Internal Revenue Service
Appeals Office

Release Number: **201525013**
Release Date: 6/19/2015
Date: March 6, 2015

ORG
ADDRESS

Certified Mail

Department of the Treasury

Employer Identification Number:

Person to Contact:

Employee ID Number:
Tel:
Fax:

Tax Period(s) Ended:
December 31, 20XX
December 31, 20XX
December 31, 20XX

UIL: 0501.15-00

Dear

This is a final determination that you do not qualify for exemption from Federal income tax under Internal Revenue Code (the "Code") section 501(a) as an organization described in Code section 501(c)(15).

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

Taxpayer is not an insurance company exempt from tax pursuant to Code § 501(c)(15) as of 20XX, 20XX and 20XX. In accord with your request, relief has been granted as authorized by Section 7805(b) of the Internal Revenue Code as of December 20, 19XX.

You are required to file Federal income tax returns on Forms 1120 for the short tax period beginning July 27, 20XX 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.

Please show your employer identification number on all returns you file and in all correspondence with Internal Revenue Service.

We will make this letter and the proposed adverse determination letter available for public inspection under Code section 6110 after deleting certain identifying information. We have provided to you, in a separate mailing, Notice 437, *Notice of Intention to Disclose*. Please review the Notice 437 and the documents attached that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in Notice 437.

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 about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely Yours,

Appeals Team Manager

Enclosure: Publication 556

Internal Revenue Service

Department of the Treasury

Taxpayer Identification Number:

Date: July 27, 2006

Form:
990

ORG
ADDRESS

Tax Year(s) Ended:
December 31, 20XX

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 organization's exempt status is necessary.

If you do not agree with our position you may appeal your case. The enclosed Publication 3498, *The Examination Process,* explains 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.

If you request a conference, we will forward your written statement of protest to the Appeals Office and they will contact you. For your convenience, an envelope is enclosed.

If you and Appeals do not agree on some or all of the issues after your Appeals conference, or if you do not request an Appeals conference, you may file suit in United States Tax Court, the United States Court of Federal Claims, or United States District Court, after satisfying procedural and jurisdictional requirements as described in Publication 3498.

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

If you accept our findings, please sign and return the enclosed Form 6018, *Consent to Proposed Adverse Action.* We will then send you a final letter revoking your exempt status. If we do not hear from you within 30 days from the date of this letter, we will process your case on the basis of the recommendations shown in the report of examination and this letter will become final. In that event, you will be required to file Federal income tax returns for the tax period(s) shown above. File these returns with the Ogden Service Center within 60 days from the date of this letter, unless a request for an extension of time is granted. File returns for later tax years with the appropriate service center indicated in the instructions for those returns.

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,

Director, EO Examinations

Enclosures:
Publication 892
Publication 3498
Form 6018
Report of Examination
Envelope

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

LEGEND

ORG - Organization name XX - Date address - Address city - City state - State county - County territory - Territory Director-1 thru 4 Manager-1 thru 4 Partnership-1 thru 15 - LP-1 thru 15 Company-1 thru 54 - CO-1 thru 54 Property-1 thru 8

1. Whether ORG ("ORG") is an insurance company described in I.R.C. § 501(c)(15).

2. Whether ORG can continue to rely on its initial determination letter, dated October 19, 20XX, which recognized the organization's exempt status under I.R. C. § 501(c)(15), for the tax years at issue if the organization did not operate as an "insurance company", as that term is used I.R. C. § 501(c)(15).

3. Whether ORG qualifies for relief under I.R. C. §7805(b) in the circumstances presented if ORG cannot continue to rely upon its determination letter.

4. Whether January 1, 20XX -- the first day of the first tax period covered under this report --will be the effective date of revocation of ORG's recognition as an insurance company described in I.R.C. § 501(c)(15) if the Commissioner exercises discretion to grant relief under I.R. C. §7805(b).

[This report supersedes the report sent on July 5, 20XX, with respect to the proposed effective date of revocation if the Commissioner exercises discretion to grant relief under I.R. C. §7805(b)., addressed under Issue #4. Exhibits identified within this report are the same as those that were enclosed with the report sent on July 5, 20XX, and are therefore not being re-submitted as enclosures with this report.]

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

Facts
Overview of Topics Discussed in Report

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG** **Facts** **Overview of Topics Discussed in Report**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

1. Formation and Licensure Within Country

ORG was incorporated on December 20, 19XX, under the laws of the Territory. The purpose for which ORG was organized is explained within Article 4(1) of ORG's Memorandum of Association, which States that ORG was established "to engage in the business of an insurance and reinsurance company, to act as insurance agents, intermediaries and consultants, to accept risks and to settle claims on its own behalf and on behalf of others."

[ORG's Memorandum of Association is illustrated within ***Exhibit 1***.]

On December 29, 19XX, ORG received its insurance license under Sections 16(1) and 17 of the Insurance Act of 1994 of the Territory. Regarding such licensure, ORG's License No. 99CA 24 States that ORG was granted an insurance license in accordance with provisions of Section 17 of the Insurance Act "to carry on general insurance business in the classes of Fire, Theft, Business Interruption, Legal Liability, Property & Casualty Insurance and Credit Life & Credit Disability Reinsurance from with the Territory."

[ORG's License No. under Sections 16(1) and 17 of the Territory Insurance Act of 1994 is illustrated within ***Exhibit 2***.]

Facts

2. **Form 990 Filed for Tax Years 19XX-20XX Preceding Applying for Tax-Exemption**

ORG filed Form 990 for tax years 19XX and 20XX, pre Insurance the application for recognition of tax-exempt status submitted in year 20XX. Information reported within these Forms 990 is summarized here.

Part I / Income Statement reported no revenue for year 19XX; and revenue of $0 for year 20XX consisting of –

- ♣ $0 interest
- ♣ $0 premiums from offshore reinsurer, CO-23 Insurance, Ltd.

Form 990, Part I, Line #	Year 19XX		Year 20XX	
	$$$	*%*	*$$$*	*%*
2 - Program Service Revenue				
> Premiums Written	-0-			
> Premiums Assumed	-0-			
4 - Interest on Savings / Temp Cash Inv			0	0%
11 - Other Revenue				
> Premiums Insurance				
> Premiums Subject to Reinsurance			0	0%
12 - Total Revenue	**-0-**	**0%**	**0**	**0%**

Part II / Statement of Functional Expenses reported no expenses for year 19XX, and expenses for year 20XX consisting of –

- ♣ $0 accounting fees
- ♣ $0 commissions
- ♣ $0 experience refunds
- ♣ $0 loss expenses incurred

Form 990, Part II, Line #	Year 19XX		Year 20XX	
	$$$	*%*	*$$$*	*%*
31 – Accounting Fees			0	0
43 - Commissions			0	0
43 - Experience Refunds			0	0
43 - Loss Expenses Incurred			0	0
44 - Total Functional Expenses	**-0-**	**00.00%**	**0**	**00.00%**

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG**	**Facts** **2. Form 990 Filed for Tax Years 19XX-20XX Preceding Applying for Tax-Exemption**	**Year/Period Ended** **20XX** **20XX** **20XX**

Part III / Statement of Program Service Accomplishments, Stated for years 19XX and 20XX, respectively:

> "The tax exempt purpose of the organization is the providing of property and casualty insurance underwriting services to independently operated businesses, both related and unrelated."
>
> "To provide property and casualty insurance underwriting services to independently operated businesses, both related and unrelated."

Part IV / Balance Sheet reported no assets at beginning-of-year 19XX, and $0 non-interest bearing cash as the only asset at year-end 19XX. No liabilities were reported for year 19XX.

Part IV / Balance Sheet reported for year 20XX –

- Beginning-of-year 20XX assets to be the same as year-end 19XX assets – sole asset was $0 of non-interest bearing cash.
- Year-end 20XX assets totaled $0 -- $0 non-interest bearing cash + $0 accounts receivable + $0 other investments
- No liabilities at beginning-of-year 20XX; and $0 accounts payable as sole liability at year-end 20XX.

Form 990, Part IV, Line #	**Year 19XX**		**Year 20XX**	
	$$$	%	**$$$**	%
45 - Non-Interest Bearing Cash	0	0%	0	0
47 - Accounts Receivable	-0-		0	0
56 - Other Investments	-0-		0	0
59 - Total Assets	**00,000**	**00.00%**	**0**	**00.00%**

Form 990, Part IV, Line #	**Year 19XX**		**Year 20XX**	
	$$$	%	**$$$**	%
60 - Accounts Payable and Accrued Expenses	0.00	00.00%	0	00.00%
66 – Total Liabilities	**0.00**	**00.00%**	**0**	**00.00%**

Facts

2. Form 990 Filed for Tax Years 19XX-20XX Preceding Applying for Tax-Exemption

Part V identified directors and insurance manager for year 19XX as:

- Director-1
- Director-2
- Director-3

These directors were reported as devoting an average of 0 hours/week to ORG, earning zero compensation, and having an address of Address, City, State Zip code. An attachment to Form 990/year 19XX reported that these shareholders owned an equal 0% in ORG.

Part V identified directors and insurance manager for year 20XX, as:

- Director-1
- Director-4

For years 19XX-20XX, Part V identified Insurance Manager as ORG's insurance manager, devoting 0 hours/week to ORG, and earning estimated compensation of $0. Insurance Manager's address was identified as Address, City, Territory.

[ORG's Form 990, filed for years 19XX-20XX, preceding application for tax-exempt status, are illustrated within ***Exhibits 3A and 3B***.]

Name of Taxpayer
ORG

Year/Period Ended
20XX
20XX
20XX

Facts

3. IRC 953(d) Foreign Insurance Company Election Signed on May 3, 2000XX

ORG's election under Code section 953(d) election was signed under penalty of perjury by officer/director, Director-1 on May 3, 20XX. Article 7 thereof provided that the IRC 953(d) election be effective commencing as of 12/20/19XX.

Article 6 thereof was erroneous in regard to ORG assets having an adjusted basis equal to 0% of ORG's gross income for the prior year because ORG's Form 990 filed for year 19XX reported no revenue:

> "ORG maintains an office or other fixed place of business in the located at Address, City, State Zip Code, and owns assets which are physically located in the with an adjusted basis equal to 0% of the prior year's gross income of ORG"

[ORG's foreign insurance company election under Code §953(d) is illustrated within ***Exhibit 4***.]

Facts

4. Application for Recognition of Tax-Exempt Status

ORG's Form 1024, Application for Recognition of Exemption Under Section 501(a), was signed and dated by its Director, Director-1, on July 17, 20XX, under the penalties of perjury.

Proposed Activities

Part II, Item 1 of ORG's Form 1024 Stated the following with respect to ORG's proposed activities:

(a) Activities: ORG is a small property and casualty insurance company formed and licensed under the laws of the Territory. In such capacity, it is licensed to conduct property and casualty related insurance activities. Its activities are specifically limited to the underwriting of property and casualty related risks on both a direct and reinsurance basis. These are as follows:

Facts

4. Application for Recognition of Tax-Exempt Status

(1) Underwriting select lines of property and casualty insurance coverages for business entities that are both related and unrelated hereto. These insurance risks can be categorized, by way of example, errors and omissions insurance, business economic loss, business interruption, bankruptcy protection, employment practices, loss of key employee services, and other lines of property and casualty related risks. Total organizational time devoted to underwriting and administration of insurance estimated to be 0% to 0%.

(2) Accepting and issuing reinsurance coverage for select lines of property and casualty insurance risks, including credit disability insurance. No credit life is envisioned within the company. Total organizational time devoted to reinsurance related administration is estimated to be 0% to 0%.

ORG achieves control of insurance related costs and cash flow through centralized premium and loss monitoring. ORG retains its investment income and will invest the monetary assets of the company to support underwriting expense and losses. All of the activities relate to the conduct of an insurance business (other than life business). The nature of investments shall include cash and cash equivalents, marketable securities, real estate and any other permitted assets.

(b) The above described activities were all initiated in December, 19XX.

(c) The above described activities are conducted and overseen in the Territory through a designated resident insurance manager, who at the current time is Insurance Manager, a subsidiary of Professional Service Company in the Territory. Insurance Manager is licensed in accordance with the Insurance Act, 1994 to act as insurance manager in the jurisdiction.

Facts

4. Application for Recognition of Tax-Exempt Status

ORG's insurance activity is not anticipated to exceed $0 in gross written premiums during the first four years of the company. Therefore ORG is applying for recognition under IRC Section 501(c)(15).

Identification of Officers / Directors

Part II, Item 3 of ORG's Form 1024 identified ORG's officers/directors as Director-1 and Director-4. The Directors' address was identified as Address, City, State Zip code. Although not disclosed within the Form 1024 application package, Director-1 and Director-4 are husband-wife, and that the Address in City, State is the location of the "Companies", a group of businesses to be discussed later in this report.

No Connection Stated to Exist With Organizations Other than Insured Parties

Part II – Item 5 requested a description of the "other organization" and an explanation of the relationship with this "other organization" where the applicant organization was, planned to be, or was connected in any way with any other organization. ORG's response Stated: "There is no connection to another organization, other than by the applicant to its insured(s)."

No Promotional Literature Distributed

ORG checked the "No" box in response to the question within Part II – Item 16 of its Form 1024: "Does the organization publish pamphlets, brochures, newsletters, journals, or similar printed material? If "Yes", attach a recent copy of each."

Financial Support and Expenses

In response to Part II-Item 2, where the applicant organization was required to list its present and future sources of financial support, beginning with the largest source first, ORG represented that insurance premiums would be the largest source of financial support, followed by investment income and shareholder capital contributions.

Facts

4. Application for Recognition of Tax-Exempt Status

ORG represented its revenues and expenses within Part III – Section A of its Form 1024 as entirely related to its exempt purpose:

Revenue	1/1/XX to 6/30/XX (Estimated)	20XX	19XX	Total
3 Gross amounts derived from activities related to the organization's exempt purpose	0	0	0	0
8 Total Revenue	0	0	0	0
Expenses				
9 Expenses attributed to activities related to the organization's exempt purposes	0	0	0	0
19 Total expenses	0	0	0	0
20 Excess of revenue over expenses	0	0	0	0

Supporting revenue amounts represented within Part III-Section A of Form 1024 were amounts of direct written premiums and reinsurance assumed premiums that ORG represented within Schedule I of its Form 1024:

	Jan 1 – June 30 20XX	***20XX***
Direct Written Premiums	0	0
Reinsurance Assumed	0	0
Reinsurance Ceded	0	0
Net Written Premiums	0	0

[ORG's Form 1024, Application for Recognition of Exemption Under Section 501(a), is illustrated within ***Exhibit 5***.]

Facts

5. Role of ORG Officers / Directors in the Tax-Exempt Application Process

IDR 3 (years 20XX-20XX) requested explanations concerning the role of ORG officers / directors in the application process, other than Director-1's signing the Form 024 application under penalties of perjury on 7/17/20XX.

Officers/Directors Not Involved in Previous Formation of IRC 501(c)(15) Insurance Companies

Item #2 of IDR 3 (years 20XX-20XX) inquired as to whether ORG's officers/directors were involved in forming an insurance company recognized as exempt from federal income tax under Code § 501(c)(15). ORG's response explained that -

> "Prior to the formation of the Company neither Director-1 nor Director-4 had ever previously formed an insurance company recognized as exempt from federal income tax under Code section 501(c)(15)."

Application Procedures Handled by Officers' Attorneys / Accountants

Item #3 of IDR 3 (years 20XX-20XX) as to whether ORG officers/directors understood the procedural steps required to obtain recognition of tax-exempt status under Code § 501(c)(15), and, if not, whether such procedural steps were explained to them by a tax consultant/tax advisor. ORG's response explained that -

> "Director-1 & Director-4 do not personally handle tax compliance matters for any of their many business entities. After Director-1 and his subordinates completed their business due diligence on setting up an insurance company, the procedural steps to obtain recognition of exception under Code §501(c)(15) were carried out by their attorneys and accountants."

No Feasibility Study Conducted to Form ORG

Item # 4 of IDR 3 (years 20XX-20XX) requested an explanation as to whether ORG officers/directors had obtained and/or conducted a feasibility study as to forming an insurance company qualifying as tax-exempt under Code § 501(c)(15). ORG's response explained that -

> "Director-1 and his subordinates completed due diligence on the concept and business possibilities of forming an insurance company. A business plan was prepared and submitted both to the Territory insurance regulators and to the IRS. This business plan was previously provided to you in response to an earlier IDR. No document entitled 'feasibility study' was prepared."

Facts

5. <u>Role of ORG Officers / Directors in the Tax-Exempt Application Process</u>

Opinion Letter Regarding Tax Ramifications Not Received by ORG Officers/Directors
Item #5 of IDR 3 (years 20XX-20XX) requested an explanation as to whether ORG officers / directors had received an opinion letter from an attorney or accountant as to tax ramifications involved in establishing an insurance company qualifying as tax exempt under Code § 501(c)(15). ORG's response explained that -

> "Prior to the formation of the Company, neither Director-1 nor Director-4 received any opinion letter from any accountant in regard to the tax ramifications of establishing an insurance company recognized as exempt from federal income tax under Code section 501(c)(15). Whether prior to the formation of the Company Director-1 or Director-4 received an opinion letter from an attorney, and if so, the content of any such letter, cannot be disclosed without violating the attorney-client privilege."

Law Firm-1, Law Firm-2, and Professional Service Company Retained
Item #7 of IDR 3 (years 20XX-20XX) requested an explanation as to whether any tax consultant/tax advisor had ever represented to ORG officers/directors about tax benefits that could be obtained by forming an insurance company qualifying as tax-exempt under Code § 501(c)(15). ORG's response explained that -

> "The law firm of Law Firm-1 represented Director-1 and the Company officers in connection with the formation of the Company and in connection with obtaining recognition from the IRS of the Company's exemption under Code section 501(c)(15). Director-1 sought out Law Firm-1 for their services because he had heard from business associates that Law Firm-1 had experience in that area. The law firm of Law Firm-2 PLC has provided certain legal services to the Company. Law Firm-2 PLC (and its predecessors) have represented Director-1 for nearly 30 years on a wide variety of matters. The officers and the Company engaged an accountant working for Law Firm-1 to prepare the 990 forms that have been filed for the Company. The Company engaged the auditing firm of Professional Service Company to provide the audits required by Territory and which have also been provided to you. The Company does not view any of these persons as 'promoters of tax benefits' but as independent service providers who were sought out and engaged by the Company or its officers/shareholder to provide representation and advice. Other than as described in response to Item No. 5, above, none of these persons ever made any representations about tax benefits to the Company's officers / directors."

Facts

5. <u>Role of ORG Officers / Directors in the Tax-Exempt Application Process</u>

Responses Concerning Inquiries About "Promoters"

Item #8 of IDR 3 (years 20XX-20XX) requested an explanation as to whether ORG officers / directors investigated the background of "promoters" and work with such "promoters" as part of their decision to form an insurance company qualifying as tax exempt under Code § 501(c)(3). ORG's response referred to what was explained in the responses to Items # 5 and #7 of IDR 3, by stating, "See answers to No. 5 and No. 7."

Promotional Material Not Provided to Officers/Directors

Item #9 of IDR 3 (years 20XX-20XX) requested an explanation as to whether ORG officers / directors were provided with literature and/or promotional material informing about tax benefits that could be obtained in forming an insurance company qualifying as tax-exempt under Code § 501(c)(15). ORG's response explained that "promotional" material was not provided and referred to responses provided to Items #5 and #7 of IDR 3:

> "See answers to Nos. 5 and 7. The persons described in Nos. 5 and 7 did not provide any 'promotional' material to Director-1."

Referral of Attorney/Accountant

Item #0 of IDR 3 (years 20XX-20XX) requested an explanation as to whether ORG officers / directors had been referred to someone knowledgeable (e.g., attorney or accountant) about creating an organization qualifying as tax exempt under Code § 501(c)(15). ORG's response referred to responses given to Items #5 and #7 of IDR 3: "See answer to Nos. 5 and 7 above."

Law Firm-1 Retained for Forms 024 and 990 Services

Item #11 of IDR 3 (years 20XX-20XX) requested an explanation as to whether ORG retained professional services – such as an accountant, attorney, or CPA firm – to assist with the Form 1024 application process or prepare Form 990. ORG's response Stated:

> "Yes. Law Firm-1 worked on the Form 1024 and an accountant in their office prepared the Form 990 for the years 19XX to 20XX."

Facts

6. IRS Exemption Ruling Letter Issued on October 19, 200XX

On October 19, 20XX, the Internal Revenue Service ("IRS") issued a letter to ORG, recognizing ORG as exempt from federal income tax under Code section 501(c)(15). This letter, in part, States:

> Based on the information supplied, and assuming your operations will be as Stated in your application for recognition of exemption, we have determined you are exempt from United States income tax under section 501(a) of the Code as an organization described in section 501(c)(15) commencing on January 1, 20XX, for tax years when your net written premiums (or, if greater, your direct written premiums) do not exceed the $0 limit prescribed by section 501(c)(15).
>
> You have the right to protest our ruling in regard to your effective date of exemption if you believe it is incorrect. To protest, you should submit a Statement of your views to this office, with a full explanation of your reasoning. This Statement must be submitted within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your Statement is submitted. If you want a conference, you must request it when you file your protest Statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.
>
> This ruling is based on the financial and other information submitted in support of your application. Based solely on that information, we have concluded you are a "company" or "association" within the meaning of section 501(c)(15) of the Code, and have the business purpose of conducting the activities described in your application. This ruling is not effective unless you actually operate as represented. We are not ruling on issues other than exempt status. We have not been asked and we have not considered whether any of your transactions would give rise to the application of the provisions of either section 842 or 845 of the Code.

Facts

6. <u>IRS Exemption Ruling Letter Issued on October 19, 200XX</u>

Please notify the State Tax Exempt and Government Entities (TE/GE) Customer Service office if there is any change in your name, address, sources of support, purposes or method of operation. If you amend your organizational document or bylaws, please send a copy of the amendment to that office. The mailing address is: Internal Revenue Service, TE/GE Customer Service, Address, City, State Zip code.

[The IRS ruling letter, dated October 19, 20XX, issued to ORG and recognizing ORG as exempt from federal income tax is illustrated within ***Exhibit 6***.]

Facts

7. Relationship Between ORG and Companies

ORG is related by common ownership and/or control to an economic group of businesses referred to as the "Companies":

- ♣ CO-1 (EIN)
- ♣ CO-2 (EIN)
- ♣ CO-3 (EIN)
- ♣ LP-1 (EIN)
- ♣ LP-2 (EIN)
- ♣ LP-3 (EIN)

With the exception of CO-3, all businesses within the Companies have a common address of Address, City, State Zip code.

CO-3's address is at Address, City, State Zip Code ORG's director, Director-1, is also a director and minority owner of CO-3.

Facts

8. Family Members Identified With ORG Transactions

Key Family members were identified from transactions discussed in this report –

[A] Director-1 (SSN) and Director-4
- ♣ ORG officers/directors

[B] Director-2 (SSN)
- ♣ Brother of Director-1
- ♣ Manager of CO-4
- ♣ Director of CO-5

[C] Director-3 (SSN)
- ♣ Brother of Director-1
- ♣ Manager of CO-6
- ♣ Director of CO-7

[D] Manager-1
- ♣ Nephew of Director-1
- ♣ Manager of CO-8
- ♣ Co-Manager of CO-9

[E] Manager-2
- ♣ Son of Director-1
- ♣ Manager of CO-10, the General Partner of LP-4.

[F] Manager-3
- ♣ Husband of Director-1's niece
- ♣ Manager of CO-11, the General Partner of LP-5

[G] Manager-4
- ♣ Husband of Director-1's niece.
- ♣ Manager of CO-12, the General Partner of LP-6

Facts

9. Org Chart Identifying Managers and Equity Holders of Sole Shareholder

Managers and equity owners of ORG's sole shareholder, the LP-1 are identified here. The CO-13 held a 0% general partnership interest in the LP-1 during years 20XX-20XX. Managers of the CO-13 are therefore considered to control ORG through their control over ORG's sole shareholder.

CO-13 (EIN)

General Partner of the LP-1, holding an equity interest of 0% during years 20XX-20XX.

Managers during years 20XX-20XX were ORG director, Director-1; his son, Manager-2; and his nephew, Manager-1.

- ORG directors,Director-1 and Director-4, as holding 0% of equity in CO-13 during 20XX-20XX
- Manager-2, son of Director-1 and Director-4, owning 0% of CO-13 equity in year 20XX, and 0% equity in years 20XX-20XX
- Remaining portion of CO-13 equity held by persons considered to be Director-1 family members during years 20XX-20XX

Limited Partners of the LP-1

- Director-1 Director-4 (SSN) – Directors of DI and limited partnership equity holders – held 0% in year 20XX; 0% at beginning-of-year 20XX; 0% at year-end 20XX-20XX; and 0% at year-end 20XX.
- LP-7 (EIN) – Limited partnership equity holder, holding 0% at year-end 20XX-20XX
- LP-8 (EIN) – Limited partnership equity holder, holding 0% at year-end 20XX
- Director-1 Limited Partnership-9 (EIN), dated 10/10/29/XX – Limited partnership equity holder, holding 0% at year-end 20XX
- Remaining limited partnership equity held by persons considered to be Director Family members, each holding % at year-end 20XX.

LP-1 (EIN)

Sole shareholder of ORG

ORG (EIN)

Facts

10. Primary Purpose of CORG is Insuring Business Activities of Directors

Note 1, General Information, (at Page 5) of ORG's financial Statements for year 20XX, Identified ORG's (the "Company's) primary purpose:

> "The primary purpose of the Company is to provide access to non-traditional insurance coverage of risks that businesses are commonly faced with but to which limited or no insurance coverage is currently available. The Company will accept third party business through recognized credit life/disability reinsurance companies. The Company presently insures the various business activities of Director-1 and Director-4, who are directors and their affiliated companies."

(Emphasis added for underlined areas.)

Facts

11. ORG Business Plan Tied to Companies

ORG's Business Plan identified ORG as a captive insurer providing non-traditional coverage to the Companies economic group. Companies was identified as the risk manager relating to coverage provided by ORG.

Excerpts from ORG's Business Plan given here refer to ORG as the "Company" and to Companies as "CC".

Section I A – General Description / Overview

"The company will insure various business activities of The Companies, a diversified conglomerate of businesses located primarily in State, USA ( ). The Company will also accept third-party insurance as described herein."

Section I B – General Description / Purpose

"The purpose of the Company is to provide access to non-traditional insurance policies with which risks of loss businesses are commonly faced but to which limited or no insurance coverage is currently available. The Companies believes that it faces several risks over the next few years for which traditional insurance is either too expensive or unavailable. Also, the Company hopes to obtain profitable reinsurance business. In addition, the Company may cede certain risks to reinsurers."

Section II A – Marketing / Planned Areas and Type of Business

"The Company will operate as a property and casualty insurance company and will not issue life insurance policies. Insurance will be written on The Companies, to enable better risk management, and allow ORG to obtain non-traditional insurance at better price points."

Section II B – Marketing / Method of Solicitation

"The Company does not presently intend to have insurance agents or solicitors. All insurance initially will either come directly from The Companies, or be obtained by the Company's insurance manager."

Section II C – Marketing / Source of Business

"The Company expects that zero percent (0%) or more of its business will come from The Companies. The Companies is a diversified conglomerate of companies, with numerous employees and assets and is currently faced with all of the below-described insurable risks. The Companies will seek to engage in management of its risks and containing the cost of acquiring the foregoing classes of insurance.

The balance of the insurance underwriting business will be accepted by way of reinsurance of unrelated, licensed insurance companies."

Section III B – Technical / Details of Underwriting

"The Company will be highly selective as to the risks, which it will underwrite in the early stages of its development. The Companies will continue to obtain regular commercial property and casualty insurance from standard providers, and will primarily use the Company to provide non-traditional insurance and to access the reinsurance market."

Section III D – Technical / Claims and Accounting Techniques

"The frequency of claims from The Companies is expected to be low and so all claims will be dealt with on an adhoc basis in consultation with the Company's insurance manager. Where advised by the insurance manager or otherwise determined, the services of third party loss adjusters and other specialists may be used. The Company intends to adopt a conservative approach to reserving for outstanding claims but IBNR is not expected to form a significant proportion of those reserves."

Facts

11. ORG Business Plan Tied to Companies

"It is expected that most inwards reinsurance business will be in the form of Quota Share treaties, which will be accounted quarterly and settled on a balance of account basis."

Section III H – Technical / Commission Structure

"The Company will not pay commissions to agents and solicitors in the traditional sense. The Company may pay set fees to its insurance manager to obtain third-party insurance."

[ORG's Business Plan is illustrated within ***Exhibit*** *7*.]

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

Facts

12. Professional Background of ORG Officers / Directors, Director-1 and Director-4

ORG's response to Item #1 of IDR 3 (years 20XX-20XX) gave the professional background of husband-wife officers/directors, Director-1 and Director-4.

Director-4 was explained to have received a bachelor of science degree in home economics from the University of State. She has been a full-time mother and wife, and has not engaged in business except through her husband."

Director-1's resume' disclosed that he –

- Received his bachelor of science in accountancy degree from University in January 19XX.
- Worked as an IRS revenue agent from June – December 19XX.
- Attended school for 3 semesters.
- Returned to City, State to join his father in managing business enterprises and investments his father had made.
- Funded, managed, and served on the board of directors of over 100 companies as a private investor. These include multiple companies .
- Lived in City, Country, where he funded and managed various Country enterprises.
- Helped found and served on the board of directors of several insurance companies.
- Was among the original founders of CO-14, a publicly traded life insurance company domiciled in State. [Family members of Director-1 also were original founders.]
- Was one of the original founders of Mutual Insurance – a mutual insurance company domiciled in State -- and served on its Board for the past 18 years.
- Served on the Governing Board of the Hospital-1 and its successor, Hospital-2, since 19XX. Six of these years were served as Chairman of the Board.

[Director-1's resume' is illustrated within ***Exhibit 8***.]

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG**		**Year/Period Ended** **20XX-12** **20XX-12** **20XX-12**

Facts

13. Sources of Revenue Reported for Years 20XX-20XX

ORG's sources of revenue reported for years 20XX-XX are summarized here. In years 20XX-XX, premium revenue was less than 0% of aggregate revenue – 0% for year 20XX and 0% for year 20XX. The net gain from the sale of non-inventory assets was over 0% of aggregate revenue for years 20XX-XX – 0% for 20XX and 0% for 20XX.

Premium revenue for year 20XX was about 0%, with the remaining revenue coming from other investments (0%) and a net gain from non-securities sales (0%).

