule of Contributors (from Form 990) reported the following contributors:

1. CO-1	\$		
2. CO-2			\$
3. CO-3	\$		
4. CO-4		\$	
5. CO-5			\$
6. CO-6	\$		
7. CO-7	\$		
8.			\$ \$

An analysis of the above contributors revealed the following information:

- The contribution from CO-6 (CO-6) was reported as furniture fixtures and equipment. ORG reported that it was received on June 30, 20XX. It was noted that this date coincides with the ending fiscal year of ORG. CO-6 transaction journal as of June 30, 20XX, shows that \$ was donated to ORG for materials and supplies. This contradicted other information that the donation was for furniture and equipment.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

It was noted, based on review of ORG manuals and other documents submitted by ORG and CO-6 (i.e. W-2 information/advertising/initial interview), that CO-6 was operating as ORG or vice versa even before 20XX year. The CO-6 name was used more often in advertising because the CO-6 was more of an established name in the community before its revocation in February 20XX by the IRS.

For example, during the initial interview with the employees of ORG, it was revealed that the majority of the employees worked for ORG since 20XX, but the financial records do not show that ORG paid their wages. Rather, the employee's wages were shown in the CO-6 records. An interview with RA-9, customer service representative, revealed that she worked for ORG from 20XX – 20XX year. RA-17, customer service representative, stated that she has worked at the facility for three (3) years. RA-7 stated that he has been working for ORG for three (3) years. He started in 20XX as a clerk and is now a counselor in training. RA-7 stated that he received W-2s in 20XX, 20XX, and 20XX year.

During the initial interview, Vice President stated that the above employees started at ORG in January 20XX. DIR-10 also mentioned that he was an employee of CO-6 from 20XX year to December 20XX.

- The contribution from CO-1 of \$ was not actually a contribution. The \$ was ORG's own money which was reported on the Form 990 as contribution from the public. Vice President contributed \$ to CO-1 church. CO-1 declined the contribution and reimbursed Vice President for the same amount, plus interest. In ORG's Deposit Detail report for the month of November 20XX, the amount was described as "unrestricted" rather than contribution as in other financial records.
- A review of the deposit slips of \$, a donation to ORG by CO-5, revealed that the check was deposited to the ORG account on June 30, 20XX. The examining agent was informed by ORG that RA-14 was related to Vice President—his mother.
- There was no record of the contribution from CO-7 and _____ in ORG's general ledger and other financial records.
- CO-2, CO-25, CO-4, CO-7, and _____ were creditors that ORG serviced. The amounts reported as contributions were actually creditor fair share payments and not grant money/contributions.

Activities conducted with related organizations:

ORG states that they do not advertise on the internet. However, evidence shows that ORG advertised through the internet and advertised in conjunction with CO-6 Service. ORG offers DMPs to those who respond to its advertisements. ORG makes known its services primarily

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS		Schedule number or exhibit
Name of taxpayer	Tax Identification Number		Year/Period ended
ORG	EIN		June 30, 20XX

through the CO-6 Service operation and in the form of advertising and marketing. In the protest letter, the POA agreed that ORG advertises on the radio and on its web sites.

The information provided indicated that ORG performs all of the activities of CO-6 Service. The employees/counselors of ORG were primarily from CO-6 Service. The office and equipment were also from CO-6 Service. ORG's books and records and Form 990 reported \$ as a contribution from CO-6 Service.

Vice President was an officer/director and employee of CO-6 Service and was also an officer/director and employee of ORG. Vice President is the son of RA-10, who was the President of CO-6 Service and now the President of CO-15. Vice President signs checks for both ORG and CO-6. Review of ORG records also show evidence that Vice President's wife, DIR-9, was still involved in CO-6 Service business and now ORG. This was contrary to a news report by the State-Advertiser, where RA-10 was interviewed and disclosed that DIR-9 was no longer in the business (see Exhibit J).

As indicated in the fact section of the report, the CO-6 web site shows the same type of services that are being offered at ORG. For example,

- Lowering consumer interest rates, fees, and monthly payments
- Stop collection calls/harassment
- Pay off debts in the fastest time period possible
- Settle accounts for as low as %
- Debt consolidation

ORG is also using the same operating manuals as CO-6 Service. It was also noted that ORG and CO-6 lists the same goals and missions. Examination of ORG books and records show evidence of funds commingled with CO-6, where ORG funds were used to pay for CO-6 expenses. Examination of ORG books and records show that payments were made to pay for non-employees health benefits, namely RA-10. Additionally unexplained loans were made to CO-6 in the amount of \$.

Furthermore, as indicated in the fact section of this report, Vice President, DIR-9, and RA-10 also operate a for profit organization called CO-22. CO-22 is located at the same address as ORG facility. The purpose of CO-22 is "*real estate sales and development*". Both Vice President and RA-10 have a license in real estate brokers.

Vice President has acknowledged to having an ownership interest in the facility that ORG occupies located at Address. The facility is owned and managed by a limited liability company that is related to Vice President (RA-15 and DIR-9). Accordingly, private benefit exists in the operation of ORG with respect to its related organizations. ORG was established to confer a private benefit to a for-profit business, CO-6 and CO-22

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended
ORG	EIN	June 30, 20XX

Moreover, it was noted that the commercial activities of CO-6 Service resulted in a revocation of its tax-exempt status. Since ORG is a spin-off or an extension of CO-6, ORG's tax-exempt status should be revoked as well.