Form 990, Part I, Line #	Year 20XX		Year 20XX		Year 20XX	
	$$$	***%***	***$$$***	***%***	***$$$***	***%***
2 - Program Service Revenue						
> Premiums Written			0	0%	0	0%
> Premiums Assumed			0	0%	0	0%
4 - Interest on Savings / Temp Cash Inv			0	0%		
5 - Dividends and Interest	0	0%				
6. Net Rental Income					0	0%
7 - Other Investment Income			0	0%	0	0%
8 - Net Gain from Sale of Non-Inventory Assets						
Securities			-0	0%	-0	-0%
Non-Securities	0	0%	0	0%	0	0%
11 - Other Revenue						
> Premiums Insurance	0	0%				
> Premiums Subject to Reinsurance	0	0%				
➢ Misc. Revenue – Line of Credit Fee	0	0%				
12 - Total Revenue	0	**00%**	0	**00%**	0	**00%**

[ORG's general ledger for years 20XX-20XX is illustrated within **Exhibits 9A, 9B, and 9C**.]

[ORG's audited financial Statements for years 20XX-20XX are illustrated within **Exhibits 0A, 0B, and 0C**.]

[ORG Forms 990 filed for years 20XX-20XX are illustrated within **Exhibits 11A, 11B, and 11C**.]

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG** **Facts** **13. Sources of Revenue Reported for Years 20XX-20XX**		**Year/Period Ended** **20XX** **20XX** **20XX**

ORG sources of revenue discussed in further detail are –

[A] Net gain from sale of non-inventory assets
[B] Premium revenue from direct-written policies
[C] Assumed reinsurance premiums
[D] Miscellaneous revenue from line of credit fee
[E] Other Investment Income

Facts

13-A. Net Gain from Sale of Non-Inventory Assets

Part I, Line 8 of ORG's Form 990 reported a net gain from the sale of non-inventory assets for years 20XX-20XX:

- Year 20XX $0
- Year 20XX $0
- Year 20XX $0

A pattern relating to gains reported for years 20XX-20XX exists, whereby ORG's sole shareholder, the LP-1, transferred one-third interests in properties located in State that ORG disposed of in the following year. The pattern began in year 20XX, when ORG received two one-third interests in properties located in State that were sold in year 20XX at a net gain of $0.

One-Third Interests in Two Properties Received at Basis of $0 on 12/29/20XX

Two documents entitled, "Special Warranty Deed" show that ORG's sole shareholder, the LP-1, transferred an "undivided one third (1/3) interest" in two properties located in County and County Counties, State. Both Special Warranty Deeds were executed by the LP-1, as Grantor, on 12/29/20XX. The two properties for which a one-third interest in each was transferred under these Special Warranty Deeds to ORG, as Grantee, are described in supporting exhibits to the deeds as:

- Property-1 – County, State
- Property-2 – County, State

Facts **20XX**

13-A. <u>Net Gain from Sale of Non-Inventory Assets</u> **20XX**

Basis amounts for the two property interests transferred in year 20XX totaled to $0:

,

Property Interests Transferred in Year 20XX	***Basis***
0% interest in County, State property described as "Property-1"	0
0% interest in County County, State property described as " Property-2"	0
	0

Supporting ORG's receipt of the two one-third property interests is that ORG's G/L account 0 / Land had a balance of $0 at 1/1/20XX.

[Special Warranty Deeds executed by the LP-1 on 12/29/20XX, to transfer an "undivided one third (1/3) interest" in two properties located in County and County Counties, State of State, are illustrated within **Exhibits 12A and 12B**.]

One-Third Interests in Two Properties Sold for $0 Net Gain in Year 20XX

ORG disposed of its 0% interest in the Freeway and Street property through two sales occurring on July 3, 20XX and November 6, 20XX. The sale on July 3, 20XX, was 0% sold to three limited partnerships affiliated with the Companies economic group – the LP-8, the CO-4, and the CO-6 – for a gain of $0. ORG's captive affiliates – CO-7 and CO-5 – concurrently sold their equal portions of the property interest under one contract for all sellers/owners, whereby ORG was allocated 1/3 of sales proceeds. The sale in November 6, 20XX, was 0% sold to the CO-6 for a gain of $0. ORG was the only party to this sale.

Total gain from the two sales was $0
∑ $0 (0%) + $0 (0%) = $0 (0%).

[ORG's sale of the 0% portion of the Property-2 property, transacted on 7/3/20XX, resulting in sales proceeds of $0 and net gain of $0, was not disclosed within the Form 1024 application. ORG officer/director, Director-1, signed the Form 1024 application under penalty of perjury two weeks after this sales transaction, on 7/17/20XX.]

ORG disposed of its 0% interest in the Property-1 property through five sales occurring on November 6, 20XX and December 19, 20XX:

- 0% sold on November 6, 20XX, to the CO-6 for a gain of $0
- 0% sold on December 19, 20XX, to the LP-10 for a gain of $0
- 0% sold on December 19, 20XX, to the CO-6 for a gain of $0
- 0% sold on December 19, 20XX, to the CO-1 for a gain of $0
- 0% sold on December 19, 20XX, to the LP-7 for a gain of $0

Total gain from the five sales was $0
∑ $0 (0%) + $0 (0%) + $0 (0%) + $0 (0%) + $0 (0%) = $0 (0%)

When ORG sold its 0%, 0%, and 0% portions of interest in the Property-1 property on 12/19/20XX, ORG's captive affiliates -- CO-7 and CO-5 – concurrently sold their equal portions of the property interest under one contract for all sellers/owners, resulting in ORG receiving an allocated 1/3 portion of the sales proceeds.

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

Facts

13-A. Net Gain from Sale of Non-Inventory Assets

Computations of net gains from ORG's sales of the 0% property interests in the Property-2 and Property-1 properties in year 20XX, along with identification of property purchasers and property sellers are summarized here:

Property Interests Sold in Year 20XX							
Property Sold	**Sale Date**	**% of Property**	**Sales Proceeds**	**Property Basis**	**Gain From Sale**	**Property Purchaser(s)**	**Property Sellers / Territory Insurance Companies**
Property-2	07/XX/XX	0%	0	0	0	LP-8 CO-4 CO-6	ORG CO-5 CO-7
Property-1	11/06/XX	0%	0	0	0	CO-6	ORG
Property-2	11/06/XX	0%	0	0	0	CO-6	ORG
Property-1	12/19/XX	0%	0	0	0	LP-10	ORG CO-5 CO-7
Property-1	12/19/XX	0%	0	0	0	CO-6	ORG
Property-1	12/19/XX	0%	0	0	0	CO-1	ORG CO-5 CO-7
Property-1	12/19/XX	0%	0	0	0	LP-7	ORG CO-5 CO-7
Totals From Seven Sales			0	0	0	0	
Other Misc. Gains/Losses per Response to Item 1 – IDR 2					0		
Net Gain Reported in Form 990 / Year 20XX					**0**		

[When ORG officer/director, Director-1 signed the Form 1024 (discussed above) under penalties of perjury on 7/17/20XX, ORG had already engaged in a sales transaction on 7/3/20XX. The Form 1024 gave no disclosure about sales that would occur on

11/6/20XX and 12/19/20XX, even though ORG had already held interests in the Property-2 and Property-1 properties when it was signed on 7/17/20XX.]

Property Purchasers Controlled/Owned by Director-1 Family

The six property purchasers -- five limited partnerships and one limited liability company – were controlled and/ or owned by Director-1 Family members who also were officers in ORG and its affiliate captive sellers:

- CO-6 (EIN) - Address, City, State Zip code – Director-3 is manager of general partner (CO-6) and controls all of limited partnership equity. [Director-3 is an officer/director of captive affiliate, CO-7]

- LP-8 (EIN) - Address, City, State Zip code - Director-1 and Manager-2 (father and son) are mangers of general partner (LP-8). Director-1 controls all of limited partnership equity. [Director-1 is an officer/director of ORG.]

- CO-4 (EIN) - Address, City, State Zip code – Director-2 is one of three managers of the general partner (CO-4), and controls all of the limited partnership equity. [Director-2 is an officer/director of captive affiliate, CO-5]

- LP-10 (EIN) - Address, City, State Zip code. The three Director-1 brothers who are key officers/directors of the affiliate captives – Director-1 (ORG), Director-2 (CO-5), and Director-3 (CO-7) – each hold a one-third equity interest in one of the two general partners of the LP-10 (– EIN), and each hold a 0% limited partner equity interest in the LP-10. [One of the general partners of the LP-10 – – was also a general partner in the LP-7.]

- LP-7 (EIN) – Address, City, State Zip code – Dissolved in year 20XX. Limited partner equity was held equally during years 20XX-20XX, by the LP-8 (0%), the CO-6 (0%) and the CO-4 (0%). The general partner was CO-22 (EIN). Ownership and control in the three limited partners and the general partner of the LP-7 are identified above.

Facts

13-A. Net Gain from Sale of Non-Inventory Assets

- CO-1 (EIN) - Address, City, State Zip code. 0% of total member equity in the CO-1 was equally held by the three limited partner sole shareholders of ORG and its affiliate captives – LP-1 (ORG), LP-3 (CO-7), and LP-2 (CO-5) – each holding 0% member equity. The remaining 0% of member equity in the CO-1 was held by two corporations – CO-16 (0% -- EIN) and CO-17 (0% -- EIN).

One-Third Interest in Property Received at Basis of $0 on 12/31/20XX

The pattern of ORG receiving property and disposing of it in the following year continued in year 20XX, when ORG received another one-third interest in State property.

A special warranty deed, executed on 12/31/20XX, by the LP-1, as Grantor, transferred to ORG an "undivided one third (1/3) interest" in a property located in County County, State, described as "Property-3". Director-1's nephew, Manager-1, signed the Special Warranty Deed as manager of the CO-13. The CO-13 was identified in the Special Warranty Deed as general partner of the LP-1.

ORG recorded the property's basis in the amount of $0 within G/L account 01-001 / Land on 12/31/20XX, under a posting described as, "Contribution of 1/3 of 0% interest in Property-3 from LP-1".

G/L Account 1600 – Land					
				Amount	
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**
12/31/XX	GJ 1	J	Contribution of 1/3 of 0% interest in Property-3 from LP-1	0	

[The Special Warranty Deed executed by the LP-1 on 12/31/20XX, to transfer an "undivided one third (1/3) interest" in a property located in County County, State, described as "Property-3 is illustrated within **Exhibit 13**.]

One-Third Property Interest Sold for $0 Net Gain in Year 20XX

ORG disposed of its one-third interest (0%) in the Property-3 ("Property-3") property by two sales transactions within year 20XX –

- ♣ 0% sold on 7/31/XX
- ♣ 0% sold on 8/31/XX

The LP-15 – identified above as a property purchaser in year 20XX – was the sole purchaser of the one-third interest in the Property-3 property.

Minutes of ORG Board Meeting Discuss Sale of Property-3 Property Interest in 20XX

Minutes of ORG's Board meeting held on February 17 20XX, note that assets and net income increased substantially as a result of ORG's sale of the Property-3 property interest, which was referred to as appreciated property carried on the books at basis:

> "The financial Statements of the Company for the year ended December 31, 20XX were presented to the Directors.....<u>It was noted that the Company now has $0 in Assets compared with $0 in the prior year</u>. <u>The increase is mainly a result of the sale of appreciated property (Property-3) which was carried on the books at basis</u>. The breakdown of total assets is as follows:
>
> Cash and cash equivalents: $0 – Cash and money market account
> Investments and Receivables: $0 – Money invested in real estate and real estate investment companies
>
> In 20XX, the Company made additional investments in companies whose business is real estate investment. These companies loan money secured by real estate.
>
> <u>Director-1 completed his review of the balance sheet and then conducted a brief review of the Income Statement for the year noting the Company showed Net income of $0 compared with $0 in the prior year</u>. <u>This was mainly attributable to the sale of Property-3</u>. Total investment revenue was $0 compared with $0 in the prior year. Premium income for the year was $0 compared with $0 for the prior year."

[Emphasis added to above underlined areas.]

[Minutes of ORG's Board meeting held on 2/17/20XX are illustrated within **Exhibit 14**.]

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG**	**Facts** **13-A. Net Gain from Sale of Non-Inventory Assets**	**Year/Period Ended** **20XX** **20XX** **20XX**

Transactions within ORG's G/L accounts #1/Capital Gains (Loss) and #0 / Land identified sales proceeds of $0; a $0 basis in the 1/3 interest in Property-3 property; and a net gain of $0.

Total gain from the two sales was $0
∑ $0 (0%) + $0 (0%) = $0 (0%)

Date	*Reference*	*G/L Account 0 / Capital Gains (Loss)* *Trans Description*	*G/L Account 0 / Capital Gains (Loss)* *Amount*	*G/L Account 0 / Land* *Trans Description*	*G/L Account 0 / Land* *Amount*	*Sales Proceeds*
31-Jul 20XX		Wire from Investment Property Exchange of Property-3	0	Wire from Investment Property Exchange of Property-3	0	0
	GJ2 Gen J	Reclass Coding error				
31-Aug-20XX	Gen		0	Wire from Inv. Property Exchange (Sale of 0 % of Property-3 Interest)	0	0
Gain + Basis = Sales Proceeds			**0**		**0**	**0**
Proceeds from Sale of Investment Property from Statement of Cash Flows within Audited Financials, Year 20XX						0
Insignificant Difference						**0**

An insignificant difference of $0 exists between the $0 of sales proceeds computed from ORG's G/L postings and the $0 of investment property sale proceeds reported within the Statement of Cash Flows of ORG's audited financial Statements for year 20XX.

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG** **Facts** **13-A. Net Gain from Sale of Non-Inventory Assets**		**Year/Period Ended** **20XX** **20XX** **20XX**

$0 Net Gain Reported for Year 20XX

The $0 net gain reported within Part I, Line 8 of Form 990 / Year 20XX came from ORG's sharing of profit-loss in a domestic corporation, CO-18 (EIN). The CO-18 invested in a land fund that acquired real estate in State – the Land Fund. Net gain of $0 from the Land Fund's sale of land in year 20XX flowed from the Land Fund to the CO-18 to ORG.

The CO-18 was reported as ORG's subsidiary within Note 6, "Investment in Affiliates" (at Pages 0-11) of ORG audited financials for the period ended 12/31/20XX:

> The Company has two subsidiaries as at December 31, 20XX which are CO-19 and CO-18. The Company has not prepared separate consolidated financial Statements."

Schedule K-1 filed for year 20XX by the CO-18 (EIN) identified that LLC as a domestic corporation in which ORG had a 0% interest in profit-loss sharing and capital ownership at year-end 20XX. Part J – Column (d) of the Schedule K-1 reported $0 of withdrawals and distributions. Part J – Column (b) of the Schedule K-1 reported $0 of capital contributed by ORG into the CO-18 during year 20XX.

[Schedule K-1 filed for year 20XX by the CO-18 (EIN) is illustrated within **Exhibit 15**.]

The $0 net gain reported within Part I, Line 8 of ORG's Form 990 / Year 20XX, the $0 reported as withdrawals/distributions in the CO-18's Schedule K-1, and the $0 capital contribution reported in the CO-18's Schedule K-1 were identified in ORG G/L postings as –

- $0 debited to ORG's cash operating bank account, G/L account #0 / Cash – Bank
- $0 credited to ORG's investment in the CO-18, G/L account #0 / CO-18
- $0 difference as a net gain credited to G/L account #0 / Capital Gains

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

Facts

13-A. <u>Net Gain from Sale of Non-Inventory Assets</u>

Account ID / Description	*Date*	*Reference*	*Journal*	*Trans Description*	*Debit*	*Credit*
2 / Cash – Bank	31-Dec-XX	GJ 12/XX -1	Gen J	CO-18	0	
3 / CO-18	31-Dec-XX	GJ 12/XX -1	Gen J	CO-18		0
1 / Capital Gains (Loss)	31-Dec-XX	GJ 12/XX -1	Gen J	CO-18		0
Total of Postings to G/L Accounts					**0**	**0**

ORG Board Meeting Notes that Real Property Interest Sales Did Not Recur in 20XX

Minutes of ORG's Board meeting held on February 9, 20XX discussed the review ORG's financial Statements for the year ended 12/31/20XX. During this meeting, ORG's Board acknowledged that sales of interests in appreciated real property did not recur in year 20XX, resulting in a substantial decrease in net income:

> "The balance sheet review was finished and then a brief review of the Income Statement for the year was conducted. <u>It was noted that the Company showed a net loss of $0 compared with net income of $0 in the prior year</u>. <u>The decrease is due to the sale of appreciated property in prior years not recurring this year</u>. Total investment revenue was $0 compared with $0 in the prior year. Premium income for the year was $0 compared with $0 for the prior year."

[Emphasis added to underlined area.]

[Minutes of ORG Board held on 2/9/20XX are illustrated within ***Exhibit 16***.]

Facts

13-B. Premium Revenue from Direct-Written Policies

ORG premiums from direct-written policies were reported as -

- Other Revenue of $0 within Part I / Line 11 for year 20XX
- Program Service Revenue of $0 within Part I / Line 2 for year 20XX
- Program Service Revenue of $0 within Part I / Line 2 for year 20XX

Consistent with ORG's purpose and activities discussed within the audited financial Statements and Business Plan, insureds relating to this premium revenue were part of the Companies economic group or affiliated with it through control/ownership.

In years 20XX-XX, ORG insured two affiliates within the Companies economic group – LP-3 and CO-3.

In year 20XX, ORG wrote additional policies for three LP affiliates of the Companies economic group – CO-6, CO-4, and the LP-10. Coverage for all three of these LPs was for commercial excess / general liability. The three LPs purchased real property interests sold by ORG during year 20XX (Property-1 and Property-2). The CO-6 purchased the real property interest sold by ORG in year 20XX (Property-3).

$0 Reported as Direct Written Insurance Premiums for Year 20XX

The $0 of direct insurance premiums reported within Form 990 / year 20XX came from two policies negotiated and entered into in the Territory between ORG and two businesses within the Companies economic group:

Insured Party	Policy #	Premium
LP-3 (EIN)	01 – 01	0
CO-3 (EIN)	01 - 09	0
Total Direct Insured Premiums		**0**

Facts

13-B. Premium Revenue from Direct-Written Policies

Identification of Insured, the LP-3

The LP-3 was established in November 19XX. Its business operations were split 15-75-10:

- owning/operating retail petroleum facilities primarily in State and State (0%)
- real estate speculation and development in State (0%)
- private and public equity investments (0%)

The LP-3's general partner – the CO-17 – held a 0% equity interest in the LP-3. The brother and nephew of ORG officer/director, Director-1 – Director-3 (brother) and Manager-1 (nephew) – were managers of the CO-17. Director-3's equity holdings in the LP-3 were a 0% limited partnership interest at beginning-of-year 20XX, and a 0% limited partnership interest at year-end 20XX.

Policy # 01 - 01 Insuring the LP-3

ORG's policy # 01 - 01 insuring the LP-3 provided administrative actions insurance coverage. The policy supplemented general liability insurance coverage provided by CO-20; having a $0 liability limit that expired on December 1, 20XX.

The $0 premium of policy #01 - 01 had two components:

Negotiated annual single premium	$ 0	
Endorsement annual single premium	0	**$0**

Policy #01 - 01 had a liability limit / maximum expense of –

- $0 per single insured event
- $0 aggregate maximum for all events

The deductible provided under policy #01 - 01 was for –

- $0 for a single event maximum
- $0 for an annual maximum

The policy period for policy #01 - 01, in verbatim, is stated as:

> "<u>Only for Insured Events occurring on or after</u> January 1, 20XX, for which claims are made and reported between 12:01 a.m. January 1, 20XX, and 12:01 a.m., January 1, 20XX."

Facts

13-B. Premium Revenue from Direct-Written Policies

(Emphasis added for underlined area. A $0 claim paid with respect to policy #01 - 01 is discussed later in the report.)

[ORG policy #01 - 01 written for year 20XX is illustrated within ***Exhibit 17***.]

The LP-3 paid the $0 premium for policy #01 - 01 per its check #1, dated 8/17/20XX. ORG recorded this payment within its G/L account #2 / Premium Insurance on 0/25/20XX.

Identification of Insured, CO-3

CO-3 is a corporation established in June 19XX, having business operations split 20-80:

- 0% devoted towards owning/operating retail petroleum facilities primarily in State
- 0% devoted towards real estate speculation and development in State

ORG's principal officer/director, Director-1, also was a director of CO-3. During year 20XX, CO-3 had four equity holders that included another member of the Companies group, the CO-1:

Owner/Address	***TIN***	***Ownership %***
CO-1 Address, City, State	EIN	0%
LP-11 Address, City, State Zip code	EIN	0%
Individual-1 Address, City, State Zip Code	Not Provided	0%
LP-12 Address, City, State Zip Code	EIN	0%
Total Equity in CO-3		***00.00%***

Facts

13-B. <u>Premium Revenue from Direct-Written Policies</u>

Policy # 01 - 09 insuring CO-3

ORG's policy # 01 - 09 insuring CO-3 provided employment practices liability insurance coverage. The policy supplemented general liability insurance coverage provided by CO-21, having a $0 liability limit that expired on July 1, 20XX.

The $0 premium of policy #01 - 09 had two components:

Negotiated annual single premium	$ 0	
Endorsement annual single premium	0	**$0**

Policy #01 - 09 had a liability limit / maximum expense of –

- $0 per single insured event
- $0 aggregate maximum for all events

The deductible provided under policy #01 - 09 was for –

- $0 for a single event maximum
- $0 for an annual maximum

The policy period for policy #01 - 09, in verbatim, is Stated as:

"Only for Insured Events occurring on or after January 1, 20XX, for which claims are made and reported between 12:01 a.m. January 1, 20XX, and 12:01 a.m., January 1, 20XX."

[ORG policy #01 - 09 written for year 20XX is illustrated within ***Exhibit 18***.]

CO-3 paid the $0 premium for policy #01 - 09 per its check #2, dated 10/25/20XX. ORG recorded this payment within its G/L account #2 / Premium Insurance on 10/25/20XX.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

13-B. Premium Revenue from Direct-Written Policies

Summary of Year 20XX Direct Written Policies

The table here summarizes policy information supporting the $0 reported as direct written insurance premiums for year 20XX.

ORG Insured / Policy #	Type of Coverage	Policy Premium	Coverage Period	Policy Payment	Limits of Liability / Maximum Expense	Deductible	External Primary Insurer
CO-3 Policy 01 - 09	Employment Practices Liability	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #2, dated 0/25/01, paid in amount of $0 to ORG	$0 per single insured event / $0 aggregate maximum for all events	$0 single event maximum amount / $0 annual maximum deductible	CO-21 / $0M liability limit / $0 deductible / 07/1/20XX policy expiration
LP-3 01 - 01	Administrative action	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #1 dated 8/17/20XX, paid in amount of $0 to ORG	$0 per single insured event / $0 aggregate maximum for all events	$0 single event maximum amount / $0 annual maximum deductible	CO-20 / $0M liability limit / $0 deductible / 12/1/20XX policy expiration
Total Premiums Reported within Form 990 / Year 20XX		**$0**					

Facts

13-B. Premium Revenue from Direct-Written Policies

Risk Not Actuarially Supported for Year 20XX
Policies #01 - 01 and #01 - 09

Note 2(e), "Significant Accounting Policies for Loss Reserve", (at Page 7) to ORG audited financial Statements for year 20XX reported that ORG management did not believe that a reserve for policy losses was necessary, that ORG did not provide for losses, and that any reserve to cover payment of claimed losses was not determinable:

> Management does not believe that a reserve for policy losses and related expenses is necessary. However, because of the length of time required for the ultimate liability for losses and loss expenses to be determined, the net amounts that will ultimately be paid to settle any liability may vary significantly from the nil amount provided for in the Statement of assets and liabilities.
>
> The Company does not provide for losses on incurred but not yet reported cases. It has been the Company's experience that incidents which may give rise to claims are invariably reported almost immediately and therefore any additional provision for this category of claim is unnecessary. Although management believes that no additional provision is necessary, any reserve to cover the ultimate payment of such amounts is not presently determinable.

Item #6 of IDR 3 (year 20XX) requested rate charts and actuarial reports to support whether risk transfer and risk distribution existed under ORG's direct premium policies #01 - 09 and #01 - 01. ORG's response Stated:

> "The risks insured under these policies are non-standard risks concerning which actuarial information and analysis were not available. Management of the Company personally assessed this risk based upon their knowledge of the insureds and the insureds' businesses. The Company engaged outside insurance counsel to tailor the policy coverages and limitations to match their business assessments of risk. The policies clearly transfer risk from the insureds to the Company. The direct written policies together with reinsurance business also clearly distribute risk among many insureds."

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")** **Facts** **13-B. <u>Premium Revenue from Direct-Written Policies</u>**		**Year/Period Ended** **20XX** **20XX** **20XX**

Item #2A of IDR 8 (year 20XX) requested documentation supporting "ORG management's personal assessment of risk based upon their knowledge of the insureds and the insureds' business." ORG's correspondence, dated December 10, 20XX (at Page 10), responded by stating:

> "<u>The Company's management was very familiar from personal observation and evaluation with the direct insured risks</u>. <u>Because of the familiarity, no 'underwriting memo' or similar document exists</u>."

[Emphasis added to above underlined areas.]

Item #2B of IDR 8 requested documentation supporting ORG's Statement as to the "engagement of outside insurance counsel to tailor the policy coverages and limitations to match their business assessments of risk." ORG's correspondence, dated December 10, 20XX (at Page 0), responded by stating:

> "Company engaged Law Firm-3 of City to tailor policy coverages and limitations. Without in any way waiving the attorney-client privilege as to communications between Law Firm-3, the Company provides a copy of billing Statement and check at Tab 18."

The invoice referenced in ORG's response was #1, dated February 20, 20XX, billed in the amount of $0 to "The Companies" by the legal firm of Law Firm-3. Time billed within this invoice was not for actuarial risk services relating to ORG policies #01 - 09 and #01 - 01. ORG was allocated $0 from the $0 billed to the Companies by Law Firm-3, which was reported as legal expenses in Form 990 / year 20XX.

[The Law Firm-3 invoice #0, dated 2/20/20XX, billed in the amount of $0 to The Companies is illustrated within ***Exhibit 19***.]

Facts

13-B. Premium Revenue from Direct-Written Policies

$0 Reported as Direct Written Insurance Premiums for Year 20XX

ORG renewed its policies written for the LP-3 and CO-3 for the $0 reported as direct written premiums in year 20XX:

- Policy 02 - 01
  Insuring the LP-3 for administrative actions
  Total premium = $0

- Policy 02 - 09
  Insuring CO-3 for employment practices liability
  Total premium = $0

Policy # 02 - 01 Insuring the LP-3

ORG direct policy #01 - 01 written for year 20XX was substantially similar to its predecessor written for year 20XX. ORG's policy # 01 - 01 provided administrative actions insurance coverage and supplemented general liability / no-deductible insurance coverage provided by CO-20; having a $0 liability limit that expired on December 1, 20XX.

The $0 premium of policy #02 - 01 had two components:

Negotiated annual single premium	$ 0	
Endorsement annual single premium	0	**$0**

Policy #02 - 01 had a liability limit / maximum expense of –

- $0 per single insured event
- $0 aggregate maximum for all events

Policy #02 - 01 did not provide a deductible for either a single event maximum amount or an annual maximum.

The policy period for policy #02 - 01, in verbatim, is Stated as:

"Only for Insured Events occurring on or after January 1, 20XX, for which claims are made and reported between 12:01 a.m. January 1, 20XX, and 12:01 a.m., January 1, 20XX."

Facts

13-B. Premium Revenue from Direct-Written Policies

The LP-3's premium payment of $0 was recorded within G/L account #2 / Premium Insurance on 12/23/20XX, through a cash receipts journal ("CRJ") credit posting having a reference of "0" and a transaction description of "CO-17–Insurance Change". A corresponding debit posting was made to G/L account #2 / Cash-Bank, indicating that the $0 premium was deposited.

[ORG policy #01 - 01 written for year 20XX is illustrated within ***Exhibit 20***.]

Policy # 02 - 09 insuring CO-3

ORG direct policy # 02 - 09 written for year 20XX was substantially similar to its predecessor written for year 20XX. ORG's policy # 02 - 09 provided employment practices liability insurance coverage and supplemented general liability / no deductible insurance coverage provided by CO-21, having a
$0 liability limit that expired on July 1, 20XX.

The $20 premium of policy #02 - 09 had two components:

Negotiated annual single premium	$ 0	
Endorsement annual single premium	0	**$0**

Policy #02 - 09 had a liability limit / maximum expense of –

- ♣ $0 per single insured event
- ♣ $0 aggregate maximum for all events

Policy #02 - 09 did not provide a deductible for either a single event maximum amount or an annual maximum.

The policy period for policy #02 - 09, in verbatim, is Stated as:

> "Only for Insured Events occurring on or after January 1, 20XX, for which claims are made and reported between 12:01 a.m. January 1, 20XX, and 12:01 a.m., January 1, 20XX."

CO-3's premium payment of $0 was recorded within G/L account #2 / Premium Insurance on 12/18/20XX, through a cash receipts journal ("CRJ") credit posting having a reference of "0" and a transaction description of "CO-3 – Premium Insurance Income". A corresponding debit posting was made to G/L account #2 / Cash-Bank, indicating that the $0 premium was deposited.

[ORG policy #02 - 09 written for year 20XX is illustrated within ***Exhibit 21***.]

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Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

13-B. Premium Revenue from Direct-Written Policies

Summary of Year 20XX Direct Written Policies

The table here summarizes policy information supporting the $0 reported as direct written insurance premiums for year 20XX.

Year 20XX							
ORG Insured / Policy #	**Type of Coverage**	**Policy Premium**	**Coverage Period**	**Policy Payment**	**Limits of Liability / Maximum Expense**	**Deductible**	**External Primary Insurer**
CO-3 Policy 02 - 09	Employment Practices Liability	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #3, paid in amount of $0 to ORG, and recorded in G/L as deposited in bank account on 12/18/20X X	$0 per single insured event / $0 aggregate maximum for all events	$0 single event maximum amount / $0 annual maximum deductible	Law Firm-3 / $0M liability limit / $0 deductible / 07/1/20XX policy expiration
LP-3 02 - 01	Administrative action	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #0, paid in amount of $0 to ORG, and recorded in G/L as deposited in bank account on 12/23/20X X	$0 per single insured event / $0 aggregate maximum for all events	$0 single event maximum amount / $0 annual maximum deductible	CO-20 Incorporated / $0M liability limit / $0 deductible / 12/1/20XX policy expiration
Total Premiums Reported within Form 990 / Year 20XX		**$0**					

Facts

13-B. Premium Revenue from Direct-Written Policies

Risk Not Actuarially Supported for Year 20XX
Policies #02 - 01 and #02 - 09

Consistent with Year 20XX, Note 2(e), "Loss Reserve" (at Page 0) of ORG audited financials for year 20XX, reported that ORG management did not believe that a reserve for policy losses was necessary, that ORG did not provide for losses, and that any reserve to cover payment of claimed losses was not determinable:

> "Policies written and assumed provide for coverage on a claims-made basis. Therefore, the reserve for policy losses and related expenses consists primarily of the estimated cost for losses, defense and expenses associated with claims reported on a case by case basis which are unsettled at the year end. In relation to premiums assumed, losses and loss expenses paid are recorded when advised by the Ceding insurance company. Outstanding losses comprise estimates of the amount of reported losses and loss expenses in respect of policies written, and amount advised by the Ceding insurance company.
>
> Management does not believe that a reserve for policy losses and related expenses is necessary. However, because of the length of time required for the ultimate liability for losses and loss expenses to be determined, the net amounts that will ultimately be paid to settle any liability may vary significantly from the nil amount provided for in the Statement of assets and liabilities.
>
> The Company does not provide for losses on incurred but not yet reported cases. It has been the Company's experience that incidents which may give rise to claims are invariably reported almost immediately and therefore any additional provision for this category of claim is unnecessary. Although management believes that no additional provision is necessary, any reserve to cover the ultimate payment of such amounts is not presently determinable."

Facts

13-B. Premium Revenue from Direct-Written Policies

Item #4E of IDR 1 (years 20XX-20XX) requested an actuarial analysis supporting computation of premium charges, risk transfer, and risk distribution for policies in effect during the 12-month periods ended December 31, 20XX-20XX. ORG's correspondence, dated 7/20/20XX, responded by stating that actuarial analysis was unnecessary for direct-written policies:

> "The directly written policies were of risks well known to the company and no actuarial analysis was necessary. CO-23 advises that its retrocession arrangement was never subjected to actuarial analysis and that it had no reason to do so."

[Emphasis added to above underlined areas.]

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Name of Taxpayer **ORG (" ")** **Facts** **13-B. Premium Revenue from Direct-Written Policies**		**Year/Period Ended** **20XX** **20XX** **20XX**

$0 Reported as Direct Written Insurance Premiums for Year 20XX

Five policies written by ORG for year 20XX support the $0 of direct written premiums reported within Form 990:

- Policy 03 - 01
  Insuring the LP-3 for administrative actions
  Total premium = $0

- Policy 03 - 09
  Insuring CO-3 for employment practices liability
  Total premium = $0

- Policy 13 - 32
  Insuring the CO-6 for claims made – commercial excess general liability
  Total premium = $0

- Policy 13 - 03
  Insuring the LP-10 for claims made – commercial excess general liability
  Total premium = $0

- Policy 13 - 33
  Insuring the CO-4 for claims made – commercial excess general liability
  Total premium = $0

∑ $0 + 0 + 0 + 0 + 0 = $0

These direct policies had a coverage period that was, "Only for insured events occurring on or after January 1 20XX, for which claims are made and reported between 12:01 AM of January 1 20XX and 12:01 AM of January 1 20XX."

Facts

13-B. Premium Revenue from Direct-Written Policies

Policy # 03 - 01 Insuring the LP-3

ORG direct policy #03 - 01 written for year 20XX was substantially similar to its predecessors written for years 20XX-20XX. ORG's policy #03 - 01 provided administrative actions insurance coverage and supplemented general liability / no-deductible insurance coverage provided by CO-20; having a $0 liability limit that expired on December 1, 20XX.

The "Renewable Certificate" section of policy #03 - 01 contained this information:

Insured:

LP-3
Address
City, State Zip code
Phone number

Policy Period:

For insured events occurring on or after January 1 20XX, for which claims are made and reported between 12:01 AM of January 1 20XX and 12:01 AM of January 1 20XX.
[Same policy period as that for the other direct-written policies effected in year 20XX.]

Type of Coverage:

Administrative action insurance.

Premium:

Negotiated annual single premium	$ 0	
Endorsement annual single premium	0	**$0**

Limits of Liability – Maximum Expense:

Per single insured event	$ 0
Aggregate maximum for all events	$ 0

Facts

13-B. <u>Premium Revenue from Direct-Written Policies</u>

Deductible:

Single event maximum amount	$ 0.00
Annual maximum deductible	$ 0.00

Articles within the "Renewal Application" section of policy #03 - 01 disclosed that -

- The LP-3's business operations were devoted 0% towards owning/operating retail petroleum facilities located primarily in State and State, 0% devoted towards real estate speculation/development in State, and 0% devoted towards private/public equity investments. [Articles 4 and 5]
- The LP-3 had general liability coverage under a $0 million liability limit / non-deductible policy with CO-20, expiring on 12/1/ 20XX. [Article 0]
- The premium for policy #03 - 01 was $0. [Article 11]

The LP-3 paid the $0 premium for policy #03 - 01 per its check #0, dated 12/31/20XX. ORG deposited this payment on 1/15/20XX.

[ORG policy #03 - 01 written for year 20XX is illustrated within ***Exhibit 22***.]

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

13-B. <u>Premium Revenue from Direct-Written Policies</u>

Policy # 03 - 09 Insuring CO-3

ORG direct policy #03 - 09 written for year 20XX was substantially similar to its predecessors written for years 20XX-20XX. ORG's policy #03 - 09 provided employment practices liability insurance coverage and supplemented general liability / no deductible insurance coverage provided by CO-21, having a $0 liability limit that expired on July 1, 20XX.

The "Renewable Certificate" section of policy # XX-03-09 contained this information:

Insured:

CO-3
Address
City, State Zip Code
Phone number

Policy Period:

For insured events occurring on or after January 1 20XX, for which claims are made and reported between 12:01 AM of January 1 20XX and 12:01 AM of January 1 20XX.

Type of Coverage:

Employment practices liability insurance.

Premium:

Negotiated annual single premium	$ 0	
Endorsement annual single premium	0	**$0**

Limits of Liability – Maximum Expense:

Per single insured event	$ 0
Aggregate maximum for all events	$ 0

Deductible:

Single event maximum amount	$ 0.00
Annual maximum deductible	$ 0.00

Facts

13-B. Premium Revenue from Direct-Written Policies

Articles within the "Renewal Application" section of policy #03- 09 disclosed that -

- CO-3's business operations were devoted 0% towards owning/operating retail petroleum facilities located primarily in State, and 0% devoted towards real estate speculation/development in State. [Articles 4 and 5]
- CO-3 had general liability coverage under a $0 million liability limit / non-deductible policy with Law Firm-3, expiring on 7/1/ 20XX. [Article 0]
- The premium for policy #03 - 09 was $0. [Article 11]

CO-3 paid the $0 premium for policy #03 - 09 per its check #0, dated 12/31/20XX. ORG deposited this payment on 1/15/20XX.

[ORG policy #03 - 09 written for year 20XX is illustrated within ***Exhibit 23***.]

Policy #13 - 32 Insuring the CO-6

ORG's policy # 13 - 32 insuring the CO-6 provided claims made – commercial excess general liability coverage. The policy supplemented general liability / no-deductible insurance coverage provided by Travelers Indemnity Company, having a $0 liability limit that expired on 12/1/ 20XX.

The "Declarations" section of policy #13 - 32 contained this information:

Insured:

CO-6
c/o Address
City, State Zip code
Phone number

Policy Period:

For insured events occurring on or after January 1 20XX, for which claims are made and reported between 12:01 AM of January 1 20XX and 12:01 AM of January 1 20XX.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")** **Facts** **13-B. <u>Premium Revenue from Direct-Written Policies</u>**		**Year/Period Ended** **20XX** **20XX** **20XX**

Type of Coverage:

Claims made – Commercial Excess General Liability, as described in the Coverage Agreement.

Coverage Agreement

The Coverage Agreement States:

"In consideration of premium received, ORG agrees to indemnify the scheduled insured listed below in section A for any amounts (other than premiums) required to be paid for occurrences after the effective date of this certificate, <u>but only for</u> Commercial Excess Liability (Umbrella) amounts that are <u>in excess of</u> the underlying coverage of $0. <u>This excess indemnification shall not exceed the limits as Stated in section A for</u> the scheduled insured <u>and is subject to the same terms and conditions as</u> the underlying Commercial Excess Liability (Umbrella) policy issued to the respective insured by of State – Policy Number #99 - 02. This indemnification does not constitute "Other Insurance; Other Indemnification" under said underlying Commercial Excess Liability (Umbrella) Policy. If the insured has other policies in force that also apply in excess of the underlying Commercial Excess Liability (Umbrella) policy coverage of $0, this policy will apply on a pro rata basis based on the total amount of coverage available for all applicable policies in excess of the underlying policy of $0."

Policy Limit (inclusive of defense expenses):

$0 Each Occurrence
$0 Aggregate Limit

Section "A" of policy #13 - 32 contained this information:

Scheduled Insured:

CO-6

$0 Each Occurrence
$0 Aggregate Limit

Retroactive Date:

1/1/XX

Annual Policy Premium:

CO-6 $0

Facts

13-B. Premium Revenue from Direct-Written Policies

Articles within the "Application" section of policy #13 - 32 disclosed that -

- The CO-6's business operations were devoted 0% towards owning/operating retail petroleum facilities located primarily in State, and 0% devoted towards real estate speculation/development in State. [Article 6]
- The CO-6 had general liability coverage under a $0 million liability limit / non-deductible policy with Travelers Indemnity Company, expiring on 12/1/ 20XX. [Article 8]

The CO-6 paid the $0 premium for policy #13 - 32 per its check #0, dated 12/31/20XX. ORG deposited this payment on 1/15/20XX.

[ORG policy #13 - 32 written for year 20XX is illustrated within ***Exhibit 24***.]

Policy 13 - 31 Insuring the LP-10

ORG's policy #13 - 31 insuring the LP-10 provided claims made – commercial excess general liability coverage. The policy supplemented general liability / no-deductible insurance coverage provided by Travelers Indemnity Company, having a $0 liability limit that expired on 12/1/ 20XX.

The "Declarations" section of policy # 13 - 31 contained this information:

Insured:

LP-10
c/o Address
City, State Zip code
Phone number

Facts

13-B. <u>Premium Revenue from Direct-Written Policies</u>

Policy Period:

For insured events occurring on or after January 1 20XX, for which claims are made and reported between 12:01 AM of January 1 20XX and 12:01 AM of January 1 20XX.

***Type of Coverage*:**

Claims made – Commercial Excess General Liability, as described in the Coverage Agreement.

Coverage Agreement

The Coverage Agreement States:

"In consideration of premium received, ORG agrees to indemnify the scheduled insured listed below in section A for any amounts (other than premiums) required to be paid for occurrences after the effective date of this certificate, <u>but only for</u> Commercial Excess Liability (Umbrella) amounts <u>that are in excess of</u> the underlying coverage of $0. <u>This excess indemnification shall not exceed the limits as Stated in section A for</u> the scheduled insured and <u>is subject to the same terms and conditions as</u> the underlying Commercial Excess Liability (Umbrella) policy issued to the respective insured by of State – Policy Number # 99 - 02. This indemnification does not constitute "Other Insurance; Other Indemnification" under said underlying Commercial Excess Liability (Umbrella) Policy. If the insured has other policies in force that also apply in excess of the underlying Commercial Excess Liability (Umbrella) policy coverage of $0, this policy will apply on a pro rata basis based on the total amount of coverage available for all applicable policies in excess of the underlying policy of $0."

Policy Limit (inclusive of defense expenses):

$0 Each Occurrence
$0 Aggregate Limit

Section "A" of policy #13 - 31 contained this information:

Scheduled Insured:

LP-10

$0 Each Occurrence
$0 Aggregate Limit

Facts

13-B. Premium Revenue from Direct-Written Policies

Retroactive Date:
1/1/XX

Annual Policy Premium:
LP-10 $0

Articles within the "Application" section of policy #13 - 31 disclosed that -

- The LP-10's business operations were devoted 0% towards owning/operating retail petroleum facilities located primarily in State, and 0% devoted towards real estate speculation/development in State. [Article 6]

- The LP-10 had general liability coverage under a $0 million liability limit / non-deductible policy with Travelers Indemnity Company, expiring on 12/1/ 20XX. [Article 8]

The LP-10 paid the $0 premium for policy # XX-13-031 per its check #0, dated 12/31/20XX. ORG deposited this payment on 1/15/20XX.

[ORG policy #13 - 31 written for year 20XX is illustrated within ***Exhibit 25***.]

Policy 13 - 33 Insuring the CO-4

ORG's policy #13 - 33 insuring the CO-4 provided claims made – commercial excess general liability coverage. The policy supplemented general liability / no-deductible insurance coverage provided by Travelers Indemnity Company, having a $0 liability limit that expired on 12/1/ 20XX.

The "Declarations" section of policy #13 - 33 contained this information:

Insured:
CO-4
c/o Address
City, State Zip code
Phone number

Facts

13-B. Premium Revenue from Direct-Written Policies

Policy Period:

For insured events occurring on or after January 1 20XX, for which claims are made and reported between 12:01 AM of January 1 20XX and 12:01 AM of January 1 20XX.

Type of Coverage:

Claims made – Commercial Excess General Liability, as described in the Coverage Agreement.

Coverage Agreement

The Coverage Agreement States:

"In consideration of premium received, ORG agrees to indemnify the scheduled insured listed below in section A for any amounts (other than premiums) required to be paid for occurrences after the effective date of this certificate, but only for Commercial Excess Liability (Umbrella) amounts that are in excess of the underlying coverage of $0. This excess indemnification shall not exceed the limits as Stated in section A for the scheduled insured and is subject to the same terms and conditions as the underlying Commercial Excess Liability (Umbrella) policy issued to the respective insured by of – Policy Number #99 - 02. This indemnification does not constitute "Other Insurance; Other Indemnification" under said underlying Commercial Excess Liability (Umbrella) Policy. If the insured has other policies in force that also apply in excess of the underlying Commercial Excess Liability (Umbrella) policy coverage of $0, this policy will apply on a pro rata basis based on the total amount of coverage available for all applicable policies in excess of the underlying policy of $0."

Policy Limit (inclusive of defense expenses):

$0 Each Occurrence
$0 Aggregate Limit

Section "A" of policy #13 - 33 contained this information:

Scheduled Insured:

CO-4

$0 Each Occurrence
$0 Aggregate Limit

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Facts

13-B. <u>Premium Revenue from Direct-Written Policies</u>

Retroactive Date:
1/1/XX

Annual Policy Premium:
CO-4 $0

Articles within the "Application" section of policy #13 - 33 disclosed that -

- The CO-4's business operations were devoted 0% towards owning/operating retail petroleum facilities located primarily in State, and 0% devoted towards real estate speculation/development in State. [Article 6]

- The CO-4 had general liability coverage under a $0 million liability limit / non-deductible policy with , expiring on 12/1/ 20XX. [Article 8]

The CO-4 paid the $0 premium for policy #13 - 33 per its check #0, dated 12/31/20XX. ORG deposited this payment on 1/15/20XX.

[ORG policy #13 - 33 written for year 20XX is illustrated within ***Exhibit 26***.]

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Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

13-B. Premium Revenue from Direct-Written Policies

Summary of Year 20XX Direct Written Policies

The table here summarizes policy information supporting the $0 reported as direct written insurance premiums for year 20XX.

Year 20XX							
ORG Insured / Policy #	**Type of Coverage**	**Policy Premium**	**Coverage Period**	**Policy Payment**	**Limits of Liability / Maximum Expense**	**Deductible**	**External Primary Insurer**
CO-3 Policy 03 - 09	Employment Practices Liability	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #0, dated 12/31/XX, paid in amount of $0 to ORG, and deposited in bank account on 1/15/20XX	$0 per single insured event / $0 aggregate maximum for all events	$0 single event maximum amount / $0 annual maximum deductible	Law Firm-3 / $1M liability limit / $0 deductible / 07/1/20XX policy expiration
LP-3 Policy 03 - 01	Administrative action	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #0, dated 12/31/XX, paid in amount of $0 to ORG, and deposited in bank account on 1/15/20XX	$0 per single insured event / $0 aggregate maximum for all events	$0 single event maximum amount / $0 annual maximum deductible	CO-20 / $0M liability limit / $0 deductible / 12/1/20XX policy expiration

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Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

13-B. <u>Premium Revenue from Direct-Written Policies</u>

Year 20XX							
ORG Insured / Policy #	**Type of Coverage**	**Policy Premium**	**Coverage Period**	**Policy Payment**	**Limits of Liability / Maximum Expense**	**Deductible**	**External Primary Insurer**
CO-6 Policy 13 - 32	Commercial excess general liability	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #0, dated 12/31/XX, paid in amount of $0 to ORG, and deposited in bank account on 1/15/20XX	$0M each occurrence / $3M aggregate limit	Not given in policy	Travelers Indemnity Co. of State / no deductible / $0M umbrella coverage / 12/1/20XX policy expiration
LP-10 Policy 13 -31	Commercial excess general liability	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #0, dated 12/31/XX, paid in amount of $0 to ORG, and deposited in bank account on 1/15/20XX	$0M each occurrence / $0M aggregate limit	Not given in policy	Travelers Indemnity Co. of State / no deductible / $0M umbrella coverage / 12/1/20XX policy expiration
CO-4 Policy 13 - 33	Commercial excess general liability	$0	Between 12:01 a.m. 1/1/20XX and 12:01 a.m. 1/1/20XX	check #0, dated 12/31/XX, paid in amount of $20 to ORG, and deposited in bank account on 1/15/20XX	$0M each occurrence / $0M aggregate limit	Not given in policy	Travelers Indemnity Co. of State / no deductible / $5M umbrella coverage / 12/1/20XX policy expiration
Total Premiums Reported within Form 990 / Year 20XX							

Facts

13-B. Premium Revenue from Direct-Written Policies

Risk Not Actuarially Supported for Year 20XX
Policies #03 - 01, #03 - 09, #13 - 31, #13 - 32, and #13 - 33

Note 4, "Reserve for Policy Losses and Related Expenses", (at Page 9) of ORG audited financials for year 20XX reports that ORG's reserve for insurance loss is based upon estimated costs:

> "Policies written and assumed provide for coverage on a claims-made basis. Therefore, the reserve for policy losses and related expenses consist primarily of the estimated cost of losses, defense and expenses associated with claims reported on a case by case basis which are unsettled at year end. In relation to premiums assumed, losses and loss expenses paid are recorded when advised by the ceding insurance company. Outstanding losses comprise estimates of the amount of reported losses and loss expenses in respect of policies written, and amounts advised by the ceding insurance company.
>
> Management believes that the reserve for policy losses and loss related expenses will be adequate to cover the ultimate net cost of losses incurred to balance sheet date. However, because of the length of time required for the ultimate liability of losses and loss expenses to be determined, the net amounts that will ultimately be paid to settle any liability may vary significantly from the amount provided for in the balance sheet."

The reserve for policy losses and loss-related expenses reported in ORG's audited financials was reported in the amount of $0 as an incurred claim and experience refund of ORG's Form 990 filed for year 20XX. This $0 amount was allocated within ORG's general ledger between the two direct insureds for which policies were written in year 20XX – LP-3 ($0) and CO-3 ($0); and was reported as an Other Liability described as "IBNR Reserve" within Part IV – Line 65 of ORG's Form 990 filed for 20XX-20XX.

Item #14 of IDR 1 (years 20XX-20XX) requested documentation supporting computation of the $0 reported as Other Liabilities / IBNR Reserve within Part IV – Line 65 of Form 990 / years 20XX-20XX. ORG's response, dated 7/20/20XX, explained that supporting documentation for the $0 reserve reported could not be located:

> "This item was based upon the recommendation of the Company's insurance consultants. The Company has not been able to locate the supporting documentation."

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")** **Facts** **13-B. Premium Revenue from Direct-Written Policies**		**Year/Period Ended** **20XX** **20XX** **20XX**

Reiterated here is ORG's response to Item #4E of IDR 1 (years 20XX-20XX), which requested an actuarial analysis supporting computation of premium charges, risk transfer, and risk distribution for policies in effect during the 12-month periods ended December 31, 20XX-20XX. ORG's response, dated 7/20/20XX, explained that actuarial analysis was unnecessary for direct-written policies:

> "The directly written policies were of risks well known to the company and no actuarial analysis was necessary. CO-23 advises that its retrocession arrangement was never subjected to actuarial analysis and that it had no reason to do so."

[Emphasis added to above underlined areas.]

Facts
13-C. Assumed Reinsurance Premiums

ORG premiums from assumed/reinsurance contracts were reported as -
- Other Revenue of $0 within Part I / Line 11 for year 20XX
- Program Service Revenue of $0 within Part I / Line 2 for year 20XX
- Program Service Revenue of $0 within Part I / Line 2 for year 20XX

Assumed Reinsurance Activity Reported in Audited Financials

Note 1, General Information", (at Page 5) to ORG audited financials for year 20XX, reported ORG (the "Company") as -
- Accepting third-party business through recognized credit life/disability reinsurance companies (CO-23 or "CO-23").
- Reinsuring a 0% pro-rata portion of group certificates of disability insurance assumed by CO-23.

"The primary purpose of the Company is to provide access to non-traditional insurance coverage of risks that businesses are commonly faced with but to which limited or no insurance coverage is currently available. The Company will accept third party business through recognized credit life/disability reinsurance companies. The Company presently insures the various business activities of Director-1 and Director-4, who are directors, and their affiliated companies.

In 20XX, the Company entered into an agreement with CO-23 to provide reinsurance coverage of accident and medical expenses business. The Company has agreed to reinsure a pro-rata portion, 1.00%, of group certificates of disability insurance assumed by CO-23. The Company has also agreed to be liable for a pro-rata share, 0%, of all incurred claims related to the policies noted above. All of the premiums assumed in 20XX relate to this agreement with CO-23.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")** **EIN**	**Facts** **13-C. Assumed Reinsurance Premiums**	**Year/Period Ended** **20XX-12** **20XX-12** **20XX-12**

Note 1, "General Information", (Page 7) to ORG audited financial Statements for year 20XX, reported ORG's assumed reinsurance agreement with CO-23 continuing within that year:

> "During 20XX, the Company entered into an agreement with CO-23 ('CO-23') to provide reinsurance coverage of certain business assumed by CO-23. The Company has agreed to reinsure a pro-rata portion, between 0% and 0% of special risks accident medical insurance assumed by CO-23. The Company has also agreed to be liable for a pro-rata share. Between 0% and 0%, of all incurred claims related to the policies noted above. All premiums assumed for the years ended 31 December 20XX and 20XX relate to this agreement."

Note 1, "Organization", (at Page 6) to ORG audited financials for year 20XX, reported ORG having assumed reinsurance agreements during that year with CO-23 and another reinsurer, referred to as CO-24:

> "During 20XX, the Company entered into an agreement with CO-23 ("CO-23) to provide reinsurance coverage of certain business assumed by CO-23. The Company has agreed to reinsure a pro-rata portion in the current year of 0%, of special risks relating to accident and medical insurance assumed by CO-23. The Company has also agreed to be liable for a pro-rata share, 0%, of all incurred claims related to the policies above. In 20XX, the Company entered into another agreement to provide reinsurance coverage with CO-24 ("CO-24"). The same terms and conditions relating to CO-23 apply to CO-24 and the Company has agreed to reinsure and assume liability for a pro-rata share of 0%."

Facts

13-C. Assumed Reinsurance Premiums

Agreement with CO-23 ("CO-23")

Key provisions within the Agreement between ORG and CO-23 were identified as:

- Type of insurance: identified as "special risks accident medical retrocession".
- Parties Involved: Four parties starting with the policy writer (CO-25), the original reinsured (CO-26), the retrocedant (CO-23 "CO-23"), and the reinsurer (ORG). A fifth party is the intermediary (CO-27 "   ").
- Premium: estimated original gross premium of $0 million for year 20XX; and estimated original gross premium of $0 million for years 20XX-20XX.
- Commission: Earned by CO-23 at a rate of 0% to cover all original acquisition costs (including tax), administration expenses, Federal Excise Tax, commissions, reinsurance costs and overriding commission.
- Claims: Settlement by third party adjuster (TPA) as agreed by the original reinsured (CO-26).
- Period: A continuous contract in respect of policies attaching on or after 1st April 20XX (and attaching on/after 1st April 20XX for continued Agreement), subject to six months notice of cancellation at anniversary date. The maximum original policy period not to exceed 12 months
- Policy Contractual Obligations: In the event of cancellation or non-renewal of the Agreement, all declarations in force at the time shall continue to their natural expiry. In the event that any policy is required by statute, departmental regulation or court order to be continued in force, ORG, as the Retrocessionaire, will continue to remain liable with respect to each policy until CO-26, as the Original Reinsured may legally cancel, non-renew, or otherwise eliminate liability under such policies.
- Class/Business Solicited: Reinsurance business is derived from accident / medical expenses covering students, members of youth sports teams, special activities groups (e.g., coaches, cheerleaders, and connected groups), and members of student athletic programs.
- Accounts: Quarterly reporting and accounting that is received within 60 days after the end of each calendar quarter. Such quarterly reporting relates to the underlying documents from which assumed / reinsurance premiums and related expenses were identified.

Facts

13-C. Assumed Reinsurance Premiums

CO-23 Quarterly Retrocession Computations

ORG's assumed/reinsurance premiums reported for years 20XX-20XX came from quarterly retrocession computations generated by CO-23 for the 2nd, 3rd, and 4th quarters of these years. Each of CO-23's quarterly computations indicate that it is a "special risks accident medical retrocession" and identify CO-23 as the "Retrocedant" and ORG as the "Retrocessionaire".

Revenue and deductions within CO-23's quarterly retrocession computations consist of –

- Retroceded Premiums: Reported as Premiums Subject to Reinsurance within Part VII – Line 03c of Form 990, and are recorded within G/L account #0 / Premiums Subj. to Reinsurance.
  - Σ Quarters of Year 20XX = $0 Retroceded Premiums
  - Σ Quarters of Year 20XX = $0 Retroceded Premiums
  - Σ Quarters of Year 20XX = $0 Retroceded Premiums

- % Insurance Commission and Claims: CO-23 deducted a 0% Insurance commission and claims before retroInsurance premiums to ORG. The 0% Insurance commission and the claims are reported within Part II – Line 43 of Form 990. The 0% Insurance commission is recorded within G/L account #0 / Insurance Commission. Claims are recorded within G/L account #0 / Incurred Claims.
  - Σ Quarters of Year 20XX = $0 Insurance commission + $0 claims
  - Σ Quarters of Year 20XX = $0 Insurance commission + $0 claims
  - Σ Quarters of Year 20XX = $0 Insurance commission + $0 claims

- Net Due Retrocessionaire: The difference resulting after the 0% Insurance commissions and the claims were deducted from the retroceded premiums.
  - Σ Quarters of Year 20XX = $0 Net Due Retrocessionaire
  - Σ Quarters of Year 20XX = $0 Net Due Retrocessionaire
  - Σ Quarters of Year 20XX = $0 Net Due Retrocessionaire

Facts

13-C. Assumed Reinsurance Premiums

- Experience Refund Due to Retrocedant: Deducted by CO-23 as the difference between 0% of the retroceded premiums and the Net Due Retrocessionaire.
  - Σ Quarters of Year 20XX = $0 Experience Refund Due Retrocedant
  - Σ Quarters of Year 20XX = $0 Experience Refund Due Retrocedant
  - Σ Quarters of Year 20XX = $0 Experience Refund Due Retrocedant

- Cash Due Retrocessionaire: Cash paid over to ORG by CO-23, computed as the difference between the Retroceded Premiums, less deductions of the 0% Insurance Commissions, Claims, and the Experience Refund Due Retrocedant.
  - Σ Quarters of Year 20XX = $0 Cash Due Retrocessionaire
  - Σ Quarters of Year 20XX = - $0 Cash Due Retrocessionaire
  - Σ Quarters of Year 20XX = $ 0 Cash Due Retrocessionaire

These revenue and deduction items are summarized here for years 20XX-20XX:

Revenue/Expense Item	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	All Qtrs
Premiums Retroceded [Reported as Premiums Subject to Reinsurance within Part VII – Line 03c of Form 990, and are recorded within G/L account #4 / Premiums Subj. to Reinsurance.]					
Year 20XX	0.00	0.00	0.00	0.00	**0.00**
Year 20XX 1st Quarter amount is for period of Jan 1 - Oct 31, 20XX.	0.00	0.00	0.00	0.00	**0.00**
Year 20XX	0.00	0.00	0.00	0.00	**0.00**

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Name of Taxpayer **ORG (" ")** **EIN** **Facts** **13-C. Assumed Reinsurance Premiums**		**Year/Period Ended** **20XX-12** **20XX-12** **20XX-12**

Revenue/Expense Item	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	All Qtrs
Less:					
Ceding Commission [0% of the Premiums Subject to Reinsurance. Reported within Part II-Line 43 of Form 990 and recorded within G/L account #5 / Ceding Commission.]					
Year 20XX	0.00	-0.00	-0.00	-0.00	**-0.00**
Year 20XX 1st Quarter amount is for period of Jan 1 - Oct 31, 20XX.	-0.00	-0.00	-0.00	-0.00	**-0.00**
Year 20XX	0.00	-0.00	-0.00	-0.00	**-0.00**
Incurred Claims [Reported within Part II – Line 43 of Form 990 and recorded within G/L account #5 / Incurred Claims.]					
Year 20XX	0.00	-0.00	-0.00	-0.00	**-0.00**
Year 20XX 1st Quarter amount is for period of Jan 1 - Oct 31, 20XX.	-0.00	-0.00	-0.00	-0.00	**-0.00**
Year 20XX	0.00	0.00	-0.00	-0.00	**-0.00**
Equals:					
Net Due Retrocessionaire [Premiums Retroceded - Insurance Commission - Incurred Claims]					
Year 20XX	0.00	0.00	0.00	0.00	**0.00**
Year 20XX 1st Quarter amount is for period of Jan 1 - Oct 31, 20XX.	-0.00	0.00	0.00	0.00	**0.00**
Year 20XX	0.00	0.00	0.00	0.00	**0.00**

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")** **EIN** **Facts** **13-C. Assumed Reinsurance Premiums**		**Year/Period Ended** **20XX-12** **20XX-12** **20XX-12**

Revenue/Expense Item	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	All Qtrs
Less:					
Experience Refund Due Retrocedant [Reported within Part II – Line 43 of Form 990 and recorded within G/L account #6 / Exp. Ref. Due Insurance Comp. during years 20XX-20XX, and recorded within G/L account #7 / Management Fee Expense during year 20XX]					
Year 20XX	0.00	-0	-0	-0	**-0**
Year 20XX 1st Quarter amount is for period of Jan 1 - Oct 31, 20XX.	0.00	-0	-0	-0	**-0**
Year 20XX	0.00	-0	-0	-0	**-0**
Equals:					
Cash Due Retrocessionaire [Calculated as 0% of the retroceded premiums, or 0 x retroceded premiums. Recorded within G/L account 8 / Reinsurance Balance Rec.]					
Year 20XX	0.00	0.00	0.00	0.00	**0.00**
Year 20XX 1st Quarter amount is for period of Jan 1 - Oct 31, 20XX.	0.00	0.00	0.00	0.00	**0.00**
Year 20XX	0.00	0.00	0.00	0.00	**0.00**

[CO-23 quarterly retrocession computations for years 20XX-20XX are illustrated within ***Exhibits 27A, 27B, and 27C.***]

On November 30, 20XX, ORG's directors passed a resolution whereby financing under a promissory note would be extended to the LP-1 under the following terms:

- Maximum loan amount of $0
- Interest rate of prime plus 0%
- Effective date of 12/21/20XX
- Loan origination fee of $0
- Interest payments to be made monthly.
- All accrued interest and principle due in full on on the 10th anniversary of the date of the note (12/21/20XX).