Even if ORG is providing education, ORG's DMP activities represent a substantial operation. The private benefit ORG provides to the controlled person(s) are substantial and establishes that ORG serve a substantial non-exempt purpose, thus failing the operational test of furthering a substantial non-exempt purpose and conducting impermissible private benefits.

To meet the requirements of IRC §501(c)(3), an organization must be both organized and operated exclusively for charitable purposes. The term charitable includes relief of the poor and distressed. §1.501(c)(3)-1(d)(2). Educational organizations are also classified as charitable. The term educational includes (a) instruction or training of the individual for the purpose of improving or developing his capabilities and instruction of the public on subject useful to the individual and beneficial to the community. §1.501(c)(3)-1(d)(3).

An organization is not organized or operated exclusively for an exempt purpose unless it serves a public rather than a private interest. IRC §1.501(c)(3)-1(d)(1)(ii) states that an organization is "*not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests*".

The existence of a substantial non-exempt purpose, regardless of the number or importance of exempt purposes, will cause failure of the operational test. Better Business Bureau v. U.S., 326 U.S. 279 (1945).

Conclusion

In order to qualify for exemption under IRC §501(c)(3) an organization must be both organized and operated to achieve a purpose that is described under that Code section. ORG has failed to demonstrate that it is operated in accordance with Internal Revenue Code §501(c)(3) and the regulations governing qualification for tax exemption under the Code. ORG has failed to demonstrate that it is operated in accordance with §501(q) of the Internal Revenue Code. Accordingly, the tax-exempt status of ORG as an organization described in 501(c)(3) of the Code should be revoked.

Based upon the review of ORG's actual and proposed activities in light of the applicable law, we find that ORG is not organized or operated for exempt purposes. ORG's principal activity is the marketing of debt management plans and credit negotiations. This activity does not achieve charitable or educational purposes, but is merely a commercial service.

ORG is required to file income tax returns on Form 1120 for all years beginning after June 30, 20XX.

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Alternative Issue

1. Whether ORG should be liable for unrelated business income tax?
2. Whether ORG should be assessed delinquent penalties for fiscal year ended June 30, 20XX, since the officer signature was determined to be invalid and thus, an incomplete return?

Facts

The facts concerning the organizing document and the financial activities of ORG are described above.

Law

Section 511 – 513 of the code imposes a tax on the unrelated business income of tax-exempt organizations. The tax applies to income from a trade or business, regularly carried on by the organization for the production of income, and the conduct of which is not substantially related to the organization's performance of its exempt functions.

Section 6652(c) charges a penalty for late or incomplete Form 990 return. The penalty is \$ a day for each day the return is late or incomplete, if gross annual receipts are equal to or less than \$. The penalty may not be more than \$ or % of gross annual receipts, whichever is less.

Government's Position

As set forth above, it is the government's primary position that the tax-exempt status of ORG should be revoked. Alternatively, ORG should be assessed unrelated business income tax on income related to their debt management plan services, as calculated below. ORG should also be assessed a delinquency penalty for failure to file Form 990 for fiscal year ended June 30, 20XX, under IRC §6652(c). Per oral testimony of the president, the return did not bear their valid signature. The penalty is \$ a day for each day the return is late or incomplete, if gross annual receipts are equal to or less than \$. The penalty may not be more than \$ or % of gross annual receipts, whichever is less.

Conclusion:

Alternative issue #1:

Unrelated business income tax calculations:

Revenues:

Per 990 _____ Per Audit _____

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer	Tax Identification Number	Year/Period ended
ORG	EIN	June 30, 20XX

Direct public support:	\$	
Direct public grant—corporate/business grants		\$
Individual/business contributions		\$
 Program service revenue:	\$	
Credit report fee		\$
Returned check fee		\$
DMP fees—client share		\$
Creditor donations—fair share		\$
Settlement fees		\$
 Total Revenue	\$	\$

Expenses:

	Per 990	Per Audit
Salaries & Wages	\$	
Other employee benefits:	\$	
Payroll taxes:	\$	
Accounting Fees	\$	
Supplies	\$	
Telephone	\$	
Postage and shipping	\$	
Occupancy	\$	
Printing and Publication	\$	
Conferences, Conventions, meet	\$	
 Other Expenses:		
Advertising	\$	
Bank service charge	\$	
Books, subscriptions, references	\$	
Business fees	\$	
Credit report expense	\$	
Insurance (non-employee related)	\$	
Membership dues-organization	\$	
Other costs	\$	
Outside Contract services	\$	
Program expense	\$	
 Total Expenses	\$	

Form 886-A (Rev. January 19XX)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer ORG	Tax Identification Number EIN	Year/Period ended June 30, 20XX

Accordingly, ORG corrected taxable income is \$, the corrected tax liability is \$, plus interest of \$ computed to 10/28/20XX. The total amount due is \$.

Alternative issue #2:

Delinquency penalty assessment:

The penalty for late or incomplete return for fiscal year ending June 30, 20XX is \$.