ORG accrued the $0 loan origination fee by a year-end 20XX general journal entry described as "Accrue Line of Credit origination fee to LP-1".

On February 27, 20XX, the LP-1 paid the $0 loan origination fee to ORG through its check #0 of same date. ORG deposited this check into its bank account on February 28, 20XX.

[ORG's resolution passed on November 30, 20XX, approving line-of-credit financing to the LP-1; a copy of the LP-1's check #0, dated 2/27/20XX, payable in the amount of $ to ORG for the accrued loan origination fee; and a copy of ORG's bank statement for the month of February 20XX, showing the deposit of the LP-1's check #0 on 2/28/20XX are illustrated within ***Exhibit 28***.]

$0 Million Line of Credit with LP-1 Reported in Audited Financials

Note 3, "Finance Receivables", (at Page 9) to the audited financial Statements for year 20XX identified the LP-1 as one of five limited partnership borrowers related by a common shareholder to which ORG issued letters of credit during 20XX. The maturity date and outstanding balance owed at year-end 20XX for the LP-1's $0 million line of credit and lines of credit effected with the other borrowers were also reported:

> During 20XX, the Company issued letters of credit to various limited partnerships, all of which are related to the Company by way of a common shareholder. Borrowings on these letters of credit are unsecured and bear interest on the unpaid principal balance at a floating rate equal to the U. S. prime rate plus one percent (0%), or 0% at 31 December 20XX. Only interest is payable annually; the principal balance plus any unpaid interest is due at maturity of the borrowings. The borrowings against these letters may be repaid, in full or in part, at any time up to the maturity date without penalty.

	Total Facility	***Maturity***	***Outstanding Balance at 20XX***
LP-1	$0	21 December 20XX	$0
LP-4	$0	31 December 20XX	$0
LP-13	$0	31 December 20XX	$0
LP-14	$0	31 December 20XX	$0
LP-6	$0	31 December 20XX	$0
Interest Receivable			$0
			$0

ORG reported Other Investment Income within Part I - Line 7 / years 20XX-20XX of -

- $0 (year 20XX)
- $0 (year 20XX)

These amounts consist primarily of interest revenue from line of credit loans and investment activity involving businesses described in ORG audited financials as "associates", "affiliates", and "subsidiaries". ORG's response, dated 11/0/20XX, to Items #22A through #22K of IDR 2 (years 20XX-20XX) explained that most of these

Facts

13-E. Other Investment Income

businesses were formed for either making a specific real property loan or to make a specific real estate investment:

IDR 2 – Item #	*ORG Affiliate / Associate/ and/or Borrower*	*Explanation Per ORG Response, dated 11/0/05*
22A	CO-28 (EIN)	This company was formed to make an investment in a specific real property loan.
22B	CO-19 (EIN)	This company was formed to make an investment in a specific real property loan
22C	CO-29 (EIN)	This company was formed to make an investment in a specific real property loan
22D	CO-30 (EIN)	This company was formed to make an investment in a specific real property loan
22E	CO-31 (EIN)	This company was formed to make an investment in a specific real property loan
22F	CO-32 (EIN)	This company was formed to make an investment in a specific real property loan
22G	CO-33 (EIN)	This is a private equity fund.
22H	CO-34 (EIN)	This company was formed to make a specific secured real estate investment.
22I	CO-18 (EIN)	This company was formed to make a specific real estate investment
22J	CO-35 (EIN)	This company was formed to make a specific real estate investment
22K	CO-36 (EIN)	This company was formed to make a specific real estate investment

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Name of Taxpayer **ORG**	**Facts** **13-E. <u>Other Investment Income</u>**	**Year/Period Ended** **20XX** **20XX** **20XX**

Note 6, "Investment in Associates" (at Page 12) of ORG's audited financials for year 20XX, reported ORG holding a 0% investment in three LLC "associates" at year-end 20XX, from which ORG received $0 of recognized gains and losses that was part of the $0 of Other Income reported for year 20XX:

"The company has the flowing investments in associates:

	Country	**Shareholder Ownership**
CO-28		0%
CO-29		0%
CO-32		0%

<u>The Company's share of post-acquisition total recognized gains and losses in the above associates for the year ended 31 December 20XX was $0</u> (20XX: $nil)."

Note 6, "Investment in Affiliates" (at Pages 0-11) of ORG's audited financials for the period ended 12/31/20XX, described ORG's investment relationship with most of the above businesses as "affiliates" and "subsidiaries":

> "<u>Investment in affiliates comprise different ownership rates in</u> CO-28, CO-19., CO-29, CO-30, LLC., CO-32, CO-31, CO-34, CO-36, CO-18. And CO-35.
>
> <u>The Company has two subsidiaries as at December 31, 20XX which are</u> CO-19 and CO-18. The Company has not prepared separate consolidated financial Statements."

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG**	**Facts** **13-E. Other Investment Income**	**Year/Period Ended** **20XX** **20XX** **20XX**

$0 Reported as Other Investment Income for Year 20XX

The $0 of Other Investment Income reported in Form 990 / year 20XX was identified within two G/L accounts –

- ♣ $0 posted to G/L #9 / Interest Income
- ♣ $0 posted to G/L Account 10 / Misc. Income as an insignificant amount written off.

The $0 posted to G/L #9 / Interest Income consists of two categories of revenue –

- ♣ $0 of monthly accruals of interest receivable on line of credit loan made to sole shareholder, LP-1.
- ♣ $0 of Schedule K-1 income from three LLCs
  ∑ CO-32 ($0) + CO-29 ($0) + CO-28 ($0) = $0

[The $0 of Schedule K-1 income from the three LLCs posted to G/L #9 was reported in Note 6, "Investment in Associates", discussed above.]

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG**	**Facts** **13-E. <u>Other Investment Income</u>**	**Year/Period Ended** **20XX** **20XX** **20XX**

$0 Reported as Other Investment Income for Year 20XX

The $0 reported as Other Investment Income for year 20XX came primarily from companies described within ORG's audited financials as "investment in affiliates", and was traced to two G/L accounts:

- ♣ $0 posted to G/L Account 11 / Income (Loss) from Affiliates. Postings to G/L Account 48 identified these affiliates and/or subsidiaries as CO-30, CO-19, CO-31, CO-35, CO-36, and CO-18.
- ♣ $0 posted to account #4808 / Interest Income. Postings to account #9 primarily involved businesses having real estate operations -
    - CO-37 ($0 interest income)
    - CO-29 ($0 write-back of investment + $0 interest income)
    - LP-1 ($0 interest from line of credit loan)
    - CO-33 (-$0 return of capital)
    - CO-32 ($0 interest income)
    - , , and ($0 interest income from investment accounts)
    - CO-28 ($0 interest income)
    - CO-30 ($0 interest Income)
    - Two miscellaneous transactions – a debit, dated 9/30/20XX ($0) and a credit, dated 0/27/XX ($0) = $0 net debit

∑ $0 (CO-37) + $0 + $0 (CO-29) + 0 (LP-1) - $0 (CO-33) + $0 (CO-32) + $0 (investment accounts with , ,) + $0 (CO-28) + $0 (CO-30) - $0 (Misc.) = $0

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

14. <u>Expenses Reported for Years 20XX-20XX</u>

ORG's expenses reported in Form 990 are identified here by line item for years 20XX-XX. A substantial increase in management fees occurred in year 20XX – $0 reported for year 20XX from $0 reported for year 20XX – evidences a liquidation distribution, due to ORG audited financials for year 20XX reporting a plan to liquidate on/before 12/31/20XX

Form 990, Part II, Line #	**Year 20XX**		**Year 20XX**		**Year 20XX**	
	$$$	***%***	***$$$***	***%***	***$$$***	***%***
32 - Legal Fees	0	0.00%	0	0.00%	0	0.00%
33 - Supplies	0	0.00%	0	0.00%	0	0.00%
35 - Postage & Shipping	0	0.00%	0	0.00%	0	0.00%
41 Interest	0	0.00%	0	0.00%	0	0.00%
43 License & Fee	0	0.00%	0	0.00%	0	0.00%
43 Management Fee & Prof. Services	0	0.00%	0	0.00%	0	0.00%
43 Insurance Expense	0	0.00%	0	0.00%	0	0.00%
43 Property Tax	0	0.00%	0	0.00%	0	0.00%
43 Incurred Claims & Experience Refunds	0	0.00%	0	0.00%	0	0.00%
43 Insurance Commission	0	0.00%	0	0.00%	0	0.00%
43 Experience Refund Due Insurance Company	0	0.00%	0	0.00%	0	0.00%
43 Incurred Claims	0	0.00%	0	0.00%	0	0.00%
43 Other Professional Services	0	0.00%	0	0.00%	0	0.00%
44 - Total Functional Expenses	**0**	**00%**	**0**	**00%**	**0**	**00%**

ORG items of expense discussed in further detail are –

[A] Legal Fees
[B] Interest
[C] Management Fee
[D] Property Tax
[E] Incurred Claims and Experience Refunds Due to the Insurance Company
[F] Insurance Commission

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

14-A. Legal Fees

Part II, Line 32 of ORG's Form 990 reported legal fees for years 20XX-20XX of –
- $0 (year 20XX)
- $0 (year 20XX)
- $0 (year 20XX)

Supporting documentation discussed here discloses that these amounts were expended primarily for purposes other than conducting insurance activities.

$0 of Legal Fees Reported for Year 20XX

Legal fees of $0 reported within Part II-Line 32 of Form 990 / year 20XX were paid to three firms:

Law Firm-1, PC	$0	
Advisory Firm-1	0	
Advisory Firm-2	0	**$0**

Law Firm-1 PC and Advisory Firm-1 are affiliates. The address of Law Firm-1 is the same as ORG's address – Address, City, State Zip code.

ORG's director, Director-1, was an employee of the Advisory Firm-2 during year 20XX, and provided the Advisory Firm-2 with real estate advisory and management services. The Advisory Firm-2 provided ORG with administrative services such as handling daily invoices and bill payments. Director-1's employment with the Advisory Firm-2, and the common address -- Address, City, State – that the Advisory Firm-2 had with the Companies economic group indicates that the Advisory Firm-2 rendered similar services to other companies within the Companies economic group.

Documents supporting the $0 reported as legal fees disclosed that this amount relates primarily to monthly fees, for which there is no indication of legal services rendered directly to conduct insurance activities.

Facts

14-A. Legal Fees

Law Firm-1 ($0)

- $0 paid by ORG check #0, dated 3/14/20XX, to Law Firm-1, for four invoices billed by Law Firm-1 / Advisory Firm-1

Invoice #	*Invoice Date*	*Invoice Description*	*Invoice Amt*
2	12/15/20XX	monthly fee	$0
3	12/21/20XX	flat reinsurance fee	$0
4	1/16/20XX	monthly fee	$0
5	2/15/20XX	monthly fee	$0
TOTAL			**$0**

- $0 paid by ORG check #0, dated 3/23/20XX, to Law Firm-1, for invoice #6, dated 3/15/20XX, billed by Advisory Firm-1 (“Advisory Firm-1”). Advisory Firm-1 invoice #6 billed ORG $0 for a “legal service fee for March, 20XX”, and shows the $0 payment by ORG check #0 as received on 3/15/20XX.

- $0 paid by ORG check #0, dated 4/27/20XX, to Law Firm-1, for invoice #7, dated 4/16/20XX, billed by Advisory Firm-1 (“Advisory Firm-1”). Advisory Firm-1 invoice #7 billed ORG $0 for a “legal service fee for April, 20XX”, and shows the $0 payment by ORG check #0 as received on 3/26/20XX.

∑ $0 (ck #0) + $0 (ck #0) + $0 (ck #0) = $0

Advisory Firm-1 ($20XX.00)

- $0 paid by ORG check #0, dated 5/25/20XX, to Advisory Firm-1 LLC (“Advisory Firm-1”), for invoice #8, dated 5/15/20XX, billed by Advisory Firm-1. Advisory Firm-1 invoice #8 billed ORG $0 for a “legal service fee for May, 20XX”, and shows the $0 payment by ORG check #0 as received on 5/2/20XX.

Facts

14-A. Legal Fees

Advisory Firm-2 ($0)

- $0 allocated to legal expense from $0 paid by ORG check #0, dated 5/11/20XX, to the Advisory Firm-2 Inc. ("Advisory Firm-2"). ORG's check #0 paid $0 for three invoices billed by the Advisory Firm-2, one of which was invoice #1738, dated 5/1/20XX, billed to ORG in the amount of $0. The Advisory Firm-2's invoice #9 relates to a billing made by a legal firm named Law Firm-3 (Law Firm-3), dated 2/20/20XX, to the Companies, in the amount of $0 for attorney fees. The Law Firm-3 billing refers to an invoice #1, and has a hand-written annotation that ORG's portion of the $0 is $0.

- $0 allocated to legal expense from $0 paid by ORG check #0, dated 7/0/20XX, to the Advisory Firm-2 Inc. ("Advisory Firm-2"), for invoice #10, dated 6/30/20XX, due on 7/30/20XX, and billed in the amount of $0 for "monthly activity" services rendered -- $0 (admin/general) + $0 (entitlement properties). The $0 admin/general portion of the $0 billed was recorded as legal expense.

- $0 allocated to legal expense from $0 paid by ORG check #0, dated 8/0/20XX, to the Advisory Firm-2 Inc. ("Advisory Firm-2"), for invoice #11, dated 7/31/20XX. The Advisory Firm-2's invoice has a due date of 8/30/20XX, and is billed in the amount of $0 for "monthly activity" services rendered -- $0 (admin/general business line) + $0 (entitlement properties business line). The $0 admin/general portion of the $0 billed was recorded as legal expense.

- $0 paid by ORG check #0, dated 8/13/20XX, to the Advisory Firm-2 Inc. for invoice #12, billed by Advisory Firm-1 LLC ("Advisory Firm-1"). Advisory Firm-1 invoice #12 is dated 8/15/20XX, and billed $0 to ORG for "legal service fee for August, 20XX".

- $0 paid by ORG check #0, dated 9/19/20XX, to the Advisory Firm-2 Inc. ("Advisory Firm-2"). Payment was for Advisory Firm-2's invoice, dated 8/31/20XX, billed in amount of $0 for "monthly activity" for "admin / general business line".

Facts

14-A. Legal Fees

- $0 paid by ORG check #0, dated 0/11/20XX, to the Advisory Firm-2 Inc. ("Advisory Firm-2"). Payment was for Advisory Firm-2's invoice #13, dated 9/30/20XX, billed in amount of $0 for "monthly activity" for "admin / general business line".

- $0 allocated to legal expense from $0 paid by ORG check #0, dated 11/9/20XX, to the Advisory Firm-2 Inc. ("Advisory Firm-2"), for Advisory Firm-2's invoice #0. Advisory Firm-2's invoice #14 is billed "monthly activity" services relating to $0 (admin/general), $0 (investment properties), and $0 (entitlement properties). The $0 admin/general portion of the $0 billed was recorded as legal expense.

- $0 paid by ORG check #0, dated 12/17/20XX, to the Advisory Firm-2 Inc. ("Advisory Firm-2"). Payment was for Advisory Firm-2's invoice #0, dated 12/30/20XX, billed in amount of $0 for "monthly activity" service relating to the "admin / general business line". Hand-written on the Advisory Firm-2's invoice #15 was, "The difference of $0 was a payment that was received by mgmt company on behalf of ORG". The $0 paid by ORG's check #0, plus the $0 stated to have been paid on behalf of ORG was recorded as $0 of legal expense.

∑ $0 (ck #0) + $0 (ck #0) + $0 (ck #0) + $0 (ck #0) + $0 (ck #0) + $0 (ck #0) + $0 (ck #0) + $0 (ck #0) = $0

Facts

14-A. Legal Fees

$0 of Legal Fees Reported for Year 20XX

The $0 reported as legal fees for year 20XX consisted of monthly invoices billed to ORG by Advisory Firm-1 LLC (Advisory Firm-1) for a monthly legal service fee of $0. The only deviations from this $0 monthly amount were –

- a $0 fee for third party insurance billed in January 20XX, and
- a $0 user fee for an IRS determination ruling application billed in March 20XX

None of the Advisory Firm-1 invoices describe services rendered on behalf of insurance operations, but rather are identified as a monthly legal service fee.

ORG recorded the $0 reported as legal fees within ORG G/L account #12 – Prof. Services-Legal. Many of these postings relate to monthly activity for the Advisory Firm-2.

In response to Item #18 of IDR 2 (years 20XX-20XX), ORG explained that, "In 20XX, the Advisory Firm-2 was a management company that acted as agent for ORG and others in collecting cash receipts and making cash expenditures."

$0 of Legal Fees Reported for Year 20XX

The $0 of legal fees reported for year 20XX was paid to four firms. An insignificant difference of $0 exists between totals of invoice documentation provided by ORG and the $0 balance of G/L account #12 / Prof Services-Legal:

♣ Advisory Firm-1 LLC	$ 0
♣ Law Firm-2	0
♣ Law Firm-4	0
♣ Law Firm-5	0
TOTAL	**$0**

Total of postings to G/L Account #12 - Prof Services-Legal	0
Insignificant Difference	$ 0

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts
14-A. Legal Fees

The $0 paid to Advisory Firm-1 ("Advisory Firm-1") consisted primarily of $0 monthly administration service charges, totaling to $0. The $0 balance relates to three invoices billed in January – February, 20XX, summarized here.

Description	***Amount***
Ten monthly "administration services" charges @ $0 =	0
Invoice #20, dated 1/16/20XX	
♣ Legal service fee for January, 20XX	0
♣ Fee paid to insurance manager relating to addition of director	0
Invoice #21, dated 2/17/20XX	
♣ Legal service fee for monthly administration services	0
Invoice #22, dated 2/17/20XX	
♣ One-fourth of $0 billed to the Advisory Firm-2 for "20XX ongoing tax planning and implementation"	0
Total for Advisory Firm-1	**0**

The $0 paid to Law Firm-2 was primarily for one-fifth of monthly invoices billed for "insurance company review".

Description	***Amount***
One-fifth of invoice #23, dated 1/0/20XX, billed in amount of $0 to Director-1/Attention: Individual-2 for "insurance company review". $21,220.53 x 0% =	0
One-fifth of invoice #24, dated 2/0/20XX, billed in amount of $0 to Director-1/Attention: Individual-2, for "insurance company review". $0 x 0% =	0
One-fifth of invoice #25, dated 4/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0
One-fifth of invoice #26, dated 5/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0
One-fifth of invoice #27, dated 6/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

14-A. Legal Fees

Description	*Amount*
One-fifth of invoice #28, dated 7/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0
One-fifth of invoice #28, dated 7/0/20XX, billed in amount of $0 to Director-1 for "telephone call from Individual-2 re: sale of limited liability company reporting requirements". $0 x 0% =	0
One-fifth of invoice #29, dated 8/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0
One-fifth of invoice #30, dated 9/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0
One-fifth of invoice #31, dated 0/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0
One-fifth of invoice #32, dated 12/0/20XX, billed in amount of $0 to Director-1 for "insurance company review". $0 x 0% =	0
Total for Law Firm-2	**0**

Facts

14-A. Legal Fees

The $0 paid to Law Firm-4 consists of three invoices. Two of these invoices relate to real property described as "Property-4", of which 0% of the billed amount was allocated to ORG. The nature of services relating to the third invoice were unidentifiable due to the November 20XX invoice being one-half of the balance forward from the previous month. These three invoices are summarized here.

Description	*Amount*
One-fourth of charges incurred during month of September, 20XX, for services relating to "Acct. #13 – Property-4" per invoice dated 9/30/20XX $0 x 0% =	0
One-fourth of charges incurred during month of August, 20XX, for services relating to "Acct. #13 – Property-4" per invoice dated 8/31/20XX $0 x 0% =	0
One-half of balance forward from month of October, 20XX, per invoice dated 11/30/20XX $0 x 0% =	0
Total for Law Firm-4	**0**

The $0 paid to Law Firm-5 was an allocation of $0 billed to an affiliate of the Companies economic group (LP-8) for an analysis of property described as "Property-5".

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

14-B. Interest

Part II, Line 41 of ORG's Form 990 / Year 20XX reported interest expense of $0. This amount was not interest but rather a fee that ORG paid to an LLC named I . The fee was based upon 0% of ORG's initial capital contribution investment of $0 that ORG made to its affiliate, CO-34.

ORG's investment affiliation with the CO-34 was reported within Note 6, "Investment in Affiliates", (at Pages 0-11) of ORG audited financials for year 20XX:

> "Investment in affiliates comprise different ownership rates in CO-28, CO-19., CO-29, CO-30, LLC., CO-32, CO-31, CO-34, CO-36, CO-18. And CO-35.

ORG's investment in the CO-34 is supported within Exhibit A to the Operating Agreement of the CO-34, where capital contributions and ownership interests of ORG and five other Class A members are identified:

Class A Member	*Initial Capital Contribution*	*% interest*
ORG	0	0%
CO-7	0	0%
CO-39	0	0%
CO-40	0	0%
CO-41	0	0%
CO-42	0	0%
Total Equity Ownership	**0**	**00%**

[The $0 fee reported as interest expense was computed as 0% of ORG's $0 capital contribution. (i.e., $0 x 0% = $0)] C

The 0% fee of $0 was for a real estate loan (the "CO-43 loan") that CO-34 made in the amount of $0 million to another LLC named CO-43. The CO-43 loan made by CO-34 is consistent with the purposes for which the CO-34 was formed, Stated within Article 1.5 ("Purpose") of the CO-34's Operating Agreement:

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**	**Facts** **14-B. Interest**	**Year/Period Ended** **20XX** **20XX** **20XX**

> "This Company has been formed to engage in the financing, acquisition, ownership, operation, management, repair, replacement, leasing and sale of real property, including without limitation acting as a manager or member of any limited liability company directly or indirectly engaged in such activities, and may engage in any activities that are related to the accomplishment of such purpose or for any other lawful business or purpose."

The CO-43 loan made by CO-34 is also consistent with ORG's explanation as to why the CO-34 was formed:

> "This company was formed to make a specific secured real estate investment."

[Response to Item #22H of IDR 2 (years 20XX-20XX).]

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")** **Facts** **14-C. Management Fee**		**Year/Period Ended** **20XX** **20XX** **20XX**

Part II-Line 43 of ORG's Form 990 reported management fees for years 20XX-20XX of -

- $0 (year 20XX)
- $0 (year 20XX)
- $0 (year 20XX)

Supporting documentation discussed here discloses that these amounts were expended primarily for purposes other than conducting insurance activities.

$0 of Management Fees Reported for Year 20XX

The $0 reported as management fees for year 20XX was recorded within two G/L accounts:

- $0 recorded in account #12 / Prof. Services
- $0 recorded in account #7 / Mgmt. Fee Expense

The $0 recorded in G/L account #12 / Prof. Services consists of two expenditures -

- $0 paid to the Advisory Firm-2 for ORG's one-third allocated clean-up and zoning costs relating to an area referred to as "Property-6". The one-third allocated costs for clean-up and zoning (i.e., $0 / 0 = $0) involve a real estate developer named "Real Estate Developer". [Advisory Firm-2's invoice #1867 paid by ORG's Ck # , dated 7/10/20XX]
- $0 paid for investment fees [$0 recorded on 1/1/20XX + $0 recorded on 4/30/20XX = $0 total]

The $0 recorded in G/L account #7 / Management Fee Expense was a property management fee paid by wire transfer on 8/13/20XX, to the CO-2 for managing real property described as Property-3.

[ORG's correspondence, dated 12/10/20XX, identified ORG and its captive affiliates – CO-7 and CO-5 – as owning an equal one-third interest in the Property-3 property during year 20XX. ORG's sale of its one-third interest in the Property-3 property is discussed above with respect to the $0 net gain reported for year 20XX.]

The CO-2 was an affiliate of the Companies economic group, as supported by ORG's response to Items #9A and #9B of IDR 9, where ownership and control of the CO-2 was explained to have been held one-third equally by three limited partnerships:

- LP-1
- LP-3
- LP-2

Each of these limited partnerships owning/controlling the CO-2 was the sole shareholder of a Territory captive. LP-1 was ORG's sole shareholder. LP-3 was sole shareholder of ORG's captive affiliate, CO-7 LP-2 was sole shareholder of ORG's captive affiliate, CO-5

Facts

14-C. <u>Management Fee</u>

$0 of Management Fees Reported for Year 20XX

The $0 reported as management fees for year 20XX was paid to the CO-2, to manage the Property-3 property.

Five wire transfer payments to the CO-2, recorded in G/L account #7 / Management Fee Expense, comprise the $0 reported as management fees for year 20XX:

- ♣ $0 (4/15/20XX)
- ♣ $0 (5/16/20XX)
- ♣ $0 (6/13/20XX)
- ♣ $0 (7/26/20XX)
- ♣ $0 (8/27/20XX)

Σ $0 + 0 + 0 + 0 + 0 = $0

$0 of Management Fees Reported for Year 20XX

The $0 reported as management fees for year 20XX is comprised of five amounts:

20XX Management Fee paid to LP-1	0	
20XX Management Fee paid to LP-1	0	
CO-23 Insurance	0	
CO-39 – CO-28 Loan	0	
Stock Analysis Fee	0	**0**

ORG authorized the $0 and $0 portions of management fees reported under board resolutions passed on 12/31/20XX and 12/31/20XX, whereby ORG would pay its sole shareholder, the LP-1, a management fee equal to 0% of net assets for "asset management services provided during the year". Both resolutions were signed by ORG's 3-member board –

- ♣ Director-1
- ♣ Director-4 (wife of Director-1)
- ♣ Manager-2 (son of Director-1 and Director-4)

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer ORG (" ")	**Facts** **14-C. Management Fee**	**Year/Period Ended** 20XX 20XX 20XX

Item #14 of IDR 2 (years 20XX-20XX) requested "contracts and agreements supporting services rendered by the LP-1 relating to ORG's board resolutions for which management fees were to be paid to the LP-1 at the rate of 0% of net assets. ORG's response, dated 11/0/20XX, provided only copies of the board resolutions passed at year-end 20XX-20XX, and did not explain what specific asset management services were rendered in connection with the $0 and $0 fees expensed.

ORG recorded the $0 and $0 portions of management fees reported in its general ledger as pay-downs of the line-of-credit loan owed by the LP-1 on 1/1/20XX ($0) and on 12/31/20XX ($0). The reductions in the line-of-credit loan owed by the LP-1 were consistent with ORG's liquidation plans reported within Note 16, "Subsequent Events", (at Page 15) of ORG audited financials for year 20XX, stating:

> "There are plans in place to liquidate the Company as at December 31, 20XX. Liquidating distributions will be made periodically until the end of next year."

The remaining portions of the $0 reported as management fees were -

- $0 deducted as an "experience refund due retrocedant" by ORG's assumed reinsurance provider, CO-23, under the agreement that ORG had with CO-23. [Computation of the $0 experience refund due retrocedant is discussed above with respect to ORG's revenue from assumed reinsurance premiums.]

- $0 paid as a monthly management fee to a LLC named CO-38. The fee was computed on the first day of each calendar month as one-twelfth (1/12) of two percent (0%) of the then capital balance held by ORG in its subsidiary, CO-19. [ORG's response to Item #22B of IDR 2 (years 20XX-20XX) explained that the CO-19 was formed to make an investment in a specific real property loan.]

- $0 stock analysis fee with

Facts

14-D. Property Taxes

Part II-Line 43 of ORG's Form 990 reported property tax expense for years 20XX-20XX of:

- $0 (year 20XX)
- $0 (year 20XX)
- $0 (year 20XX)

Supporting documentation discussed here discloses that these amounts were expended primarily for purposes other than conducting insurance activities.

$0 of Property Taxes Reported for Year 20XX

The $0 reported as property taxes for year 20XX was comprised of four amounts -

- $0 paid to the Advisory Firm-2 for one-half of year 20XX property taxes in the amount of $0 that were owed to County County, State with respect to ORG's receipt of a one-third interest in the Property-2 property during year 20XX. Paid by ORG check #0, dated 5/11/20XX, for Advisory Firm-2 invoice #35. [Computed as $0 total property tax owed x ½ owed for year 20XX x 1/3 property interest = $0]

- $0 paid to the Advisory Firm-2 for year 20XX property taxes in the amount of $0 that were owed to County County, STATE with respect to ORG's receipt of a one-third interest in the Property-1 property during year 20XX. Paid by ORG check #0, dated 5/11/20XX, for Advisory Firm-2 invoice #36. [Computed as $0 x 1/3 property interest = $0]

- $0 paid to the Advisory Firm-2 for "investment properties". Paid by ORG check #0, dated 11/09/20XX, for Advisory Firm-2 invoice #37.

- $0 paid to the Advisory Firm-2 for "entitlement properties". Paid by ORG check #0, dated 11/09/20XX, for Advisory Firm-2 invoice #37.

∑ $0 + $0 + $0 + $0 = $0

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

14-D. Property Taxes

$0 of Property Taxes Reported for Year 20XX

The $0 reported as property taxes for year 20XX was traced to transactions posted to G/L accounts #15 / Property Tax and #6121 / Taxes, Licenses & Fees.

Two postings to G/L account #15 / Property Tax – described as "activity in Advisory Firm-2" -- comprise $0 of the $0 property taxes reported.

G/L Account 15 – Property Tax					
				Amount	
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**
0/31/XX	0	PJ	Advisory Firm-2 – October 20XX activity in Advisory Firm-2	0	
4/30/XX	0	PJ	The Advisory Firm-2 – April 20XX activity in Advisory Firm-2	0	
TOTAL				**0**	

The remaining $0 portion of the $0 reported consists primarily of postings to G/L account 6121 / Taxes, Licenses & Fees relating to Fidelity advisor fees.

G/L Account 6121 –Taxes, Licenses & Fees					
				Amount	
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**
1/31/XX	0	PJ	Advisory Firm-2 – January 20XX activity in Advisory Firm-2	0	
1/31/XX	GJ 1	Gen J	Advisor fees in Fidelity	0	
4/30/XX	GJ 1	Gen J	Advisor fees in Fidelity	0	
7/31/XX	GJ 3	Gen J	Advisor fees in Fidelity	0	
9/30/XX	GJ #2	Gen J	Write off per Rob 0/30/XX	0	
0/31/XX	GJ #1	Gen J	Advisor fees for Fidelity	0	
TOTAL				**0**	

∑ $0 + 0 = $0

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**	**Facts** **14-D. Property Taxes**	**Year/Period Ended** **20XX** **20XX** **20XX**

$0 of Property Taxes Reported for Year 20XX

The $0 reported as property taxes for year 20XX was traced to transactions posted to G/L accounts #15 / Property Tax and #6121 / Taxes, Licenses & Fees.

A posting to G/L account #15 / Property Tax – described as "November 20XX monthly activity in CO-37-property tax -- comprises $ of the $0 reported. The CO-37 was identified as ORG's agent under ORG's response to Item #12 of IDR 2 (years 20XX-20XX).

G/L Account 7009 – Property Tax					
				Amount	
Date	Reference	Journal	Trans Description	Debit	Credit
11/30/XX	0	PJ	CO-37 – November 20XX monthly activity in CO-37 – property tax expense	0	
TOTAL				0	

The remaining $0 portion of the $0 reported consists primarily of postings to G/L account 16 / Taxes, Licenses & Fees relating to Fidelity advisor fees. [$0 – 0 = $0]

G/L Account 6121 –Taxes, Licenses & Fees					
				Amount	
Date	Reference	Journal	Trans Description	Debit	Credit
1/31/XX	GJ #5	Gen J	Advisor Fees for Fidelity	0	
3/31/XX	0	SJ	The Advisory Firm-2 – WAC/WRC Group – monthly activity in Advisory Firm-2 WAC/WRC for ORG for March – Taxes, Licenses, &Fees	0	
4/30/XX	GJ #8	Gen J	Fidelity Advisor Fees	0	
0/31/XX	GJ 0/XX - 1	Gen J	Advisor fees paid on Fidelity Account	0	
11/30/XX	0	PJ	CO-37 November 20XX monthly activity in CO-37 – Taxes, Licenses & Fees	0	
12/31/XX	0	SJ	CO-37, LLC – Monthly activity in CO-37 for ORG – Taxes Licenses & Fees	0	
12/31/XX	Capital Gain	Gen J	Adjustment to for Taxes Fees & Licenses originally coded to Capital Loss – Fidelity Stock Sept		0
TOTAL				0	0

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer ORG (" ") **Facts** **14-E. Incurred Claims and Experience Refunds Due to the Ceding Company**		**Year/Period Ended** 20XX 20XX 20XX

Part II-Line 43 of ORG's Form 990 reported incurred claims and experience refunds for years 20XX-20XX of:

- $0 incurred claims and $0 experience refund due to Insurance company (year 20XX)
- $0 incurred claims and experience refund due to Insurance company (year 20XX)
- $0 incurred claims (year 20XX)

These amounts reported primarily relate to claims and experience refunds generated by CO-23's quarterly retrocession computations that are discussed here and also above with respect to ORG's revenue from assumed reinsurance premiums.

Of the $0 reported for year 20XX, an amount of $0 relates to a claim paid to the LP-3 for events occurring prior to the commencement of coverage on its policy in effect during year 20XX.

$0 of Incurred Claims Reported for Year 20XX

The $0 of incurred claims reported relate to three transactions from the CO-23 quarterly retrocession computations recorded within G/L account #17 / Incurred Claims.

Date	Reference	Trans Description	Amount
31 Dec XX	GJ 1	Retrocession for the Quarter Ending December 31 20XX	0
31 Dec XX	GJ 5	Retrocession for the Quarter Ending September 30 20XX	0
31 Dec XX	GJ 6	Retrocession for the Quarter Ending June 30 20XX	0
			0

Facts

14-E. Incurred Claims and Experience Refunds Due to the Ceding Company

$0 of Experience Refund Due to Insurance Company Reported for Year 20XX

The $0 amount reported as an experience refund due to Insurance company was computed by the retrocedant, CO-23, as the difference between 0% of retroceded premiums and what was net due to ORG as the retrocessionaire.

[ORG's revenue from assumed reinsurance premiums, discussed above, identified the $0 of incurred claims and the $0 experience refund due to Insurance company as deductions to compute net premiums retroceded by CO-23 to ORG, the retrocessionaire, during year 20XX.]

$0 of Incurred Claims and Experience Refunds Reported for Year 20XX

$0 Claim Paid to LP-3 for Events Prior to Policy Coverage Period

ORG paid $0 of the $0 reported as incurred claims and experience refunds as a claim for its policy # 01 - 01 written for year 20XX. The payment conflicts with the coverage period specified under policy # 01 - 01 because it was for a claim filed by the LP-3 for one-third of a $0 amount billed for drilling services rendered prior to the policy's effective coverage date of January 1, 20XX.

The policy coverage period for ORG policy #01 - 01, in verbatim, is Stated as:

> "Only for Insured Events occurring on or after January 1, 20XX, for which claims are made and reported between 12:01 a.m. January 1, 20XX, and 12:01 a.m., January 1, 20XX."

ORG supported its $0 payment with a "claim form" containing these fields of information:

- Policy Type: Administrative Action
- Policy No.: 01 - 01
- Claim Amount $0
- Policy Period: January 1, 20XX – December 31, 20XX

The Claim Form had a field entitled, "Statement Regarding Nature of Claim", for which an explanation was typed in as:

> "EPA clean-up expenses (survey, site assessments, drilling) on properties located at Property-7 – City, State"

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")** **Facts** **14-E. Incurred Claims and Experience Refunds Due to the Ceding Company**		**Year/Period Ended** **20XX** **20XX** **20XX**

This explanation described services within an invoice billed by a business named CO-44, Inc. (trade name is "CO-44") that ORG provided to support the $0 claim amount.

The Claim Form had a field entitled, "Date of Insured Event", for which was typed in: "See Attached Invoice". The attached invoice #40, dated 11/0/20XX, was billed by CO-44 in the amount of $0 to a person having name/address of:

Address
City, State Zip code

CO-44's invoice #40 disclosed that the $0 was billed for two units of "sub-contractor – outside" services rendered on October 24, 20XX and on October 27, 20XX:

0/24/XX	Sub-Contractor – Outside	1 Unit	$0
0/27/XX	Sub-Contractor – Outside	1 Unit	0
Outside Services Totals			$0

CO-44's invoice #40 referred to a project #10 that was described as "implement SCWP & Initial Remedial Actions", and specifically described the services rendered as:

"Drilling services provided through October 31, 20XX, for the property located at Property-7, City, State."

Hand-written on CO-44's invoice #40 was a directive that one-third of the invoice amount be billed to the LP-3:

"1/3 of invoice total is billed to LP-3
0 / 3 = 0"

In addition to CO-44's services being rendered and billed prior to the effective date of coverage for policy # 01 - 01, their being rendered in State were inconsistent with the LP-3's business operations described within Articles 4 and 5 of the Application and Certificate of Insurance section of policy # 01 - 01 as being conducted in State and State.:

- 0% devoted towards owning/operating retail petroleum facilities primarily in State and State
- 0% engaged in real estate speculation and development in State; and
- 0% devoted in private and public equity investments.

Facts

14-E. <u>Incurred Claims and Experience Refunds Due to the Ceding Company</u>

[ORG's claim form relating to the $0 claims payment; CO-44's Invoice #41, dated November 0, 20XX, billed in the amount of $0; and ORG check #0, dated 9/16/20XX, paying the $0 claim to the LP-3 under policy #01 - 01 are illustrated within ***Exhibit 29***.]

Expenses from CO-23 Quarterly Retrocession Computations

Two expense amounts from the CO-23 quarterly retrocession computations were part of the $0 reported as incurred claims and experience refunds -

- $0 of incurred claims from CO-23's quarterly retrocession computation reports, recorded in two amounts – $0 + $0 -- within ORG's G/L account #42 / Incurred Claims:

G/L Account 650 – Incurred Claims				
Date	**Reference**	**Journal**	**Trans Description**	**Amount**
12/31/XX	GJ #5	Gen J	Retrocession for the quarter ending December 31, 20XX	0
12/31/XX	GJ #6	Gen J	Retrocession for the quarter ending December 31, 20XX	0
Total of Postings				**0**

- $0 of experience refund due to Insurance company was computed by the retrocedant, CO-23, as the difference between 0% of retroceded premiums and what was net due to ORG as the retrocessionaire. Two journal postings to G/L 6520 / Experience Refund Due Insurance Commission support the CO-23 quarterly reports as their source.

G/L Account 6520 - Exp. Ref. Due Insurance Com.				
Date	**Reference**	**Journal**	**Trans Description**	**Amount**
12/31/XX	GJ #5	Gen J	Retrocession for the quarter ending December 31, 20XX	-0
12/31/XX	GJ #6	Gen J	Retrocession for the quarter ending December 31, 20XX	0
Balance @ 12/31/20XX				**0**

[ORG's revenue from assumed reinsurance premiums, discussed above, identified the $0 of incurred claims and the $0 experience refund due to Insurance company as deductions to compute net premiums retroceded by CO-23 to ORG, the retrocessionaire, during year 20XX.]

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")** **Facts** **14-E. Incurred Claims and Experience Refunds Due to the Ceding Company**		**Year/Period Ended** **20XX** **20XX** **20XX**

IBNR Claims / Reserve

An amount of $0 described as "IBNR Claims" was part of the $0 reported as incurred claims and experience refunds. This $0 amount was traced to two G/L accounts --

- ♣ Debit to expense account #10 / IBNR Claims
- ♣ Credit to liabilities account #20 / IBNR Reserves

The transaction description of these postings (below) indicates a relationship to the direct written insureds covered during year 20XX, whereby the $0 reported in ORG's Form 990 was allocated as $0 for CO-3 and $0 for the LP-3.

The $0 posted to account #2020 / IBNR reserves was reported as an Other Liability described as "IBNR Reserve" within Part IV-Line 65 of Form 990 / Years 20XX-20XX.

G/L Accounts #10 – IBNR Claims and #20 / IBNR Reserve						
				Trans	**Amount**	
Account ID	**Date**	**Reference**	**Journal**	**Description**	**Debit**	**Credit**
65 / IBNR Claims	12/31/XX	AJE #2	Gen J	CO-3	0.00	
65 / IBNR Claims	12/31/XX	AJE #2	Gen J	LP-3 and Subsidiaries	0.00	
20 / IBNR Reserve	12/31/XX	AJE #2	Gen J	CO-3		0.00
20 / IBNR Reserve	12/31/XX	AJE #2	Gen J	LP-3 and Subsidiaries		0.00
Total of G/L Postings					**0.00**	**0.00**

Section III-D, Technical / Claims and Accounting Techniques, within ORG's Business Plan identified "IBNR" as not expected to be a significant portion of ORG's claim reserves:

Facts

14-E. Incurred Claims and Experience Refunds Due to the Ceding Company

"The frequency of claims from CC is expected to be low and so all claims will be dealt with on an adhoc basis in consultation with the Company's insurance manager. Where advised by the insurance manager or otherwise determined, the services of third party loss adjusters and other specialists may be used. The Company intends to adopt a conservative approach to reserving for outstanding claims but IBNR is not expected to form a significant proportion of those reserves."

Item #14 of IDR 1 (years 20XX-20XX) requested documentation supporting the $0 IBNR claim. ORG's response, dated 7/20/20XX, explained that the IBNR claim was recommended by insurance consultants, but supporting documentation for it could not be located:

> "This item was based upon the recommendation of the Company's insurance consultants. The Company has not been able to locate the supporting documentation."

$0 of Incurred Claims Reported for Year 20XX

The $0 of incurred claims reported was identified from the 3rd ($0) and 4th ($0) quarters of CO-23's quarterly retrocession computations for year 20XX. ORG recorded the $0 sum from these two quarters within G/L account #17 / Incurred Claims at year-end 20XX:

Date	Reference	Trans Description	Amount
31 Dec XX	Insurance Pre	20XX Reinsurance CO-23	0

ORG's revenue from assumed reinsurance premiums, discussed above, identified the $0 of incurred claims as a deduction to compute net premiums retroceded by CO-23 to ORG, the retrocessionaire, during year 20XX.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

14-F. Ceding Commissions

Part II-Line 43 of ORG's Form 990 reported Insurance commissions for years 20XX-20XX of:

- $0 (year 20XX)
- $0 (year 20XX)
- $0 (year 20XX)

These amounts were computed from CO-23's quarterly retrocession computations, whereby CO-23 deducted a 0% Insurance commission before retroInsurance premiums to ORG. ORG's revenue from assumed reinsurance premiums, discussed above, identified these Insurance commission amounts as deductions to compute premiums retroceded from CO-23 to ORG.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15. Assets Reported for Years 20XX-20XX

Year-end asset balances reported by ORG in Forms 990 filed for years 20XX-20XX are identified here.

Form 990, Part IV, Line #	**Year 20XX**		**Year 20XX**		**Year 20XX**	
	$$$	%	**$$$**	%	**$$$**	%
45 - Non-Interest Bearing Cash	0	0%	0	0%		
46 - Savings & Temp. Cash Inv.	0	0%	0	0%	0	0%
47 - Accounts Receivable	0	0%	0	0%	0	0%
51 - Other Notes/Loans Rec.	0		0	0%	0	0%
54 - Securities Investments	0	0%	0	0%	0	0%
55 - Investments - Land/Building/Equip.	0		0		0	0%
56 - Other Investments	0	0%	0	0%	0	0%
57 - Land/Building/Equipment	0		0	0%		
58 - Other Assets (Line of Credit)	0	0%	0	0%		
59 - Total Assets	**0**	**00.0000%**	**0**	**00.0000%**	**0**	**00.0000%**

Asset balance line items discussed in further detail are –

[A] Accounts Receivable
[B] Other Assets (Line of Credit)
[C] Other Notes / Loans Receivable
[D] Securities Investments
[E] Other Investments
[F] Land / Building / Equipment

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-A. Accounts Receivable

Part IV-Line 47 of ORG's Form 990 reported accounts receivable year-end balances of –

- $0 (year 20XX)
- $0 (year 20XX)
- $0 (year 20XX)

Transactions posted to G/L accounts receivable accounts directly relating to insurance activity are identified here as -

- $0 year-end 20XX balance for cash due to ORG as retrocessionaire from CO-23 within account #18 / Reinsurance Balance Receivable
- $0within the $0year-end 20XX balance of account #0 / Accounts Receivable, relating to direct premiums for policies written in year 20XX
- $0year-end 20XX balance for cash due to ORG as retrocessionaire from CO-23 within account #18 / Reinsurance Balance Receivable. [Includes $0 balance from year 20XX.]

The remaining accounts receivable transactions involve activity primarily for real estate investment purposes with businesses within the Companies economic group.

$0 of Accounts Receivable Reported for Year 20XX

The $0year-end 20XX balance reported as accounts receivable consisted of two amounts relating to the line of credit loan with ORG's sole shareholder, the LP-1. Both amounts had no direct connection with insurance activity -

- $0 origination fee for a $0 million line of credit effected on 12/21/20XX with ORG's sole shareholder, the LP-1, at an annual rate of prime + 0%.

- $0.accrued interest for the line of credit with the LP-1

[A insignificant difference of $0 exists between the $0 reported and the sum of the two components identified above.]

Postings within ORG's general ledger in year 20XX disclose that the $0 line of credit fee was paid on or about 2/28/20XX. A $0 debit to G/L account #005 / Cash – Bank, indicating that $0 was received as payment from the LP-1, was offset by a credit removing the $0 beginning-of-year balance from G/L account #23 – AR LP-1.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-A. Accounts Receivable

Account ID	Date	Reference	Journal	Trans Description	Amount Debit	Amount Credit
005 / Cash – Bank	2/28/XX	076	CRJ	LP-1	0	
1213 / AR LP-1	2/28/XX	076	CRJ	LP-1 – line of credit origination fees		0
Total of G/L Account Postings					**0**	**0**

$0 of Accounts Receivable Reported for Year 20XX

The $0 year-end 20XX balance reported as accounts receivable consisted of balances within four G/L accounts. The $0 within G/L account #18 / Reinsurance Balance Receivable was the only receivable balance directly connected with insurance activity.

G/L Account Number / Name	Year-End Balance
0 / Accounts Receivable	0
19 / Accrued Receivables	0
20 / AR LP-1	0
18 / Reinsurance Balance Rec.	0
TOTAL	**0**

$0 Balance Within G/L account #0 / Accounts Receivable

The $0 balance within G/L account #19 / Accounts Receivable was owed by the Advisory Firm-2, a management company that functioned as an agent on behalf of ORG to collect interest payments from four LLCs having real property loans in which ORG had made investments in. The $0 of accrued interest for which the Advisory Firm-2 was to collect on behalf of ORG was identified in ORG's invoice #52 billed to the Advisory Firm-2, for "monthly activity in Advisory Firm-2" in regard to four LLCs involved in real estate loans:

Facts

15-A. Accounts Receivable

DESCRIPTION	EXTENSION
1/3 of monthly activity in Advisory Firm-2 for CO-28	0
1/3 of monthly activity in Advisory Firm-2 for CO-29	0
1/3 of monthly activity in Advisory Firm-2 for CO-32	0
½ of monthly activity in Advisory Firm-2 for CO-46	0
Total Invoice Amount	**0**

The Advisory Firm-2's role as collection agent on behalf of ORG and the accrued interest amounts owed by the LLCs within ORG invoice #112 was explained in ORG's response to Item #18 of IDR 2 (years 20XX-20XX):

> "In 20XX, the Advisory Firm-2 was a management company that acted as agent for ORG and others in collecting cash receipts and making cash expenditures. Invoice #112 dated 12/31/XX billed by Advisory Firm-2 for payments due to ORG received by the Advisory Firm-2 (a copy is at Tab 9). These are interest payments on the loans that ORG had invested in."

ORG's response to Item #22 of IDR 2 (years 20XX-20XX) explained that the CO-28 the CO-29, and the CO-32 were "formed to make an investment in a specific real property loan."

During year 20XX, ORG held a 0% ownership in the CO-19, CO-29, and CO-32s, which was reported in Note 6, "Investment in Associates", (at Page 12) of ORG audited financials for that year 20XX:

> "The company has the following investments in associates.

	Country	Shareholdings Ownership
CO-19		0%
CO-29		0%
CO-32		0%

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**	**Facts** **15-A. Accounts Receivable**	**Year/Period Ended** **20XX** **20XX** **20XX**

$0 Balance Within G/L account # 20 / Accrued Receivables

The $0 balance within account #20 / Accrued Receivables relates to the line of credit owed by ORG's sole shareholder, the LP-1 –

- $0 transferred from another receivable account – account #21 / Interest Receivable [$0 + $0 = $0]

  Although the amounts transferred were described as a "pay-down of line-of-credit interest", no pay-down actually occurred because cash and/or other assets were not received as a payment.

- $0 net adjustment to accrued interest income. [$0 – 0 = $0] This adjustment was posted to G/L accounts #22 / Line of Credit-LP-1 and #9 / Interest Income.

G/L postings supporting the $0 balance within account #20 / Accrued Receivables are identified here.

Account ID	Date	Reference	Journal	Trans Description	Amount	
					Debit	Credit
Account 20 – Accrued Receivables	12/31/XX	GJ #4	Gen J	Paydown on line-of-credit interest	0	
Account 21 – Interest Receivable	12/31/XX	GJ #4	Gen J	Paydown on line-of-credit interest		0
Account 21 – Interest Receivable	12/31/XX	GJ #4	Gen J	Adjust interest receivable on line of credit for formula error		0
Account 22 – Line of Credit – LP-1	12/31/XX	GJ #4	Gen J	Overpayment on line of credit interest due to formula calculation error		0
Account 9 – Interest Income	12/31/XX	GJ #4	Gen J	Adjust interest receivable on line of credit for formula error	0	
Total of G/L Account Postings					**0**	**0**

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-A. Accounts Receivable

$0 Balance Within G/L account #23 / AR LP-1

The $0 balance within account #23 / AR LP-1 was for an investment made in two increments -- $0 on 2/28/20XX and $0 on 3/31/20XX – in a business named "CO-45" involving real estate referred to as "Property-8". The $0 was transferred into account #23 / AR LP-1 under a year-end 20XX adjusting entry.

$0 Balance Within G/L account #18 / Reinsurance Balance Receivable

The $0 balance within account #18 / Reinsurance Balance Receivable was computed from the CO-23 quarterly reports as cash due to ORG as "retrocessionaire" from CO-23. This $0 reinsurance receivable amount due to ORG is discussed above within respect to ORG's revenue from assumed reinsurance premiums.

G/L Account 1240 – Reinsurance Balance Rec.					
				Amount	
Date	Reference	Journal	Trans Description	Debit	Credit
12/31/XX	GJ #5	Gen J	Retrocession for the quarter ending December 31, 20XX	0	
12/31/XX	GJ #6	Gen J	Retrocession for the quarter ending December 31, 20XX	0	
Total				0	

$0 of Accounts Receivable Reported for Year 20XX

The $0 reported as AR for year 20XX is comprised of balances within six G/L accounts identified here. Receivable amounts within these account balances directly connected with insurance activity were –

- ♣ $0 within the $0 balance of account #8 / Accounts Receivable, relating to direct premiums for policies written in year 20XX
- ♣ $0 cash due to ORG as retrocessionaire from CO-23 within account #18 / Reinsurance Balance Receivable.

G/L Account Number / Name	Year-End Balance
0 / Accounts Receivable	0
24 / LP-8	0
25 / AR CO-48 - 3 - Net	0
26 / AR CO-37 Work	0
27 / AR CO-49	0
18 / Reinsurance Balance Rec.	0
TOTAL	0

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer ORG (" ") **Facts** **15-A. Accounts Receivable**		**Year/Period Ended** 20XX 20XX 20XX

$0 Balance Within G/L Account #19 / Accounts Receivable

The $0 balance within account #19 / Accounts Receivable was supported by ORG invoices billed in year 20XX.

All but one of these invoices were billed to ORG's five insureds for direct policies written in year 20XX, having aggregate premiums of $0 [∑ $0 (LP-3) + $0 (CO-3 Company) + $ (CO-4) + $0 CO-6 + $0 (LP-10) = $]

The remaining $0 portion of the $0 balance for G/L account was billed to the CO-37 for five items described as being for "monthly activity in CO-37 for ORG" –

- $0 rental revenue
- $0 interest income
- -$0 prof. services legal
- -$0 taxes, licenses & fees
- -$0 prof. svc. engineering

[∑ $0 (rental revenue) + $0 (interest income) - $0 (prof. services legal) - $0 (taxes, licenses & fees) - $0 (prof. svc. engineering) = $0]

ORG's response to Item #19 of IDR 2 (years 20XX-20XX) explained that the CO-37 was invoiced because it was a management company that acted as an agent on behalf of ORG to collect cash and make payments for ORG's investments.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-A. Accounts Receivable

ORG Invoice # / Date	Inv. Amt.	Invoice Description	Explanation
ORG Invoice #130, dated 1/15/20XX billed to CO-17	0	Administrative Actions Insurance Policy 20XX	Policy #03 - 01 for period of Jan 1 - Jan 1, 20XX-20XX
ORG Invoice #131, dated 1/15/20XX billed to CO-3	0	Administrative Actions Insurance Policy 20XX	Policy #02 - 09 for period of Jan 1 - Jan 1, 20XX-20XX
ORG Invoice #132, dated 1/15/20XX billed to CO-4	0	20XX Premium Payment for Liability Insurance	Policy # 13 - 33 for period of Jan 1 - Jan 1, 20XX-20XX
ORG Invoice #133, dated 1/15/20XX billed to CO-6	0	20XX Premium Payment for Liability Insurance	Policy #13 - 32 for period of Jan 1 - Jan 1, 20XX-20XX
ORG Invoice #134, dated 1/15/20XX billed to CO-47	0	20XX Premium Payment for Liability Insurance	Policy #13 - 31 for period of Jan 1 - Jan 1, 20XX-20XX
ORG Invoice #130, dated 12/31/20XX billed to CO-37	0	Monthly Activity in CO-37 for ORG re: Rental Revenue, Interest Income, Legal, Taxes/Licenses/Fees, and Engineering	No Policies Relating to Invoice

$0 Balance Within G/L Account #24 / LP-8

The $0 balance within account E24 / LP-8 resulted from $0 paid to the LP-8 on or about 7/31/20XX. This funds transfer is identified here by postings to ORG G/L accounts resulting in the creation of a $0 receivable against the LP-8 and an outflow of $0 cash.

G/L Account #24 / LP-8					
				Amount	
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**
07/31/XX	GJ# 7/XX-1	Gen J	Transfer to LP-8	0.00	
G/L Account #005 / Cash - Bank					
				Amount	
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**
07/31/XX	GJ# 7/XX-1	Gen J	Transfer to LP-8		0.00
Total of Postings				**0.00**	**0.00**

Facts
15-A. Accounts Receivable

[The LP-8 (EIN) was identified above in the discussion concerning ORG's $0 net gain reported in year 20XX as one of three purchasers who bought a 0% portion of ORG's one-third interest in the Property-2 property that ORG sold on 7/30/20XX.]

A/R Balances for CO-48, CO-37, and CO-49

Year-end 20XX balances for the G/L accounts receivable accounts identified here resulted from amounts transferred from the line of credit loan with ORG's sole shareholder, the LP-1. The amounts transferred were an assignment of accounts receivable in the amount of $0 that was effected on 1/1/20XX between the LP-1, as assignor, and ORG, as assignee.

The assignment of A/R converted $0 owed by the LP-1 under its line of credit with ORG – charging an average interest rate of 0% during year 20XX, with principal and interest payable on 12/31/20XX -- to unsecured, interest-free loans that ORG had with three companies – CO-48, CO-37, and CO-49

- 1214 / AR CO-48 - 3 – Net 0
- 1216 / AR CO-37 Work 0
- 1218 / AR CO-49 0

$0 Balance Within G/L Account #18 / Reinsurance Balance Receivable

The $0 year-end 20XX balance within account #18 / Reinsurance Balance Rec. is cash due to ORG as retrocessionaire, obtained from CO-23's quarterly computations. The $0 amount consists of $0 due from year 20XX, plus $0 due for year 20XX. ORG's revenue from assumed reinsurance premiums, discussed above, identified the $0 and $0 amounts as "cash due retrocessionaire".

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")** **Facts** **15-B. Other Assets (Line of Credit)**		**Year/Period Ended** **20XX** **20XX** **20XX**

Part IV-Line 58 of ORG's Form 990 reported other assets (line of credit) year-end balances of –

- $0 (year 20XX)
- $0 (year 20XX)

These balances reported involved activity primarily for real estate investment purposes with businesses within the Companies economic group.

$0 of Other Assets (Line of Credit) Reported for Year 20XX

Part IV-Line 58 of ORG's Form 990 reported a year-end 20XX balance of $0 as Other Assets (Line of Credit). This amount is comprised of two types of line of credit loans issued within the Companies economic group –

- $0 loaned to ORG's sole shareholder, the LP-1, under a $0 million line of credit issued on 12/21/20XX, at the rate of prime + 0% per annum. Principal and accrued interest are due and payable on the 0th anniversary of the date of the note (12/21/20XX).

  [Accounts receivable reported for year 20XX, discussed above, identified $0 reported as A/R, consisting of an accrued line of credit origination fee ($0) and accrued interest ($0). Both A/R amounts relate to the $0 year-end 20XX balance for the line of credit owed by the LP-1.]

- $0 loaned under $0 lines of credit issued separately with four limited partnerships on 12/31/20XX, to provide investment capital for real estate loan(s):

LP-4	$0	
CO-8	$0	
LP-14	$0	
LP-6	$0	$0

  The $0 lines of credit issued with the four limited partnerships were at a rate of prime + 0% per annum. Principal and accrued interest were due and payable on the 0th anniversary of the date of the note (12/31/20XX).

Σ $0 (LP-1) + $0 (four LPs) = $0 line of credit reported

Facts

15-B. Other Assets (Line of Credit)

The five lines of credit issued by ORG during year 20XX were reported in Note 3, "Finance Receivables", (at Page 9) of ORG's audited financials for that year:

> During 20XX, the Company issued letters of credit to various limited partnerships, all of which are related to the Company by way of a common shareholder. Borrowings on these letters of credit are unsecured and bear interest on the unpaid principal balance at a floating rate equal to the prime rate plus zero percent (0%), or 0% at 31 December 20XX. Only interest is payable annually; the principal balance plus any unpaid interest is due at maturity of the borrowings. The borrowings against these letters may be repaid, in full or in part, at any time up to the maturity date without penalty.

	Total Facility	*Maturity*	*Outstanding Balance at 20XX*
LP-1	$0	21 December 20XX	$0
LP-4	$0	31 December 20XX	0
LP-13	$0	31 December 20XX	0
LP-14	$0	31 December 20XX	0
LP-6	$0	31 December 20XX	0
Interest Receivable			0
			$0

ORG explained that the four LPs were issued their respective $0 lines of credit so that they could invest in three LLCs – CO-19, CO-29, and CO-32—who applied the investment capital proceeds to make other loans:

> "LP-4, LP-13, LP-5 and LP-6 (sic) borrowed money from ORG to be able to invest in CO-28, CO-29 and CO-32 loans. For reference purposes ORG used both names on the account description. The owners of LP-4, CO-8 and LP-6 were employees of affiliated companies and were considered creditable borrowers by ORG Business Insurance and allowed them to participate in these loans."

[ORG response to Item #20A of IDR 2 (years 20XX-20XX)]

Facts

15-B. Other Assets (Line of Credit)

The four LPs invested the $0 aggregate of their lines of credit borrowed in year 20XX only in the CO-28 LLC. Year-end 20XX balances of four G/L note receivable accounts support the respective amounts borrowed by each LP, with the names of each G/L account indicating that the borrowed proceeds were invested in the CO-19.

G/L Account Number / Name	Year-End Balance
1551 / NR LP-4 - CO-28	0
1552 / NR LP-13 - CO-28	0
1553 / NR LP-5 - CO-28	0
1554 / NR LP-6 - CO-28	0
TOTAL	**0**

ORG's response to Item #22A of IDR 2 (years 20XX-20XX) explained that the CO-28 was formed to make an investment in a specific real property loan.

The four LPs having $0 lines of credit were managed by Director-1 family members through control over their general partners and by ownership held in their limited partnership equity:

- Manager-2
  - Son of Director-1
  - Manager of CO-10 (General Partner of LP-4)
  - Holder of 0% limited partner equity in LP-4

- Manager-1
  - Nephew of Director-1
  - Manager of CO-8 (General Partner of CO-8)
  - Holder of 0% limited partner equity in CO-8

- Manager-3
  - Husband of Director-1's niece
  - Manager of CO-11 (General Partner of LP-5 LP)
  - Holder of 0% limited partner equity in LP-5 LP

- Manager-4
  - Husband of Director-1's niece.
  - Manager of CO-12 (General Partner of LP-6)
  - Holder of 0% limited partner equity in LP-6

Name of Taxpayer
ORG (" ")

Year/Period Ended
20XX
20XX
20XX

Facts
15-B. Other Assets (Line of Credit)

LOC Borrower	General Partner (0% Interest)	Limited Partner (0% Interest)
LP-4	CO-10 (EIN)	Manager 2 & Wife (SSN)
LP-13	CO-8 (EIN)	Manager 1 & Wife
LP-5	CO-11 (EIN)	Manager-3 & Wife
LP-6	CO-12 (EIN)	Manager-4 & Wife

$0 of Other Assets (Line of Credit) Reported for Year 20XX

The $0 reported as Other Assets (Line of Credit) within Part IV – Line 58 of Form 990 was for the line of credit issued with ORG's sole shareholder, the LP-1, and was the year-end 20XX balance of G/L account #22 / Line of Credit – LP-1. Activity during year 20XX within G/L account #22 / Line of Credit – LP-1 disclosed that the LP-1 made no payments on its loan and that an additional $0 was loaned to the LP-1.

Note 3, "Finance Receivables", (at Page 11) of ORG's audited financials for year 20XX reported the LP-1 owing $0 on its line of credit borrowed. The $0 reported in the audited financials was reported in ORG's Form 990 within lines 47 and 58 of Part IV –

- $0 reported as an account receivable within Part IV-Line 47
  Discussed above as an accounts receivable owed by the LP-1 for $0 borrowed to invest in a business named "CO-45" involving real estate referred to as "Property-8", and recorded in G/L account #23 / AR LP-1.

- $0 reported as Other Assets (Line of Credit) within Part IV – Line 58
  Year-end 20XX balance of G/L account #22 / Line of Credit – LP-1.

Note 3, "Finance Receivables" of ORG audited financials for year 20XX reported the increase in line of credit borrowings by the LP-1 and four LPs from 20XX to 20XX, and described the lines of credit as being issued to limited partnerships related to ORG through a common shareholder:

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**	**Facts** **15-B. Other Assets (Line of Credit)**	**Year/Period Ended** **20XX** **20XX** **20XX**

"During 20XX and 20XX, the Company issued letters of credit to various limited partnerships, all of which are related to the Company by way of a common shareholder. Borrowings on these letters of credit are unsecured and bear interest on the unpaid principal balance at a floating rate equal to the U.S. prime rate plus one percent (0%), or 0% at 31 December 20XX (20XX: 0%). Only interest is payable annually; the full principal balance plus any unpaid interest is due at maturity of the borrowings. The borrowings against these letters of credit may be repaid, in full or in part, at any time up to the maturity date without penalty.

	Total Facility	Maturity	Outstanding Balance at 20XX	Outstanding Balance at 20XX
LP-1	$0	21 December 20XX	$0	$0
LP-4	$0	31 December 20XX	0	0
LP-13	$0	31 December 20XX	0	0
LP-5	$0	31 December 20XX	0	0
LP-6	$0	31 December 20XX	0	0
Interest Receivable			0	0
			$0	**$0**

Part IV-Line 51 of ORG's Form 990 reported other notes/loan receivable year-end balances of –

- $0 (year 20XX)
- $0 (year 20XX)

These balances reported involved activity primarily for real estate investment purposes with businesses within the Companies economic group.

$0 of Other Notes / Loan Receivable Reported for Year 20XX

The $0 reported as Other Notes / Loans Receivable was for $0 lines of credit borrowed by four LPs that invested their loan proceeds into three LLCs to make real estate loans. The $0 reported consists of $0 borrowed during year 20XX that was unpaid in year 20XX, and additional borrowings during year 20XX to invest in two other LLCs – CO-29 ($0) and CO-32 ($0).

Twelve G/L note receivable accounts identified here support the respective amounts borrowed by each LP during 20XX-20XX. The name of each G/L note receivable account indicates that proceeds borrowed by the four LPs during years 20XX-20XX were invested in the CO-19, the CO-29, and the CO-32.

Supporting that the three LLCs applied the loan proceeds invested in them by the four LPs towards making real estate loans is ORG's response to Item #22 of IDR 2 (years 20XX-20XX), which explained that the CO-19, the CO-29, and the CO-32 were "formed to make an investment in a specific real property loan."

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer ORG (" ")	**Facts** **15-C. Other Notes / Loans Receivable**	**Year/Period Ended** 20XX 20XX 20XX

G/L Account Number / Name	Year-End 20XX Balance	Year-End 20XX Balance
1551 / NR LP-4 - CO-28	0	0
1556 / NR LP-4 - CO-29 LLC	0	
1560 / NR LP-4 - CO-32	0	
	0	
1552 / NR LP-13 - CO-28	0	0
1557 / NR LP-13 - CO-29	0	
1561 / NR LP-13 - CO-32	0	
	0	
1553 / NR LP-5 - CO-28	0	0
1558 / NR LP-5 - CO-29	0	
1562 / NR LP-5 - CO-32	0	
	0	
1554 / NR LP-6 - CO-28	0	0
1559 / NR LP-6 - CO-29	0	
1563 / NR LP-6 - CO-32	0	
	0	
TOTAL	**0**	**$0**

$\sum$ CO-19 (years 20XX-20XX) = $0 + 0 + 0 + 0 = $0
$\sum$ CO-29 (year 20XX) = $0 + 0 + 0 + 0 = $0
$\sum$ CO-32 (year 20XX) = $0 + 0 + 0 + 0 = $0

Note 3, "Finance Receivables", (at Page 11) of ORG's audited financials for year 20XX, reported that the line of credit loan of $0 (for CO-28) during year 20XX, and the additional lending during year 20XX of $0 (for CO-29) and $0 (for CO-32) were –

- Letters of credit issued to LPs related to ORG by way of a common shareholder.
- Unsececured loans bearing interest at a floating rate of prime + 0%.
- Only interest is payable annually, with the full principal balance and unpaid interest due at the maturity of the borrowings.
- Prepayment could be made in full or in part before the loans' maturity.

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-C. Other Notes / Loans Receivable

"During 20XX and 20XX, the Company issued letters of credit to various limited partnerships, all of which are related to the Company by way of a common shareholder. Borrowings on these letters of credit are unsecured and bear interest on the unpaid principal balance at a floating rate equal to the U.S. prime rate plus one percent (0%), or 0% at 31 December 20XX (20XX: 0%). Only interest is payable annually; the full principal balance plus any unpaid interest is due at maturity of the borrowings. The borrowings against these letters of credit may be repaid, in full or in part, at any time up to the maturity date without penalty.

	Total Facility	Maturity	Outstanding Balance at 20XX	Outstanding Balance at 20XX
LP-1	$0	21 December 20XX	$0	$0
LP-4	$0	31 December 20XX	0	0
LP-13	$0	31 December 20XX	0	0
LP-5	$0	31 December 20XX	0	0
LP-6	$0	31 December 20XX	0	0
Interest Receivable			0	0
			$0	**$0**

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer ORG (" ")		**Year/Period Ended** 20XX 20XX 20XX

Facts

15-C. Other Notes / Loans Receivable

$0 of Other Notes / Loan Receivable Reported for Year 20XX

The $0 year-end 20XX balance reported as Other Notes / Loans Receivable was supported by G/L account balances -

- $0 line of credit balances outstanding from year-end 20XX, borrowed by the four LPs to invest in the CO-29 so that a real estate loan would be made. [Identified above in the discussion concerning year 20XX line of credit borrowings. Line of credit borrowings used by the four LPs to invest in CO-28 LLC and CO-32s LLC were paid off on 6/30/20XX and 7/31/20XX, respectively.]

G/L Account Number / Name	Year-End 20XX-20XX Balances
1556 / NR LP-4 - CO-29 LLC	0
1557 / NR LP-13 - CO-29 LLC	0
1558 / NR LP-5 - CO-29 LLC	0
1559 / NR LP-6 - CO-29 LLC	0
TOTAL	**0.00**

- $0 balance at year-end 20XX of G/L account # 0 / NR - LP-1

The $0 year-end 20XX balance within G/L account #22 / NR - LP-1 is for the line of credit borrowed by the LP-1, for which Note 9, "Amount Due On Issue Line of Credit", (at Page 12) of ORG audited financials for year 20XX reported that –

- It was an unsecured line of credit with maximum principal of $0 million, with an annual rate of 0% until paid in full.
- Payments of interest only were to commence monthly on 2/1/20XX.
- Maturity will occur on 12/31/20XX, when a final installment of unpaid principal and accrued interest was due.
- ORG had the option to charge interest at a rate of 0% on unpaid principal and accrued interest thereon, in the event that principal and/or interest were not paid on the maturity date of 12/31/20XX.

Name of Taxpayer
ORG (" ")

Year/Period Ended
20XX
20XX
20XX

Facts
15-C. Other Notes / Loans Receivable

"The non-negotiable line of credit is an unsecured line with a maximum principal of $0 due from an State Limited Partnership which is the sole shareholder to the Company. The line of credit attracted interest at a rate of 0% per annum until paid in full. Payments will be made in consecutive installments of interest only at the first day of every month for a period of (3) years, beginning on the 1st of February 20XX. A final installment of all unpaid principal and accrued interest is due when the note matures in December 31, 20XX. The average interest rate charged in 20XX was 0%. Should the payment of principal and/or interest not be paid when due, the entire principal sum, accrued interest, and all other amounts shall become immediately due and payable at the option of the Company with interest theron after the date of the exercise of such option being 0%. The note can be repaid, in full or in part, at any time up to maturity date without penalty."

Comparing Note 3, "Finance Receivables", (at Page 11) of ORG's audited financials for year 20XX [discussed above] with Note 9, "Amount Due On Issue Line of Credit", (at Page 12) of ORG audited financials for year 20XX, identified changes in borrowing terms
for the line of credit issued to the LP-1:

- Maturity for full payment of principal and accrued interest changed from 12/21/20XX to 12/31/20XX.
- The revised maturity date of 12/31/20XX is consistent with ORG's intent to liquidate by that date, as discussed within Note 16, "Subsequent Events" (at Page 15) of ORG audited financials for year 20XX.
- Interest accrued changed from a floating rate of prime + 0% to 0%.
- Maximum principal changed from $0 million to $0 million.
- ORG can exercise an option to charge interest at a rate of 0% on unpaid principal and accrued interest thereon, in the event that principal and/or interest are not paid on the maturity date of 12/31/20XX.

Activity within G/L account #22 / NR - LP-1 during year 20XX identified $0 of additional funds loaned by ORG to increase the line of credit and $0 of reductions to the line of credit, resulting in the year-end 20XX balance of $0:

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Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-C. Other Notes / Loans Receivable

G/L Account #0 / NR – LP-1			**Amount**
Beginning Balance at 1/1/20XX			**0**
Add: $0 Funds Loaned in 20XX			
Cash payments described as "Transfer to LP-1 - Increase line of credit", recorded during year 20XX on - 01/31/XX (GJ #5) 02/28/XX (GJ #6) 05/31/XX (GJ #5/XX-1) 06/30/XX (6/XX-1) 07/31/XX (GJ # 7/XX – 1) 08/31/XX (GJ # 8/XX – 1) 12/31/XX (GJ 12/XX-1)	 0 0 0 0 0 0 0	0	
Payment from ORG's cash operating account with the Bank, recorded on 7/31/20XX		0	
Loan for an investment in a business referred to as "CO-45" relating to "Property-8" development, recorded on 09/30/XX (AJE # 9/XX-1) .		0	
Proceeds loaned from pay-downs of notes receivable owed by CO-48 CO-49 Inc.; and CO-37 recorded in G/L as "used by LP-1". 09/09/XX (GJ 09/XX-2) 0/28/XX (GJ 10/XX-2) 12/31/XX (GJ 12/XX-3)	 0 0 0	0	0

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-C. Other Notes / Loans Receivable

G/L Account #0 / NR – LP-1			**Amount**
Subtract: Reductions of $0 in 20XX			
Management fees expensed as 0% of net assets 01/01/XX (GJ 1/XX-2) 12/31/XX (GJ 12/XX-3)	 - 0 - 0	-0	
Cash operating account deposits 09/30/XX (AGE #9/XX-1) 0/31/XX (GJ 0/XX-1 11/30/XX (GJ 11/XX-1)	 - 0 - 0 - 0	-0	
Real property transfers 04/30/XX (GJ #8 described as "Property-4") 0/27/XX (GJ 0/XX-3 described as add'l money borrowed from LP-8 to buy 431") 12/31/XX (GJ 12/XX-3 described as "Transfer of Address Building to offset LOC") 12/31/XX (GJ 12/XX-3 described as "Transfer of ") 12/31/XX (GJ 12/XX-3 described as "Transfer of ") 12/31/XX (GJ 12/XX-3 described as "Transfer of ")	 -0 -0 -0 -0 -0 -0	-0	
Other assets transferred 01/31/XX (GJ 1/XX-2 additional paid-in capital described as "money from LP-1") 03/31/XX (GJ #7 escrow interest deposit for "Property-4" property) 12/31/XX (GJ 12/XX-3 described as "Transfer of CO-35 inv from LP-1")	 -0 -0 - 0	-0	
Accounts receivable reclassifications 1214 / AR CO-48 - 3 – Net 1218 / AR CO-49 1216 / AR CO-37 Work 1213 / AR LP-1	 -0 -0 -0 0	- 0	**-0**
Ending Balance at 12/31/20XX			**0**

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-D. Securities Investments

Part IV-Line 54 of ORG's Form 990 reported securities investments year-end balances of –

- $0 (year 20XX)
- $0 (year 20XX)
- $0 (year 20XX)

$0 of Securities Investments Reported for Year 20XX

The $0 year-end 20XX balance reported as securities investments is supported by balances within four G/L accounts. Three of the accounts have names disclosing that they were for marketable securities transactions. The fourth account's name discloses that it was for an investment in an LLC named CO-28 LLC.

G/L Account Number / Name	Year-End Balance
28 / Marketable Sec -	0
29 / Marketable Securities - Address	0
30 / Marketable Securities - CS	0
31 / CO-28	0
TOTAL	**0**

Note 5, "Investment in Associate", (at Page 0) of ORG audited financial for year 20XX, identified ORG holding a 0% investment in an LLC named "CO-28" that was referred to as an "associate":

"The company has the following investment in associate:

	Country	Shareholdings Ownership
CO-28		0%

The Company's share of post-acquisition total recognized gains and losses in the above associate for the year ended 31 December 20XX was $Nil."

The balance sheet of CO-28 as of 12/31/20XX identified the $0 balance of G/L account #31 / CO-28 as a 0% ownership interest held by ORG in that LLC. Other equity holders of the CO-28 were ORG captive affiliates – CO-5 and CO-7 – and four LPs that borrowed from ORG to invest their loan proceeds into CO-28 LLC so that a real estate loan could be made.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer ORG (" ") **Facts** **15-D. Securities Investments**		**Year/Period Ended** 20XX 20XX 20XX

Member Owner Capital Contributors	G/L Acct	$ Capital	% Ownership
ORG	01-001	0	0%
CO-5	02-001	0	0%
CO-7	03-001	0	0%
LP-4	04-001	0	0%
CO-8	05-001	0	0%
LP-5	06-001	0	0%
LP-6	07-001	0	0%
TOTAL CAPITAL		**0**	**0%**

ORG's response, dated 11/0/20XX, to Item #22A of IDR 2 explained that the CO-28 was "formed to make an investment in a specific real property loan."

Securities Investments Reported for Years 20XX-20XX

Year-end balances reported for 20XX ($0) and for 20XX ($0) as securities investments were supported by balances within three G/L accounts, all of which have names disclosing that they were for marketable securities transactions.

G/L Account Number / Name	Year-End 20XX Balance	Year-End 20XX Balance
28 / Marketable Sec -	0	0
29 / Marketable Securities - Address	0	0
30 / Marketable Securities - CS	0	0
TOTAL	**0**	**0**

Facts

15-E. Other Investments

Part IV of ORG's Form 990 reported year-end balances for other investments of –

- $0 reported in Line 56 as Other Investments (year 20XX)
- $0 reported in Line 56 as Other Investments (year 20XX)

$0 of Other Investments Reported for Year 20XX

The $0 reported as Other Investment for year 20XX is supported by balances of four G/L accounts relating to businesses in which ORG held capital investments. Three of these accounts relate to capital investments within LLCs, of which ORG's audited financials identify ORG owning a 0% shareholder interest in each. The fourth account relates to a capital investment in a LP described in ORG's audited financials as a private equity fund.

G/L Account Number / Name	Year-End Balance
31 / CO-28	0
32 / CO-29	0
33 / CO-32	0
34 / CO-33	0
TOTAL	**0**

The three G/L accounts relating to capital investments in three LLCs correlate with Note 6, "Investment in Associates", (at Page 12) of ORG audited financials for year 20XX, whereby ORG was reported to own a 0% shareholder interest in three LLCs described as "associates":

"The company has the following investments in associates.

	Country	Shareholdings Ownership
CO-28		0%
CO-29		0%
CO-32		0%

<u>The Company's share of post-acquisition total recognized gains and losses in the above associates for the year ended 31 December 20XX was $0</u> (20XX: $nil).

Facts

15-E. Other Investments

The G/L account relating to capital investment held in a LP correlates with Note 5, "Available-for-Sale Investments", (at Page 12) of ORG audited financials for year 20XX, whereby ORG was reported to have invested in a private equity fund:

> "During 20XX, the Company purchased shares in a private equity fund that is domiciled in the United States. At 31 December 20XX, based on the audited financial Statements for this private equity fund, the fair value of this investment approximates cost."

ORG's response to Item #22 of IDR 2 (years 20XX-20XX) explained that the CO-19 (EIN), the CO-29 (EIN), and the CO-32 (EIN) were formed to "make an investment in a specific real property loan". This response also explained the CO-33 (EIN) to be a private equity fund.

Minutes of ORG's Board meeting held on February 17 20XX note that additional investments were made during 20XX in real estate investment companies that loan money secured by real estate:

> "In 20XX, the Company made additional investments in companies whose business is real estate investment. These companies loan money secured by real estate."

These minutes support ORG's explanation that the LLCs discussed above were formed to make an investment in a specific real property loan.

[Minutes of ORG's Board meeting held on 2/17/20XX are illustrated within **Exhibit 14**.]

$0 of Other Investments Reported for Year 20XX

Reconciliation Between Form 990 and G/L

The $0 balance reported as Other Investments is supported by nine G/L accounts identified here. With the exception of the account relating to the CO-33, all of these G/L accounts have names indicating that they relate to capital investments in LLCs.

The $0 aggregate balance of these G/L accounts exceeds the $0 balance reported as Other Investments by $0. The $0 was traced to two journal entries within G/L account #35 CO-34 (CO-43 Loan) -

Facts

15-E. Other Investments

- ♣ 04/30/XX (117), transaction described as, "The Advisory Firm-2 - Owners - Monthly activity in Advisory Firm-2 for CO-43/Colorado Loan". This entry recorded a $0 credit in G/L account #35 CO-34 (CO-43 Loan) as an offset to accounts receivable.

- ♣ 12/31/XX (CO-34 Adjustm), transaction described as, "Reclass payment received to income from affiliate". This entry reclassified the $0 recorded on 4/30/20XX to income from affiliates.

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Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-E. Other Investments

G/L Account Number / Name	Year-End Balance
1416 / CO-19s LLC	0
1418 / CO-29	0
1419 / CO-30s LLC	0
1424 / CO-31	0
1430 / CO-33	0
1433 CO-34 (CO-43 Loan)	0
1435 / CO-18 – CO-	0
1436 / CO-35	0
1437 / CO-36	0
Total of G/L account balances	0
entries, dated 4/30/20XX and 12/31/20XX	-0
Amount Reported in Form 990	**0**

LLC Investments Reported in Audited Financials

Note 6 (at Page 10), "Investment in Affiliates", of ORG's audited financial Statements for year 20XX, described the LLCs identified in the above G/L accounts as an "investment in affiliates" in which ORG held "different ownership rates":

> "The components of investment in affiliates at December 31, 20XX are as follows:
>
> | | 20XX |
> |---|---|
> | **Opening balance** | **0** |
> | Purchases | 0 |
> | Share in earnings and losses | 0 |
> | Less: Distributions | (0) |
> | **Closing Balance** | **$0** |
>
> Investment in affiliates comprise different ownership rates in CO-28, CO-19., CO-29, CO-30, CO-32, CO-31., CO-34, CO-36, CO-18., and CO-35."

The $0 closing balance reported for ORG's investment in affiliates within the audited financials was reconciled with the $0 total of G/L account balances reported within Form 990 by subtracting the $0 balance of G/L account #34 / CO-33:

Total of G/L account balances	0
34 / CO-33	-0
Closing Balance per Audited Financials	**0**

Facts

15-E. <u>Other Investments</u>

Business Investments Relate Primarily to Real Estate

ORG's correspondence, dated 11/0/20XX, responding to Item #22 of IDR 2 (years 20XX-20XX) explained the nature of activities conducted by ORG affiliates relating to the $0 reported as other investments in Form 990. With the exception of the CO-33 – which was not identified as an "investment in affiliate" within ORG audited financials, all of ORG's investment in affiliated LLCs were explained to have been formed as an investment in either a specific real property loan or a specific real estate investment.

A Statement that, "This company was formed to make an investment in a specific real property loan" was explained for the operations of –

- CO-28 (EIN)
- CO-29 (EIN)
- CO-30 (EIN)
- CO-31 (EIN)

A Statement that, "This company was formed to make a specific real estate investment" was explained for the operations of -

- CO-34 (EIN)
- CO-18 (EIN)
- CO-35 (EIN)
- CO-36 (EIN)

A Statement that, "This is a private equity fund", was given to explain the operations of CO-33 (EIN).

Minutes of ORG's Board meeting held on February 9 20XX note that ORG made additional investments in real estate investment companies during 20XX:

> "<u>In 20XX, the Company continued to make additional investments in companies whose business is real estate investment</u>. Additionally, the Company acquired land in payment of debt owed by its shareholder."

The companies referred to in ORG's Board meeting support ORG's explanations that the LLCs discussed above were formed to either make an investment in a specific real property loan or to make a specific real estate investment.

[Minutes of ORG Board held on 2/9/20XX are illustrated within ***Exhibit 16***.]

Facts

15-F. Land, Building & Equipment

Part IV of ORG's Form 990 reported year-end balances for land, building, and equipment of –

- $0 basis in 1/3 interest held in Property-3 property reported in Line 56 as Other Investments (year 20XX)
- $0 capital contribution to the CO-36 reported in Line 57 as Land/Building/Equipment (year 20XX)
- $0 of real property acquisitions reported in Line 57 as Land / Building / Equipment (year 20XX)

$0 Basis in 1/3 Property Interest Reported as Other Investments for Year 20XX

The $0 reported as Other Investment for year 20XX was the basis of a one-third interest in property described as "Property-3" that ORG received from its sole shareholder, the LP-1. ORG recorded receiving this one-third interest in the Property-3 property in G/L account #36 / Land at year-end 20XX:

G/L Account 36 – Land					
				Amount	
Date	Reference	Journal	Trans Description	Debit	Credit
12/31/XX	GJ 8	Gen J	Contribution of 1/3 of 0% interest in Property-3 from LP-1	0	

Support for the $0 posted is a special warranty deed, executed on 12/31/20XX, by the LP-1, as Grantor, who transferred an "undivided one third (1/3) interest" in a property located in County County, State, described as "Property-3". Director-1's nephew, Manager-1, signed the Special Warranty Deed as manager of the CO-13. The CO-13 was identified in the Special Warranty Deed as general partner of the LP-1

ORG disposed of its one-third interest (0%) in the Property-3 property by two sales transactions within year 20XX (discussed above) to obtain the $0 reported for that year –

- 0% sold on 7/31/XX ($0 basis sold for net gain of $0)
- 0% sold on 8/31/XX ($0 basis sold for net gain of $0)

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Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-F. Land, Building & Equipment

$0 Capital Contribution to CO-36 Reported as Land/Building/Equipment for year 20XX

The $0 reported as land/building/equipment for year 20XX was a $0 capital contribution that ORG made in that year to invest in a LLC named CO-36 (EIN). ORG's correspondence, dated 11/0/20XX, responding to Item #22 of IDR 2 (years 20XX-20XX) explained that the CO-36 was formed to make a specific real estate investment".

Schedule K-1 filed for year 20XX by the CO-36 shows the LLC's address as Address, City, State Zip code. Part J – Column b of the Schedule K-1 reported that ORG made a $0 capital contribution during year 20XX. Part D of the Schedule K-1 reported ORG having investment member interests of –

- 0% profit sharing
- 0% loss sharing
- 0% ownership of capital

ORG's $0 capital contribution into the CO-36 was recorded within G/L account #36 / Land on 11/30/20XX.

G/L Account 36 – Land					
				Amount	
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**
11/30/XX	GJ #1	Gen J	Purchase of CO-36 on State limited liability company	0.00	

$0 of Land/Building/Equipment Reported for Year 20XX

Reconciliation of Amount Reported in Form 990 with G/L and Audited Financials

Year-end 20XX balances within two G/L accounts comprise the $0 reported as land and building in Form 990.

G/L Account Number / Name	**Year-End Balance**
36 / Land	0
37 / Building	0
TOTAL	**0**

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Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-F. Land, Building & Equipment

Note 5, "Investment Properties", (at Page 10) of ORG audited financials for year 20XX describe ORG's land and building as parcels of land in State:

> "The components of investment properties at December 31, 20XX are as follows:
>
> | Cost | Land | Building | Total |
> |---|---|---|---|
> | Opening Balance | - | - | - |
> | Purchases | 0 | 0 | 0 |
> | Closing Balance | **0** | **0** | **0** |
>
> Investment properties comprise interest in certain parcels of land situated in State, , which were contributed by the shareholder in return for an interest in the Company as well as property purchased during the year."

A $0 difference exists between land balances reported within G/L account #36 / Land $0) and land reported in the audited financials ($0). This $0 difference was traced to a posting described as "Transfer of " within account #36 / Land

G/L Postings to Land and Building Accounts

Transactions posted to G/L land and building accounts during year 20XX, supporting the $0 reported as Land/Building in the Form 990 are identified here. Six of these transactions had offsetting credits aggregating to $0 that were posted to G/L account #22 / NR – LP-1 to reduce the line of credit owed by the LP-1:

♣ 04/30/XX (GJ #8) "Property-4"	$ 0
♣ 0/27/XX (GJ 0/XX-3) "add'l money borrowed from LP-8 to buy 431"	0
♣ 12/31/XX (GJ 12/XX-3) "Transfer of Address Building to offset LOC"	0
♣ 12/31/XX (GJ 12/XX-3) "Transfer of "	0
♣ 12/31/XX (GJ 12/XX-3) "Transfer of "	0
♣ 12/31/XX (GJ 12/XX-3) "Transfer of "	0
TOTAL	**$0**

[The $0 aggregate of credits posted to G/L account #22 / NR – LP-1 are discussed above as line of credit reductions occurring in year 20XX from real property transfers.]

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer ORG (“ ”)		**Year/Period Ended** 20XX 20XX 20XX

Facts

15-F. Land, Building & Equipment

Account #36 / Land						
				Amount		
Date	Reference	Journal	Trans Description	Debit	Credit	Balance
02/18/XX	PJ	Gen J	SMT Investors L/P - Purchase of 0% of	0		
03/31/XX	GJ #7	Gen J	Purchase of Property-4	0		
04/30/XX	118	SJ	The Advisory Firm-2 - WAC/WRC Group - Monthly activity in Advisory Firm-2 WAC/WRC for CO-52. - Refund of closing cost on Property-4		0	
04/30/XX	GJ #8	Gen J	Purchase of Property-4	0		
04/30/XX	GJ #8	Gen J	Paydown on Line of Credit-Interest received escrow deposit	0		
04/30/XX	GJ #8	Gen J	Purchase of 0%	0		
04/30/XX	GJ #0	Gen J	Transfer escrow deposit to land, Property-4	0		
0/27/XX	GJ 0/XX - 3	Gen J	Add'l money borrowed from LP-8 to buy 431 - See entries in LP-8 and LP-1	0		
0/31/XX	GJ 0/XX-1	Gen J	Purchase of Building	0		
0/31/XX	GJ 0/XX-1	Gen J	Purchase from CO-6 0% of CG 431	0		
0/31/XX	GJ 0/XX-1	Gen J	Purchase from CO-17 0% of CG 431	0		
11/30/XX	GJ # 11/XX-1	Gen J	Purchase of Property-5	0		
12/31/XX	GJ 12/XX-1	Gen J	Purchase of	0		

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (“ ”)**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

15-F. <u>Land, Building & Equipment</u>

Account #36/ Land						
				Amount		
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**	**Balance**
12/31/XX	GJ 12/XX-3	Gen J	Transfer of Building to offset LOC	0		
12/31/XX	GJ 12/XX-3	Gen J	Transfer of	0		
12/31/XX	GJ 12/XX-3	Gen J	Transfer of	0		
12/31/XX	GJ 12/XX-3	Gen J	Transfer of	0		
12/31/XX	20XX K-1s	Gen J	Reclass from Land to Investment in CO-36		0	
TOTAL				0	0	**0**

Account #37 / Building						
				Amount		
Date	**Reference**	**Journal**	**Trans Description**	**Debit**	**Credit**	**Balance**
12/31/XX	GJ 12/XX-3	Gen J	Transfer of Building to offset LOC	0		**0**

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

Facts

16. Liabilities Reported for Years 20XX-20XX

Year-end liability balances reported by ORG in Forms 990 filed for years 20XX-20XX are identified here.

Form 990, Part IV, Line #	Year 20XX		Year 20XX		Year 20XX	
	$$$	%	$$$	%	$$$	%
60 - Accounts Payable and Accrued Expenses	0	0%	0	0%		
65 – Other Liabilities (IBNR Reserve)			0	0%	0	0%
66 – Total Liabilities	**0**	**0%**	**0**	**0%**	**0**	**0%**

The $0 reported in years 20XX-20XX as Other Liabilities / IBNR Reserve, relate to $0 of IBNR Claims expense discussed above that was part of $0 of incurred claims and experience refunds reported for year 20XX.

ORG's response, dated 7/20/20XX, to Item #14 of IDR 1 (years 20XX-20XX), explained that supporting documentation for the $0 reported as claim expense and offsetting $0 amount reported as Other Liabilities / IBNR Reserve could not be located:

> "This item was based upon the recommendation of the Company's insurance consultants. The Company has not been able to locate the supporting documentation."

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Facts

17. Plan to Liquidate On/Before December 31, 20XX

For tax periods subsequent to 12/31/20XX, non-life insurance companies can qualify as being recognized as tax-exempt under Code § 501(c)(15) if their gross receipts meet two criteria -

(1) Gross receipts for the taxable year do not exceed $0.
(2) More than 0% of such gross receipts consist of premiums.

ORG ceased writing direct policies during year 20XX. This inactivity was consistent with-

- Gross receipts requirements under Code § 501(c)(15) that would became effective on January 1, 20XX.
- ORG's historic pattern of earnings in years 20XX-20XX, where insurance premiums never exceeded 0% of gross receipts. [Discussed above.]
- ORG's audited financials for year 20XX reporting a plan in place to liquidate on / before 12/31/20XX.
- Director-1's resume' acknowledging his intent to liquidate ORG upon determining that better opportunities existed in other investment sectors after years of carrying out limited insurance activities.
- Special meetings held by ORG's Board that discussed liquidating ORG pending an investigation as to whether ORG will acquire insurance opportunities outside the Companies economic group.

During September 20XX, all of ORG's stock was transferred by the sole shareholder, LP-1, to an State corporation named CO-51 under a "transaction qualifying under Section 351 of the Code."

On 4/30/20XX, ORG's successor sole shareholder, CO-51, approved a consent that ORG liquidate no later than December 31, 20XX under a plan of complete liquidation.

Discussed below are a note to ORG's audited financials reporting that ORG intends to liquidate by 12/31/20XX, a verbatim Statement from Director-1's resume' acknowledging an intent to liquidate ORG, special meetings held by ORG's Board of Directors discussing liquidation, the consent by ORG's sole shareholder to liquidate/dissolve, and ORG's Plan of Complete Liquidation.

Note to Audited Financials

Note 16, "Subsequent Events", (at Page 15) of ORG audited financials for year 20XX, reported ORG having a plan to dissolve on/before 12/31/20XX:

"There are plans in place to liquidate the Company as at December

31, 20XX. Liquidating distributions will be made periodically until the end of next year."

Resume' of Director-1

In response to Item #1 of IDR 3 (years 20XX-20XX), Director-1's resume' contained an explanation as to why he intended to liquidate ORG:

> "In light the experience and knowledge gained from his experience in the insurance industry, Director-1 resolved to form a well-capitalized, small insurance company to take advantage of perceived business opportunities [ORG ('ORG')]. His intent was to grow ORG into a successful and thriving insurance company. After years of diligent effort in carrying out limited insurance activities pending pursuit of opportunities to grow through acquisitions or otherwise, Director-1 concluded that there were better opportunities in other investment sectors so ORG was liquidated."

[Emphasis given to underlined areas.]

[Director-1's resume' is illustrated within ***Exhibit 8***.]

ORG Board Meetings

Special meetings held by ORG's Board of Directors on 2/13/20XX, 4/21/20XX, 6/24/20XX, and 4/30/20XX discussed liquidating ORG pending an investigation as to whether ORG will acquire insurance opportunities outside the Companies economic group. On 6/24/20XX, ORG's Board decided to cease writing insurance business, effective as of 6/30/20XX. On 4/30/20XX, ORG's Board decided to liquidate ORG no later than 12/31/20XX. To be noted is that from the first day on which the change in gross receipts criteria under Code § 501(c)(15) became effective – 1/1/20XX – through the date on which ORG decided to cease writing insurance business – 6/24/20XX – ORG did not conduct any insurance business to write additional policies or to renew policies that were in effect during 20XX.

Each board meeting is summarized here.

Facts

17. Plan to Liquidate On/Before December 31, 20XX

Special Meeting of Board / Shareholders Held 2/13/20XX

Present –

- sole shareholder: LP-1
- Directors: Director-1 and Manager-2
- Others for LP-1: Individual-3, CPA

Discussion/Actions –
The discussion, in verbatim below, involved dissatisfaction with ORG's operations for the last 3 years, instructions given to Manager-2 (ORG director) and Individual-3 (CPA for sole shareholder) to investigate acquiring external insurance business, and liquidating ORG in the event that a purchase or equity interest in external insurance business could not be found:

> "After reviewing the operations of ORG for the last three years, the Directors / Shareholder are not satisfied with the growth and direction of ORG; the market was more difficult to penetrate than first anticipated. The Directors discussed various proposals and options for increasing the growth of the business. After lengthy debate, the Directors decided to pursue a 'two-pronged' approach to growing the business.
>
> The Directors instructed Manager-2, and Individual-3 to investigate purchasing an existing insurance company or obtaining an equity interest in a larger, more established insurance company. The strategy would create a permanent source of reinsurance business of known risk that would grow over time. Manager-2 Stated that he already was currently reviewing insurance company purchases and would continue to do so per direction of the Board.
>
> In the event that a purchase or equity interest could not be found, discussion turned to the possibility of liquidating ORG. Although no Director/Shareholder was in favor of liquidating ORG as a first choice of action, they also realized that if they were unsuccessful in finding a suitable acquisition target or equity interest to secure good, stable reinsurance business, the company should be liquidated.

Facts

17. Plan to Liquidate On/Before December 31, 20XX

Director-1 suggested that everyone meet again after Manager-2 and Individual-3 have had an opportunity to investigate and pursue the options discussed."

Next Meeting -
Scheduled for 4/1/20XX. (Actually held on 4/21/20XX.)

[Emphasis given to underlined areas.]

Special Meeting of Board Held 4/21/20XX

Present –

- Directors: Director-1, Director-4, and Manager-2

Discussion/Actions -
Discussed, in verbatim, are possibilities of acquiring two insurance companies, with a report back to be made at the next board meeting:

> "Manager-2 reported to the Board in detail concerning the review of insurance company acquisition opportunities undertaken by himself since the February 13, 20XX Board Meeting. Attention focused in particular on . Director-1 reviewed with the Board the due diligence material that had been obtained on this acquisition opportunity. Manager-2 also reported to the Board that another opportunity had recently surfaced that would be aggressively pursued – CO-53 and its subsidiary, CO-54.
>
> After extensive discussion, the Board directly (sic) Manager-2 to intensify their due diligence efforts concerning both acquisition opportunities, and report back to the Board at the next meeting."

Next Meeting -
Scheduled for 6/24/20XX.

[Emphasis given to underlined areas.]

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	Schedule No or Exhibit
Name of Taxpayer ORG (" ")		**Year/Period Ended** 20XX 20XX 20XX

Facts

17. Plan to Liquidate On/Before December 31, 20XX

Special Meeting of Board Held 6/24/20XX

Present –

- Directors: Director-1, Director-4, and Manager-2

Discussion/Actions -

Discussed, in verbatim, is the ongoing consideration as to acquiring insurance Companies, and to cease writing insurance business effective 6/30/20XX:

> "Manager-2 reported to the Board on the extensive due diligence that had been performed on CO-53 since the last Board meeting. Director-1 indicated there were many positive aspects of this potential acquisistion and reviewed them with the Board. He Stated that there were also several issues of concern with this potential acquisition. Those concerns were discussed in detail by the Board.
>
> Based upon the concerns described, the Board decided to table the transaction for the time being and attempt to locate other promising acquisition opportunities that may not bring with them the concerns Director-1 identified with respect to the transaction. Manager-2 agreed to confer with industry contacts and identify any other possible opportunities that would meet the Company's needs.
>
> The Board unanimously resolved that the Company cease writing insurance business effective June 30, 20XX so that, when the Board examines the Company's options at the next meeting, no further insurance risk will have been taken on to complicate the Board's consideration of alternatives for reorganizing and redeploying the corporation's investment assets.
>
> There being no further business, the meeting was duly adjourned."

[Emphasis given to underlined areas.]

Facts

17. Plan to Liquidate On/Before December 31, 20XX

Special Meeting of Board Held 4/30/20XX

Present –
- Directors: Director-1, Director-4, and Manager-2

Discussion/Actions -
Discussed, in verbatim, was the decision to not pursue acquiring outside insurance business due to unacceptable risk factors, and to terminate operations no later than 12/31/20XX:

> "Manager-2 reported that his search over the last several weeks had resulted in no acquisition opportunities more promising than the transaction. There was a further discussion of the transaction, and the positives and negatives of that transaction were discussed. The Board decided not to pursue the transaction.
>
> The Chairman Stated that the next order of business was discussion of possible liquidation and dissolution of the Company. After discussion, and upon motion duly made and seconded, the following resolution was adopted:
>
> RESOLVED, that considering all business circumstances, that the Board of Directors has determined in its exercise of business judgment that the acquisition opportunities identified by the Company's management should not be undertaken by the Company due to risk factors the Board finds unacceptable;
>
> FURTHER, RESOLVED, that, in the absence of suitable opportunities for either the Company's acquisition of or equity investment in any domestic insurer, the Board of Directors has determined that the Company shall be fully liquidated and dissolved;
>
> FURTHER, RESOLVED, that it is in the best interest of the Company and its sole shareholder that the business and affairs of the Company be terminated and wound up, and the the cash, property, and other assets of the Company be distributed to the sole shareholder of the Company (after payment of or adequate provisions of the Company's debts, taxes, obligations, policy claims, and liabilities, if any) no later than December 31, 20XX;

Facts

17. Plan to Liquidate On/Before December 31, 20XX

FURTHER, RESOLVED, that the directors and officers of the Company shall continue in office solely for the purpose of winding up the business affairs of the Company, and shall take no action which is, or which may be construed to be, inconsistent with the process of complete liquidation and dissolution of the Company;

FURTHER, RESOLVED, that the directors, officers and management of the Company shall be and hereby are, in conjunction with legal counsel and other advisees, authorized and directed to do any and all acts and things (including the execution, attestation, acknowledgment, and delivery of appropriate forms) as they may deem necessary or appropriate in connection with the aforesaid complete liquidation and dissolution of the Company, including but not limited to obtaining any approval required by the Territory Registrar of International Business Companies, the Governor of the Territory of the Territory, the Territory Financial Services Department, or the Territory Commissioner of Insurance, and making any and all filings as may be required with the Internal Revenue Service and any other governmental agencies.

FURTHER, RESOLVED, that the Plan of Liquidation in the form attached hereto as Exhibit A is hereby approved and adopted by the Board of Directors and shall be submitted to the sole shareholder for approval.

There being no further business, the meeting was duly adjourned."

[Minutes of ORG Board meetings held on 2/13/20XX, 4/21/20XX, 6/24/20XX, and 4/30/20XX are illustrated within ***Exhibits 30A, 30B, 30C, and 30D***.]

Facts

17. Plan to Liquidate On/Before December 31, 20XX

Consent Approved by Sole Shareholder, on 4/30/20XX for ORG to Liquidate

On 4/30/20XX, ORG's sole shareholder, CO-51, simultaneously approved a Consent for ORG to liquidate and dissolve.

ORG's correspondence, dated 11/15/20XX, responding to IDR 4 (years 20XX-20XX), informed that CO-51 became ORG's sole shareholder in September 20XX by a stock transfer qualifying under Code §351:

> "In September, 20XX, LP-1 transferred all of the stock of the Company to CO-51, an State corporation, in exchange for CO-51 stock in a transaction qualifying under Section 351 of the Code. The shareholder consent of CO-51 is found at Tab 7."

The Consent approved by CO-51 was signed by Manager-2 (son of ORG director, Director-1), as President of CO-51, on 4/30/20XX, and is given in verbatim below.

> BACKGROUND: The Board of Directors has recommended that the Company be fully liquidated and dissolved, and has approved a Plan of Liquidation in the form attached hereto as Exhibit A (the "Plan"). The Board of Directors has submitted the Plan to the sole shareholder for its review and approval.
>
> NOW, THEREFORE, BE IT:
>
> RESOLVED, that it is in the best interest of the Company that the business and affairs of the Company be terminated and wound up, and that the cash, property, and other assets of the Company be distributed to the sole shareholder of the Company (after payment of or adequate provisions of the Company's debts, taxes, obligations, policy claims, and liabilities, if any) no later than December 31, 20XX:

Facts

17. Plan to Liquidate On/Before December 31, 20XX

FURTHER, RESOLVED, that the directors and officers of the Company shall continue in office solely for the purpose of winding up the business affairs of the Company, and shall take no action which is, or which may be construed to be, inconsistent with the process of complete liquidation and dissolution of the Company;

FURTHER, RESOLVED, that the directors, officers and management of the Company shall be, and hereby are, in conjunction with legal counsel and other advisees, authorized and directed to do any and all acts and things (including the execution, attestation, acknowledgment, and delivery of appropriate forms) as they may deem necessary or appropriate in connection with the aforesaid complete liquidation and dissolution of the Company, including but not limited to obtaining any approval required by the Territory Registrar of International Business Companies, the Governor of the Territory of the Territory, the Territory Financial Services Department, or the Territory Commissioner of Insurance, and making any and all filings as may be required with the Internal Revenue Service and any other governmental agencies.

FURTHER, RESOLVED, that the Plan is hereby approved and adopted.

Dated as of the 30th day of April, 20XX.

CO-51, an State corporation

by Manager-2, President (signed)

[The Shareholder Consent of ORG sole shareholder, CO-51, approved and adopted on 4/30/20XX, is illustrated within ***Exhibit 31***.]

Facts

17. Plan to Liquidate On/Before December 31, 20XX

Plan of Complete Liquidation

The Plan of Liquidation referred to in ORG's special board meeting held on 4/30/20XX and in the Consent approved by CO-51 on 4/30/20XX contains 11 Articles, given here in verbatim.

[1] Plan of Liquidation
ORG a Territory International Business Company (the "Company"), has issued and outstanding zero (0) common shares, of the par value of Zero and no/00 Dollars ($0) each. The Company intends to cease the active conduct of its business and wind up its affairs, and this Plan is intended to accomplish the liquidation and distribution of all of the Company's assets in complete liquidation, less any assets retained to meet claims, on or before December 31, 20XX.

[2] Approval
The Plan shall be considered adopted by the Company when it has been approved by its board of directors and sole shareholder.

[3] Cessation of Business
Effective June 30, 20XX, the Company ceased writing any new insurance business and has not conducted any insurance business other than administration and payment of claims. The Company shall continue its efforts to wind up the insurance business and its investment activity shall be consistent with the winding up and liquidation of the Company.

[4] Winding Down
The Company's board of directors shall manage the winding up of the Company and the distribution of its assets to shareholders. Once that process is concluded, the Company hereby appoints PROFESSIONAL SERVICE COMPANY, from and after that date, to serve as liquidator for the Company to effectuate the final liquidation of the Company.

Facts

17. Plan to Liquidate On/Before December 31, 20XX

[5] Authorization of Terms of Sale

After the Plan has thus been adopted and approved, the board of directors, subject to Liquidator's supervision, shall proceed to accomplish the liquidation of the Company by a sale of those of its assets and properties as the sole shareholder does not wish to receive in-kind for such consideration and upon such terms and conditions as may be determined to be in the best interest of the Company and its sole shareholder. The proposed terms and conditions of any such sale shall be submitted to the sole shareholder and no agreement for sale shall be executed or delivered on behalf of the Company until such sale and the terms and conditions thereof have been authorized by the sole shareholder. The Company shall pay, or make adequate provision for, the full amount of all creditor claims and policyholder claims and shall make no distribution of amounts to the sole shareholder that are required to pay in full all claims and potential claims of creditors and policyholders.

[6] Interim Distributions

The board of directors of the Company may from time to time authorize one or more distributions of property of the Company, in cash or in kind, in a series of distributions in complete liquidation, retaining such assets as they may dem necessary to meet claims or liabilities of the Company, and to continue the operation of such properties of the Company as have not been sold at the time of any such intermediate distribution. Notwithstanding the foregoing, the Company's admitted assets and statutorily required capital shall not be distributed until all claims have been paid on policies written by the Company and all requirements of the Territory Insurance Code have been satisfied.

[7] Final Distribution

Final distribution to the sole shareholder shall occur no later than 12/31/20XX.

[8] Cancellation of Outstanding Shares

Each of the foregoing distributions which constitutes a series of partial liquidations or one complete liquidation shall be in exchange solely for, and a complete redemption and cancellation of, and in complete payment for, all of the outstanding common shares of the Company, and sole shareholder shall, if the board of directors so determines, surrender their certificates for such shares for recording thereon receipt of distributions prior to the final distribution, and shall surrender such certificates for cancellation upon receipt of the final distribution contemplated herein.

Facts

17. <u>Plan to Liquidate On/Before December 31, 20XX</u>

[9] <u>Dissolution</u>
The officers and directors of the Company shall proceed with the voluntary dissolution of the Company under the laws of TERRITORY at such time as they may deem appropriate prior to December 31, 20XX.

[10] <u>Authorization of Necessary Acts</u>
The officers and directors of the Company are authorized, empowered, and directed to do any and all things in its name, including the execution and filing of all necessary documents to carry out the purposes and intentions of this Plan, which they deem necessary or advisable. The officers and directors shall be held harmless by the Company for any action under the Plan taken in good faith, and any expense or liability so incurred by them shall be that of the Compnay.

[11] <u>Intent</u>
It is intended that this Plan of Complete Liquidation shall be a plan of complete liquidation within the terms of Sections 332 and 337 of the Internal Revenue Code of 1954, as amended. This Plan shall be deemed to authorize such action as, in the opinion of counsel for the Company, may be necessary to conform with the provisions of those Sections.

[ORG's Plan of Complete of Liquidation is illustrated within ***Exhibit 32***.]

Code Sections 501(a) and 501(c)(15)

For taxable years prior to 2004, I.R.C. § 501 provides that certain entities are exempt from taxation. Included in these entities are "[i]nsurance companies or associations other than life (including interinsurers and reciprocal underwriters) if the net written premiums (or, if greater, direct written premiums) for the taxable year do not exceed $350,000." [I.R.C. § 501(c)(15)(A)].

For taxable years beginning after December 31, 2003, section 501(c)(15) (A)(i) provides, in relevant part, for exemption for "insurance companies other than life (including interinsurers and reciprocal underwriters) if (i) (I) the gross receipts for the taxable year do not exceed $600,000 and (ii) more than 0 percent of such gross receipts consist of premiums." For purposes of determining gross receipts, the gross receipts of all members of a controlled group of which the company is part are taken into account.

The Joint Committee Report for H.R. 308 States:

> A company that does not meet the definition of an insurance company is not eligible to be exempt from Federal income tax under the provision. For this purpose, the term "insurance company" means any company, more than half of the business of which during the taxable year is the issuing of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies (sec. 816(a) and new sec. 831(c). A company whose investment activities outweigh its insurance activities is not considered to be an insurance company for this purpose. See, e.g. *Inter-American Life Insurance Co. v. Commissioner*, 56 T.C. 497, aff'd per curiam, 469 F.2d 697 9th Cir. 1972). It is intended that IRS enforcement activities address the misuse of present-law section 501(c)(15).

Definition of an "Insurance Company"

Neither I.R.C. § 501(c)(15) nor its corresponding regulations define an "insurance company." Subchapter L of the Code (I.R.C. §§ 801-848), however, addresses the taxation of insurance companies. The term "insurance company" has the same meaning under section 501(c)(15) as it does in Subchapter L. See H. Conf. Rep. No. 99-841, 99th Cong., 2nd Sess. (Vol. II) 370-71, reprinted in 1986-3 (Vol.4) C.B. 370-71.

I.R.C. § 816 (formerly I.R.C. § 801) defines a life insurance company. As part of this definition, I.R.C. § 816 provides, "the term 'insurance company' means any company more than half of the business of which during the taxable year is the issuing of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies."

Treas. Reg. § 1.801-3(a)(1) defines an insurance company as,

> A company whose primary and predominant business activity during the taxable year is the issuing of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies. Thus, though its name, charter powers, and subjection to State insurance laws are significant in determining the business which a company is authorized and intends to carry on, it is the character of the business actually done in the taxable year which determines whether a company is taxable as an insurance company under the Internal Revenue Code.

Treas. Reg. § 1.801-3(a)(1)(emphasis added). See also, Bowers v. Lawyers Mortgage Co., 285 U.S. 182 (1932).

The IRS has not ruled on whether the more stringent "greater than half" test set forth in I.R.C. § 816 applies to an insurance company other than a life insurance company. Instead, to determine whether a non-life insurance company qualifies as an insurance company for tax purposes, the "primary and predominant business activity" test set forth in Treas. Reg. § 1.801-3(a)(1) applies. See Rev. Rul. 68-27, 1968-1 C.B. 315.

The courts and the IRS have also, at times, looked to whether the transaction has characteristics traditionally associated with insurance, and whether the company conducts business like an insurance company. Several courts have addressed the issue of whether a company qualifies as an insurance company based on the company's primary and predominant business activity. The seminal case addressing this issue is Bowers v. Lawyers Mortgage Co., 285 U.S. 182 (1932). In Bowers, the Supreme Court determined that the taxpayer was primarily engaged in "the lending of money on real-estate security, the sale of bonds and mortgages given by borrowers and use of the money received from purchasers to make additional loans similarly secured." Bowers, 285 U.S. at 188-89. Although the taxpayer in Bowers earned "premiums" that amounted to approximately one-third of its income for the taxable years at issue, these premiums were attributable to the excess of the interest paid to the taxpayer by borrowers over the amount the taxpayer paid the purchasers to whom it subsequently sold bonds and mortgages. Id. at 188 n.5. The premiums also included fees the taxpayer charged for guaranteeing mortgage loans which it did not make or sell. Id. at 186. The Court noted that the "premiums" the taxpayer earned included agency and other services provided by the taxpayer which were not generally provided under traditional insurance contracts. Id. at 189.

Because the taxpayer's premium income was incidental to its business of lending money, the Bowers Court held that the taxpayer was not an insurance company for tax purposes. Id. at 190. The Court explained, "[t]he lending fees, extension fees and accrued interest appertain to the business of lending money rather than to insurance, and may not reasonable be attributed to the subordinate element of guaranty in [taxpayer's] mortgage loan business." Id. at 189. Cf. United States v. Home Title Insurance Co., 285 U.S. 191 (1932) (holding that taxpayer was insurance company where taxpayer derived over 75% of its income from the insurance of titles and guarantees of mortgages).

In Inter-American Life Ins. Co. v. Commissioner, 56 T.C. 497 (1971), aff'd per curiam, 469 F.2d 697 (9th Cir. 1972), the taxpayer issued and reinsured 17, 280, 325, and 424 insurance policies earning premiums totaling $867.94, $1,554.76, $1,125.70, and $1,421.98 during the taxable years 1958, 1959, 1960, and 1961, respectively. Inter-American, 56 T.C. at 507. Virtually all of the reinsurance contracts issued by the taxpayer came from another insurance company which was owned by the same two shareholders as the taxpayer. Id. Similarly, almost all of the directly written insurance policies issued by the taxpayer were issued to the same two shareholders of the taxpayer. Id. The taxpayer also engaged in the sale of real property and stock, earning investment income totaling $35,988.21, $31,195.60, $36,436.04, and $33,815.44 over the four years at issue. Id.

In Inter-American, the Tax Court compared the taxpayer's income from its insurance-related activities to its income from other activities, and held that the taxpayer was not an insurance company. According to the Tax Court, the insurance premiums the taxpayer earned were *de minimis*, comprising less than 0% of the taxpayer's gross investment income. Id. In addition, the taxpayer had no sales force in place to sell insurance contracts. Id. The Tax Court concluded that, because the taxpayer's primary and predominant source of income was from its investments, and because the taxpayer did not focus its primary and predominant efforts in pursuit of its insurance business, it was not an insurance company. Id. at 508.

The Tax Court also acknowledged that it was cognizant of the "problems indigenous to new life insurance companies, in particular, that the initial years of a new life insurance company's operations are generally difficult because the initial expenses incurred in 'putting policies on the books' are greater than the premium received" Id. (citing S. Rept. No. 291, 86th Cong., 1st Sess. (1959), 1959-2 C.B. 779). The Court explained, however, that it was basing its decision on the fact that the taxpayer did not focus its "capital and efforts primarily" on its insurance business, not on the fact that the taxpayer's insurance business was not profitable. Id. (citing Cardinal Life Ins. Co. v. United States, 300 F. Supp. 387 (N.D. Tex. 1969).

In Cardinal Life Ins. Co. v. United States, 300 F. Supp. 387 (N.D. Tex. 1969), rev'd on other grounds, 425 F.2d 1328 (5th Cir. 1970), the taxpayer earned no income from insurance in two of the five years under examination, and earned .66%, .87% and 9.10% of its total income from insurance during the remaining three taxable years at issue. Cardinal Life, 300 F. Supp. at 389. Instead, the taxpayer earned a majority of its income from dividends, interest, rent and capital gains. Id. Like Inter-American, the taxpayer in Cardinal Life failed to employ any brokers, solicitors, agents or salesmen. Id. It did, however, pay an actuary on a fee basis to determine the amounts of its premiums. Id. The Court noted that the taxpayer's income from insurance policies was "insignificant" compared to the total income earned by the taxpayer, explaining,

> While Plaintiff's insurance activities were insignificant, it was generating substantial income from dividends on stocks, rental income on real estate, rental income on trailers, interest income and capital gains upon disposal of real estate and stocks. These types of income constitute … personal holding company income which Congress has specifically Stated is subject to a tax in addition to ordinary income tax. The Plaintiff is seeking to remove itself from the grasp of the personal holding company provisions by claiming life insurance company status through the issuance of a small and insignificant amount of insurance contracts.

Id. at 382.

In Industrial Life Ins. Co. v. United States, 344 F. Supp. 870 (D.S.C. 1972), aff'd per curiam, 481 F.2d 609 (4th Cir. 1973), the Fourth Circuit rejected the taxpayer's claim that it was an insurance company where the taxpayer earned 0% of its income from selling credit life insurance and issuing life insurance policies to its officers, and the balance of its income from its investment portfolio and the sale and leasing of real estate. The court explained,

> It is obvious from the financial information … that the premium income for these years was small when compared with income from real estate, mortgages and investment.
>
> It is also important to note that more than half of the premium income came from policies on the lives of the only officers and stockholders of the company.

Id. at 876. The Court likened the facts of Industrial Life to those of Cardinal Life. Id.

By contrast, in Service Life Ins. Co. v. United States, 189 F. Supp. 282 (D. Neb. 1960), aff'd on other grounds, 293 F.2d 78 (8th Cir. 1961), the Court held that the taxpayer was an insurance company where it had "over $22,000,000 worth of life insurance on its books; over 70,000 individual policies in force; and approximately $1,675,000 in premium income" over a four year period. Id. at 286. The Service Life Court acknowledged that whether a company is considered an insurance company turns on the character of the business conducted by the company, not any percentage of income. Id. at 285-86. The Court did, however, compare the taxpayer's premium income to its investment income to determine the business activity of the taxpayer. Id. at 286. Although the taxpayer also generated income from mortgage loans and investments, over half of the taxpayer's income was from its insurance premiums, and over half of its income-producing assets were held for insurance policy reserves. Id.

What Constitutes "Insurance" and an "Insurance Contract"

The principal test for what constitutes "insurance" is set out in Helvering v. LeGierse, 312 U.S. 531 (1941). In that case the Supreme Court States that "[h]istorically and commonly insurance involves risk-shifting and risk-distribution...." Further, the Court Stated that "the risk must be an 'insurance risk' as opposed to an 'investment risk' ...." The court in Epmeier v. United States, 199 F.2d 508, 509-0 (7th Cir. 1952), defined an insurance contract as a "contract, whereby, for an adequate consideration, one party undertakes to indemnify another against loss from certain specified contingencies or perils...."

Neither the Internal Revenue Code nor the regulations specifically define the term insurance contract. The courts have generally required that a transaction involve both risk shifting (from the insured's perspective) and risk distribution (from the insurer's perspective) in order to be characterized as insurance. Helvering v. LeGierse, 312 U.S. 531, 539 (1941); Gulf Oil Corp. v. Commissioner, 914 F.2d 396, 411 (3rd Cir. 1990).

Risk shifting occurs when a person facing the possibility of a loss transfers some or all of the financial consequences of the loss to the insurer. Rev. Rul. 88-72, 1988-2 C.B. 31, clarified by Rev. Rul. 89-61, 1989-1 C.B. 75. The risk transferred pursuant to an insurance contract must be a risk of economic loss. Allied Fidelity Corp. v. Commissioner, 66 T.C. 068 (1976), aff'd., 572 F.2d 1190 (7th Cir. 1978), cert. denied, 439 U.S. 835 (1978).

Risk distribution incorporates the statistical phenomenon known as "the law of large numbers". When additional statistically independent risk exposure units are insured, although the potential total losses increase, there is also an increase in the predictability of average loss. This increase in the predictability of the average loss decreases the amount of the capital that an insurance company needs per risk unit to remain at a given solvency level. See Rev. Rul. 89-61, 1989-1 C.B. 75.

Distributing risk allows the insurer to reduce the possibility that a single costly claim will exceed the amount taken in as premiums and set aside for the payment of such a claim. By assuming numerous relatively small, independent risks that occur randomly over time, the insurer smooths out losses to match more closely its receipt of premiums. Clougherty Packing Co. v. Commissioner, 811 F.2d 1297, 1300 (9th Cir. 1987).

Risk distribution necessarily entails a pooling of premiums, so that a potential insured is not in significant part paying for its own risks. In Humana Inc. v. Commissioner, 881 F.2d 247, 257 (6th Cir. 1989), the United States Court of Appeals for the Sixth Circuit held that arrangements between a parent corporation and its insurance company subsidiary did not constitute insurance for federal income tax purposes. The court also held, however, that arrangements between the insurance company subsidiary and several dozen other subsidiaries of the parent (operating an even larger number of hospitals) qualified as insurance for federal income tax purposes because the requisite risk shifting and risk distribution were present. But see Malone & Hyde, Inc. v. Commissioner, 62 F.3d 835 (6th Cir. 1995) (concluding the lack of a business purpose, the undercapitalization of the offshore captive insurance subsidiary and the existence of related party guarantees established that the substance of the transaction did not support the taxpayer's characterization of the transaction as insurance). In Kidde Industries, Inc. v. United States, 40 Fed. Cl. 42 (1997), the United States Court of Federal Claims concluded that an arrangement between the captive insurance subsidiary and each of the 00 operating subsidiaries of the same parent constituted insurance for federal income tax purposes. As in Humana, the insurer in Kidde insured only entities within its affiliated group during the taxable years at issue.

Rev. Rul. 2002-90, I.R.B. 2002-52, December 0, 2002, held that a subsidiary's arrangement to provide liability insurance coverage to 12 of its parent company's subsidiaries constituted insurance contracts for federal tax purposes and, thus, the amounts paid as premiums by each subsidiary were deductible as business expenses. Under the arrangement, the subsidiaries were charged arm's length premiums, according to customary industry ratings, and none had liability coverage for less than 5 percent, or more than 15 percent, of the total risk insured by the subsidiary. As a result, the professional liability risks of the 12 subsidiaries were shifted to the insurer subsidiary as required to constitute an insurance contract for federal tax purposes. The common ownership of the subsidiaries, including the insurer, by the parent, did not affect the determination that the arrangements constituted insurance contracts.

Reliance Upon and Revocation of IRS Determination Letter

The exempt status of an organization may be recognized by the Internal Revenue Service through the application process described in Rev. Proc. 90-27, 1990-1 C.B. 514. Although not required to apply for a determination letter in order to claim exempt status, organizations seeking recognition of exemption from the Internal Revenue Service under I.R.C. § 501(c)(15) must file a Form 1024, Application for Recognition of Exemption under Section 501(a).

A determination letter recognizing tax exempt status is issued by the Internal Revenue Service to an organization where its application and supporting documents establish that it meets the requirements of the category of exemption it claims. Rev. Proc. 90-27, § 5.01, 1990-1 C.B. 514. All information by the applicant must be provided under penalties of perjury. Rev. Proc. 2003-4, § 9.13, 2003-1 I.R.B. 123, 140-141. The application process ends with the issuance of a determination letter. A "determination letter" is a written Statement issued by the Internal Revenue Service in response to a written inquiry by an individual or an organization that applies to the particular facts. Treas. Reg. § 601.201(a)(3).

An organization may ordinarily rely on a favorable determination letter received from the Internal Revenue Service. Treas. Reg. § 1.501(a)-1(a)(2); Rev. Proc. 2003-4, §14.01 (cross-referencing § 13.01 et seq.), 2003-1 C.B. 123. An organization may not rely on a favorable determination letter, however, if the organization omitted or misstated a material fact in its application or in supporting documents. In addition, an organization may not rely on a favorable determination if there is a material change, inconsistent with exemption, in the organization's character, purposes, or methods of operation after the determination letter is issued. Treas. Reg. § 601.201(n)(3)(ii); Rev. Proc. 90-27, § 13.02, 1990-1 C.B. 514. Any such changes must be reported to the Service so that continuing recognition of exempt status can be evaluated. [The determination letter issued to ESP contains this requirement.]

The Commissioner may revoke a favorable determination letter for good cause. Treas. Reg. § 1.501(a)-1(a)(2). A favorable determination letter may be revoked by written notice to the organization to whom the determination originally was issued. Treas. Reg. § 601.201(m) (cross-referencing Reg. § 601.201(l)); Rev. Proc. 90-27, § 14, 1990-1 C.B. 514, 518.

If the Commissioner revokes the tax-exempt status of an organization, the remaining question is whether the revocation should be applied prospectively or retroactively. Generally, revocation of a determination letter is prospective. Rev. Proc. 2003-4, § 14.01 (cross-referencing § 13.01 et seq.). Revocation of a determination letter may, however, be retroactive if the organization omitted or misstated a material fact or operated in a manner materially different from that originally represented. Treas. Reg. § 601.201(n)(6)(i); Rev. Proc. 90-27, §14.01; Rev. Proc. 2003-4, § 14.01 (cross-referencing § 13.01 et seq.).

In cases where the organization omitted or misstated a material fact, revocation may be retroactive to all open years under the statute. See Treas. Reg. § 601.201(l)(1). In cases where revocation is due to a material change, inconsistent with exempt status, in the character, the purpose, or the method of operation, revocation will ordinarily take effect as of the date of the material change. Treas. Reg. § 601.201(n)(6)(i); Rev. Proc. 90-27. In any event, revocation will ordinarily take effect no later than the time at which the organization received written notice that its exemption ruling or determination letter might be revoked. Treas. Reg. § 601.201(n)(6)(i).

Qualification for Relief Under Code Section 7805(b)

Under certain circumstances, however, the Commissioner may, in his discretion, grant relief from retroactive revocation under I.R.C. § 7805(b) of the Code. Section 7805(b)(8) of the Internal Revenue Code provides:

> APPLICATION TO RULINGS. The Secretary may prescribe the extent, if any, to which any ruling (including any judicial decision or any administrative determination other than by regulation) relating to the internal revenue laws, shall be applied without retroactive effect. Section 301.7805-1(b) of the regulations delegates authority granted by I.R.C. § 7805(b) to the Commissioner (or the Commissioner's delegate).

An organization that wishes to limit the retroactive effect of revocation must request that the Commissioner, Tax Exempt and Government Entities Division, the Commissioner of Internal Revenue's delegate, exercise discretionary authority under I.R.C. § 7805(b) to limit the retroactive effect of revocation. Rev. Proc. 2003-4, § 14.02. To make such a request, the organization must follow the procedures provided for in Rev. Proc. 2003-4, § 14.02 (cross-referencing Rev. Proc. 2003-5, § 19, 2003-1 C.B. 163).

To request I.R.C. § 7805(b) relief, the organization must submit a Statement in support of the application of I.R.C. § 7805(b), as described in Rev. Proc. 2003-4, §14.02. See also Rev. Proc. 2003-5, § 19. The organization's Statement must expressly assert that the request is being made pursuant to I.R.C. § 7805(b). The organization's Statement must also indicate the relief requested and give the reasons and arguments in support of the relief requested. It must also be accompanied by any documents bearing on the request. The organization's explanation and arguments should discuss the five factors bearing on retroactivity listed in Rev. Proc. 2003-4, §14.02(1) (cross-referencing § 13.05), as they relate to the situation at issue. These five items are, in effect, the same as the factors provided in Treas. Reg. §§ 601.201(l)(5) and 601.201(m), Statement of Procedural Rules, which States:

> Except in rare or unusual circumstances, the revocation or modification of a ruling will not be applied retroactively with respect to the taxpayer to whom the ruling was originally issued or to a taxpayer whose tax liability was directly involved in such ruling if:
>
> (1) there has been no misstatement or omission of material facts;
>
> (2) the facts at the time of the transaction are not materially different from the facts on which the [determination letter] was based;
>
> (3) there has been no change in the applicable law;
>
> (4) the [determination letter] was originally issued for a proposed transaction; and
>
> (5) the taxpayer directly involved in the [determination letter] acted in good faith in reliance upon the [determination letter] and revoking or modifying the [determination letter] retroactively would be to the taxpayer's detriment.

If relief is granted under I.R.C. § 7805(b), the effective date of revocation of a determination letter is no later than the date on which the organization first received written notice that its exemption might be revoked. Treas. Reg. § 601.201(n)(6)(i); Virginia Education Fund v. Commissioner, 85 T.C. 743, 7522-3 (1985), aff'd 799 F. 2d 903 (4th Cir. 1986). This does not preclude the effective date of revocation being earlier than the date on which the organization first received written notice that its exemption might be revoked. Virginia Education Fund v. Commissioner, 85 T.C. at 753.

The Supreme Court has held that the Commissioner has broad discretion under I.R.C. § 7805(b) (and its predecessor) in deciding whether to revoke a ruling retroactively. Automobile Club of Michigan v. Commissioner, 353 U.S. 180, 184 (1957). See also Dixon v. United States, 381 U.S. 68, 74-75 (1965). The Commissioner's determination is reviewable by the courts only for abuse of that discretion. Virginia Education Fund v. Commissioner, 85 T.C. 743, 752 (1985).

1. ORG Does Not Meet the Definition of an Insurance Company Under I.R.C. § 501(c)(15)

To be exempt from federal income tax under I.R.C. section 501(a) as an entity described in I.R.C. section 501(c)(15), the entity must be an insurance company or association, other than life (including inter-insurers and reciprocal underwriters). In addition, it must meet a premium income requirement.

The government holds that ORG did meet the definition of an "insurance company or association" for purposes of I.R.C. §501(c)(15) during the period(s) covered within this report. Facts discussed below supporting this conclusion show that –

[a] Investments were ORG's primary and predominant activity

[b] ORG failed to use its capital and efforts primarily to earn income from its insurance activity.

[c] ORG insurance policies lacked risk shifting and risk distribution

a. Investments were ORG's Primary and Predominant Activity

Here, ORG should not be classified as an insurance company for tax purposes because its primary and predominant activity was investments, not insurance. This is evidenced by ORG's sources of revenue, where revenue from ORG's sales of real property interests was 0% and 0% of aggregate revenue, respectively for years 20XX-20XX; and investment revenue was 0% of aggregate revenue for year 20XX.

ORG's reported revenue for 20XX-XX is summarized below.

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Name of Taxpayer ORG (" ")	**Government's Position**	**Year/Period Ended** 20XX 20XX 20XX

Form 990, Part I, Line #	Year 20XX		Year 20XX		Year 20XX	
	$$$	*%*	*$$$*	*%*	*$$$*	*%*
2 - Program Service Revenue						
> Premiums Written			0	0.0%	0	0.0%
> Premiums Assumed			0	0.0%	0	0.0%
4 - Interest on Savings / Temp Cash Inv			0	0.0%		
5 - Dividends and Interest	0	0.0%				
6. Net Rental Income					0	0.0%
7 - Other Investment Income			0	0.0%	0	0.0%
8 - Net Gain from Sale of Non-Inventory Assets						
Securities			-0	0.0%	-0	-0.0%
Non-Securities	0	0.0%	0	0.0%	0	0.0%
11 - Other Revenue						
> Premiums Insurance	0	0.0%				
> Premiums Subject to Reinsurance	0	0.0%				
➢ Misc. Revenue – Line of Credit Fee	0	0.0%				
12 - Total Revenue	**0**	**00%**	0	**00%**	**0**	**00%**

ORG's sales of real property interests in 20XX-20XX (Line #8), clearly involved a pattern of investment activity beginning in year 20XX and continuing through year 20XX, whereby property interests having a low basis were contributed by ORG's sole shareholder, the LP-1, and sold by ORG for substantial tax-sheltered gains in the following year. This pattern of investment activity involved businesses controlled/owned by Director-1 Family members.

On 12/29/20XX, the LP-1 contributed to ORG, one-third interests in two properties having a total basis of $0–

- ♣ Property-1 - County County, State ($0)
- ♣ Property-2 – County County, State ($0)

During year 20XX, ORG sold the one-third interests in these properties to obtain the $0 net gain reported in Form 990 (Line #8). Five limited partnerships and one limited liability company controlled/owned by Director-1 Family members purchased the one-third interests in these properties. The remaining two-thirds interests in these properties were sold by ORG's Territory captive affiliates – CO-7 and CO-5 – that were also controlled/owned by Director-1 Family members.

On 12/31/20XX, the LP-1 contributed to ORG a one-third interest in property described as "Property-3", within County County, State, having a basis of $0. During year 20XX, ORG sold its one-third interest in this property to obtain the $0 gain reported in Form 990 (Line #8). The CO-6, one of the five limited partnerships that purchased property interests from ORG in year 20XX, was the sole purchaser of this property interest.

Minutes of ORG's Board meeting held on 2/17/20XX evidence this pattern of investment activity, where assets and net income were noted to have increased substantially as a result of ORG's sale of the Property-3 property interest, which was referred to as appreciated property carried on the books at basis:

> "It was noted that the Company now has $0 in Assets compared with $0 in the prior year. The increase is mainly a result of the sale of appreciated property (Property-3) which was carried on the books at basis. The breakdown of total assets is as follows:
>
> Cash and cash equivalents: $0 – Cash and money market account
> Investments and Receivables: $0 – Money invested in real estate and real estate investment companies
>
> In 20XX, the Company made additional investments in companies whose business is real estate investment. These companies loan money secured by real estate.

> Manager-2 completed his review of the balance sheet and then conducted a brief review of the Income Statement for the year noting the Company showed Net income of $0 compared with $0 in the prior year. This was mainly attributable to the sale of Property-3. Total investment revenue was $0 compared with $0 for the prior year."

[Emphasis added to above underlined areas.]

This pattern of investment activity is further evident in the minutes of ORG's Board meeting held on February 9, 20XX, where ORG's Board acknowledged that a substantial decrease in net income resulted from sales of interests in appreciated real property not recurring in year 20XX:

> "The balance sheet review was finished and then a brief review of the Income Statement for the year was conducted. It was noted that the Company showed a net loss of $0 compared with net income of $0 in the prior year. The decrease is due to the sale of appreciated property in prior years not recurring this year. Total investment revenue was $0 compared with $0 in the prior year. Premium income for the year was $0 compared with $0 for the prior year."

[Emphasis added to underlined area.]

ORG's investment operations were also evident within its Other Investment income that came from equity held in limited liability companies whose business was real estate investment (see ORG Board meetings held on 2/17/20XX and 2/9/20XX). These LLCs were described in ORG audited financials as "associates", "affiliates", and "subsidiaries"; and were explained by ORG to have been formed for the purpose of making an investment in a specific real property loan or to make a specific real estate investment. ORG reported its Other Investment income from this source on Part I – Line #7 as $0 for year 20XX and $0 for year 20XX.

b. ORG Failed to Use its Capital and Efforts Primarily to Earn Income from its Insurance Activity.

The courts also consider the manner in which the company conducts its business activities in determining whether it qualifies as an insurance company for federal income tax purposes. A taxpayer "must use its capital and efforts primarily in earning income from the issuance of contracts of insurance." Cardinal Life, 300 F.Supp. at 391.

ORG's capital and efforts were not focused primarily on insurance operations, as supported by having only two direct-written policies in effect during 20XX-20XX, and having only five direct-written policies in effect during 20XX.

In addition to the low volume of direct-written insurance activity during 20XX-20XX, other facts reveal that ORG's capital and efforts were focused substantially upon investments rather than conducting insurance -

[1] ORG was substantially over-capitalized relative to its insurance activities.

[2] ORG's expenses were not directed towards marketing and/or promoting an insurance program, but rather towards investments within the diversified conglomerate of businesses known as the "Companies". [The term "Companies" is defined within ORG's Business Plan.]

[3] ORG did not use any internal or independent actuarial risk analysis to determine premium charges for its direct-written policies.

[4] ORG treated its insurance arrangements informally.

[5] ORG ceased writing insurance when the change in gross receipts requirements became effective to qualify as a non-life insurance company under Code § 501(c)(15).

First, ORG failed to use its capital and efforts primarily to earn income from its insurance activity by being substantially over-capitalized relative to its insurance activities. Short-term cash investments (e.g., money market funds) that could be liquidated quickly to make real-estate related loans were a substantial portion of asset balances in years 20XX-20XX. These short-term investments in years 20XX-20XX came from the tax-sheltered gains that ORG realized from selling property interests acquired from its sole shareholder, the LP-1.

Account receivable and notes/loans receivable balances increased substantially during 20XX-20XX, supporting that ORG loaned its funds from the tax-sheltered gains to benefit investments within the diversified conglomerate of businesses known as the "Companies".

The summary of asset balances reported for years 20XX-20XX, given below, discloses short-term cash investments decreasing while receivable balances increased.

Form 990, Part IV, Line #	**Year 20XX**		**Year 20XX**		**Year 20XX**	
	$$$	%	**$$$**	%	**$$$**	%
46 - Savings & Temp. Cash Inv.	0	0.00%	0	0.00%	0	0.00%
54 - Securities Investments	0	0.00%	0	0.00%	0	0.00%
55 - Investments - Land/Building/Equip.	0	0.00%	0	0.00%	0	0.00%
56 - Other Investments	0	0.00%	0	0.00%	0	0.00%
57 – Land / Building/ Equipment	0	0.00%	0	0.00%	0.00	0.00%
Total Investment Assets	0	**0.00%**	**0**	**0.00%**	**0**	**0.00%**
45 - Non-Interest Bearing Cash	0	0.00%	0	0.00%		
47 - Accounts Receivable	0	0.00%	0	0.00%	0	0.00%
51 - Other Notes/Loans Rec.			0	0.00%	0	0.00%
57 - Land/Building/Equipment			0	0.00%		
58 - Other Assets (Line of Credit)	0	0.00%	0	0.00%		
59 - Total Assets	**0**	**0.00%**	**0**	**00.0000%**	**0**	**0.00%%**

Further evidence of ORG being substantially over-capitalized relative to its insurance activities was ORG's management not believing that a loss reserve for its policies was necessary. Having no reserve set aside to cover policy losses demonstrates that ORG's assets were not dedicated towards insurance operations, but rather towards investments within the diversified conglomerate of businesses known as the "Companies".

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Name of Taxpayer **ORG (" ")**	**Government's Position**	**Year/Period Ended** **20XX** **20XX** **20XX**

Notes within ORG's audited financials report that ORG's management did not believe that a reserve for policy losses was necessary. For example, Note 2(e), "Loss Reserve" (at Page 10) of ORG audited financials for year 20XX stated:

> "Management does not believe that a reserve for policy losses and related expenses is necessary. However, because of the length of time required for the ultimate liability for losses and loss expenses to be determined, the net amounts that will ultimately be paid to settle any liability may vary significantly from the nil amount provided for in the Statement of assets and liabilities.
>
> The Company does not provide for losses on incurred but not yet reported cases. It has been the Company's experience that incidents which may give rise to claims are invariably reported almost immediately and therefore any additional provision for this category of claim is unnecessary. Although management believes that no additional provision is necessary, any reserve to cover the ultimate payment of such amounts is not presently determinable."

ORG's liabilities reported for years 20XX-20XX consisted of accounts payable and other liabilities described as "IBNR Reserve". In response to Item #14 of IDR 1 (years 20XX-20XX), that requested support for the $0 IBNR Reserve, ORG explained that this documentation could not be located:

> "This item was based upon the recommendation of the Company's insurance consultants. The Company has not been able to locate the supporting documentation."

Form 990, Part IV, Line #	**Year 20XX**		**Year 20XX**		**Year 20XX**	
	$$$	**%**	**$$$**	**%**	**$$$**	**%**
60 - Accounts Payable and Accrued Expenses	0	00.00%	0	00.00%		
65 – Other Liabilities (IBNR Reserve)			0.00	00.00%	0.00	00.00%
66 – Total Liabilities	**0**	**00.00%**	**0**	**00.00%**	**0.00**	**00.00%**

Second, ORG failed to use its capital and efforts primarily to earn income from its insurance activity by devoting most of its expenses towards investments within the diversified conglomerate of businesses known as the "Companies" rather than towards marketing an insurance program. ORG's only expenses that directly supported insurance activities were those within the quarterly CO-23 computations for ORG's assumed re-insurance premiums -- Insurance commissions, incurred claims, and experience refunds.

In both Cardinal Life and Inter-American Life, where the courts determined that the primary and predominate business of each company was not insurance, neither company employed a sales force. In Cardinal Life, although the taxpayer sold some reinsurance contracts during the years at issue, the District Court noted,

> Plaintiff did not have an active sales force soliciting or selling insurance policies. Each of the insurance policies actually written by Plaintiff was as the result of reinsurance agreements wherein other companies ceded to Plaintiff certain amounts of insurance written by them. These reinsurance contracts were negotiated either by the president and sole stockholder of Plaintiff and/or the company's actuary who rendered services to Plaintiff on a fee basis. Plaintiff otherwise did not have any employees, brokers, agents or salesmen soliciting and selling insurance for it, and the only insurance written by Plaintiff was through reinsurance agreements.

Cardinal Life, 300 F. Supp. at 392. Similarly, in Inter-American Life, the Court considered the fact that the taxpayer did not "maintain an active sales staff soliciting or selling insurance policies" during the taxable years at issue as evidence of the taxpayer's "lack of concentrated effort" on the insurance business. Inter-American Life, 56 T.C. 497, 507. (1971).

ORG's payment of a claim for one of its direct written policies and management fees support expenses being devoted towards investment activities of the Companies economic group rather than towards insurance.

ORG paid a $0 claim to the LP-3 in year 20XX for its direct policy #01 -01 written for year 20XX. This payment was for one-third of a $0 amount billed for drilling services rendered by CO-44, Inc. (trade name is "CO-44"). ORG's Claim Form described these costs as "EPA clean-up expenses", which were consistent with the LP-3's business operations:

- 0% devoted towards owning/operating retail petroleum facilities primarily in State and State
- 0% engaged in real estate speculation and development in State; and
- 0% devoted in private and public equity investments.

ORG paid management fees of $0 (year 20XX) and $0 (year 20XX) to a Director-1 Companies affiliate, the CO-2 ("CO-2"), to manage the Property-3. Real estate activities were further evident by ORG's sole shareholder, the LP-1, transferring a one third interest in the Property-3 property to ORG at a basis of $0 in 20XX, which ORG disposed of for a $0 tax-sheltered gain in 20XX. CO-2 was one-third equally owned by the sole shareholders of ORG and its two captive affiliates -

- LP-1 – sole shareholder of ORG
- LP-3 – sole shareholder of CO-7
- LP-2 – sole shareholder of CO-5

ORG reported $0 of management fees for "asset management services provided during the year" by its sole shareholder, the LP-1, for year 20XX. No documentation was provided to substantiate that any services were rendered for the $0 management fees reported, which were based upon 0% of ORG's net assets in 20XX-20XX:

- 20XX Management Fee paid to LP-1 0.00
- 20XX Management Fee paid to LP-1 0.00

[See ORG correspondence, dated 11/0/20XX, responding to Item #14 of IDR 2 (years 20XX-20XX)]

ORG recorded the $0 and $0 management fees in its G/L as pay-downs of the line-of-credit loan owed by the LP-1. The reductions in the line-of-credit loan owed by the LP-1 are actually liquidating distributions consistent with ORG's liquidation plans reported within Note 16, "Subsequent Events", (at Page 15) of ORG audited financials for year 20XX, stating:

"There are plans in place to liquidate the Company as at December 31, 20XX. Liquidating distributions will be made periodically until the end of next year."

In addition to ORG's paid claim and management fees supporting investment activities, other instances where ORG expenses were devoted towards investments within the "Companies" rather than to market an insurance program include -

- Legal fees of $0 (year 20XX); $0 (year 20XX); and $0 (year 20XX) consisting primarily of $0 monthly charges for general/administrative services having no direct connection with policies in effect during 20XX-20XX. The Advisory Firm-2 – one of the legal fee recipients – employed ORG director, Director-1, during 20XX to provide real estate advisory and management services.

- Interest expense of $0 (year 20XX) actually being a fee for a real estate loan made by ORG's investment affiliate, CO-34. The fee was based upon 0% of ORG's initial capital contribution investment in the amount of $0 that ORG made within the CO-34.

- Property taxes of $0 (year 20XX); $0 (year 20XX); and $0 (year 20XX) paid primarily for investment properties and investment fees.

Third, ORG failed to use its capital and efforts primarily to earn income from it insurance activity by not using actuarial risk analysis to determine premium charges for its direct-written policies. This is supported by documentation requested during the IRS field exam to determine whether ORG conducted any actuarial risk analysis in computing premium charges for policies in effect during years 20XX-20XX.

In response to a request for rate charts and actuarial reports to support whether risk transfer and risk distribution existed for ORG's direct premium policies #01 - 09 and #01 - 01, ORG Stated that actuarial documentation was not available and that risk was personally assessed by management:

> The risks insured under these policies are non-standard risks concerning which actuarial information and analysis were not available. Management of the Company personally assessed this risk based upon their knowledge of the insureds and the insureds' businesses. The Company engaged outside insurance counsel to tailor the policy coverages and limitations to match their business assessments of risk. The policies clearly transfer risk from the insureds to the Company. The direct written policies together with reinsurance business also clearly distribute risk among many insureds." (Response to Item #6 of IDR 1 issued for year 20XX)

The IRS' follow-up request for documentation supporting "ORG management's personal assessment of risk based upon their knowledge of the insureds and the insureds' business" resulted in ORG stating that no documentation existed:

> "The Company's management was very familiar from personal observation and evaluation with the direct insured risks. Because of the familiarity, no 'underwriting memo' or similar document exists."
>
> (Response to Item #2A of IDR 8 issued for year 20XX.)

In response to the IRS request for an actuarial analysis supporting computation of premium charges, risk transfer, and risk distribution for policies in effect during the 12-month periods ended December 31, 20XX-20XX, ORG Stated that actuarial analysis was not necessary:

"The directly written policies were of risks well known to the company and no actuarial analysis was necessary. CO-23 advises that its retrocession arrangement was never subjected to actuarial analysis and that it had no reason to do so."

(Response to Item #4E of IDR 1 issued for years 20XX-20XX)

[Emphasis added to above underlined areas.]

Fourth, ORG failed to use its capital and efforts primarily to earn income from its insurance activity by treating its insurance arrangements informally. This was evident in the payment pattern of ORG's direct insureds, where premiums were paid substantially after their policies' coverage commenced on January 1 of years 20XX 20XX. The industry practice for companies primarily engaged in the insurance business is to obtain at least a portion of the insurance premium on or about the time when policy coverage begins. In contrast, ORG's direct insureds paid their premiums substantially after January 1 -

- For policies in effect for year 20XX, ORG's insureds paid their respective premiums on
  8/17/20XX (LP-3) and on 10/25/20XX (CO-3 Company).
- For policies in effect for year 20XX, ORG's insureds paid their respective premiums on
  12/18/20XX (CO-3 Company) and on 12/23/20XX (LP-3).
- For policies in effect for year 20XX, ORG's insureds -- CO-4, LP-10, CO-6, CO-3 Company, and LP-3 -- paid their premiums on 12/31/20XX. ORG deposited these payments on 1/15/20XX.

Fifth, ORG ceased writing insurance business in 20XX, with no policies written and / or renewed in that year. This decision resulted in ORG's capital and efforts not being committed for ORG to continue qualification as an "insurance company" described under Code § 501(c)(15) that primarily earned its income from insurance activities meeting gross receipts criteria that would be in effect for tax years after 12/31/20XX:

- Gross receipts for the taxable year not to exceed $0.
- More than 0% of such gross receipts to consist of premiums

The Government emphasizes that ORG's cessation of insurance writing occurred simultaneous with changes in gross receipts criteria for continued qualification as an "insurance company" described under Code § 501(c)(15) becoming effective as of 1/1/20XX, and was consistent with predominant operations as an investment company, as evidenced by the relationship of ORG's revenue, expenses, and assets to investments – particularly real estate.

In summary, ORG's primary and predominant business activity was not insurance, but investments. ORG did not devote its capital and efforts primarily to its insurance business. ORG's expenses were not made to employ knowledgeable employees or a sales force. Neither did ORG advertise or otherwise promote its insurance business. ORG treated its insurance business too informally for the transactions to be respected as true insurance. For the taxable years at issue, ORG is held to have operated primarily as an investments holding company (or a shell). Like Cardinal Life, ORG is seeking to avoid tax by claiming tax exempt small insurance company status through I.R.C. section 501(c)(15) based on its reinsurance of an insignificant amount of insurance contracts.

c. ORG Insurance Policies Lacked Risk Shifting and Risk Distribution

ORG's policy contracts do not constitute "insurance" because they do not involve both risk-shifting and risk-distribution, as established in Helvering v. LeGierse, 312 U.S. 531 (1941). In making this determination, the terms "risk-shifting" and "risk-distribution," as defined within Rev. Rul. 2002-90, were applied.

No Risk Shifting

ORG's Business Plan evidences the Companies' having exclusive control over selection and risk management of ORG's insured parties, which negated any risk shifting of a potential economic loss to ORG as the insurer. Sections IA, IB, IIA, IIB, IIC, and IIIB of ORG's Business Plan, given here, support this fact with an emphasis added for underlined areas:

Section IA – General Description / Overview

"The company will insure various business activities of The Director-1 Companies, a diversified conglomerate of businesses located primarily in State, ("Companies"). The Company will also accept third-party Insurance as described herein."

Section IB – General Description / Purpose

"The purpose of the Company is to provide access to non-traditional insurance policies with which risks of loss businesses are commonly faced but to which limited or no insurance coverage is currently available. The Company believes that it faces several risks over the next few years for which traditional insurance is either too expensive or unavailable. Also, the Company hopes to obtain profitable reinsurance business. In addition, the Company may cede certain risks to reinsurers."

Section IIA – Marketing / Planned Areas and Type of Business

"The Company will operate as a property and casualty insurance company and will not issue life insurance policies. Insurance will be written on The Company, to enable better risk management, and allow The Company to obtain non-traditional insurance at better price points."

Section IIB – Marketing / Method of Solicitation

"The Company does not presently intend to have insurance agents or solicitors. All insurance initially will either come directly from The Company, or be obtained by the Company's insurance manager."

Section IIC – Marketing / Source of Business

"The Company expects that zero percent (0%) or more of its business will come from The Company. The Company is a diversified conglomerate of companies, with numerous employees and assets and is currently faced with all of the below-described insurable risks. The Company will seek to engage in management of its risks and containing the cost of acquiring the foregoing classes of insurance.

The balance of the insurance underwriting business will be accepted by way of reinsurance of unrelated, licensed insurance companies."

Section IIIB – Details of Underwriting

"The Company will be highly selective as to the risks, which it will underwrite in the early stages of its development. The company will continue to obtain regular commercial property and casualty insurance from standard providers, and will primarily use the Company to provide non-traditional insurance and to access the reinsurance market."

No Risk Distribution

Distributing risk allows the insurer to reduce the possibility that a single costly claim will exceed the amount taken in as premiums and set aside for the payment of such a claim. By assuming numerous relatively small, independent risks that occur randomly over time, the insurer smooths out losses to match more closely its receipt of premiums. Clougherty Packing Co. v. Commissioner, 811 F.2d 1297, 1300 (9th Cir. 1987). Risk distribution necessarily entails a pooling of premiums so that a potential insured is not, in significant part, paying for its own risks. [See Humana Inc. v. Commissioner, 881 F. 2d 247, 257 (6th Cir. 1989).]

ORG's direct insurance policies did not involve risk distribution, which requires the statistical phenomenon known as the law of large numbers. During years 20XX-20XX, ORG had only two policies in effect, covering two insureds. In year 20XX, ORG had only five policies in effect, covering five insureds. Risk distribution did not, therefore, exist under the law of large numbers within the very small populations of policies in effect during these years:

Year 20XX -
- CO-3 Company (Policy 01- 09)
- LP-3 (Policy XX - 01)

Year 20XX -
- CO-3 Company (Policy 02- 09)
- LP-3 (Policy XX - 01)

Year 20XX -
- CO-3 Company (Policy 03- 09)
- LP-3 (Policy 03 - 01)
- CO-6 (Policy 13 - 32)
- LP-10 (Policy 13 - 31)
- CO-4 (Policy 13 - 33)

The lack of risk distribution in ORG's policies is further evident by comparing them with the liability insurance coverage provided by the captive insurer discussed within Rev. Rul. 2002-90. In Rev. Rul. 2002-90, twelve subsidiaries comprising the insured parties and the insurer had common ownership by a parent company. None of the insured parties had less than 5 percent or more than 15 percent of the total risk insured by their affiliated, meaning that the parent company's common ownership of the insured subsidiaries and the insurer did not impact the determination that the arrangements constituted insurance contracts. In contrast, the parties covered under ORG's direct insured policies had substantially larger percentages of the total risk because they involved substantially smaller populations of policies. [Also, see Humana Inc. v. Commissioner, supra.]

Years 20XX-20XX:	2 policies (total risk distributed per policy = 0%)
Year 20XX:	5 policies (total risk distributed per policy = 0%)

With respect to ORG's assumed reinsurance from CO-23, the Government emphasizes that ORG reinsured pro-rata shares of group disability insurance and related claims involved small portions of CO-23's aggregate reinsurance. Any risk distribution assumed from CO-23 was therefore irrelevant in determining whether ORG was predominately involved with "insurance" for federal tax purposes. In support, the Government notes that ORG's pro-rata share of group disability insurance and related claims assumed from CO-23 were only 0% during 20XX-20XX, and 0% in 20XX

2. ORG cannot continue to rely upon its determination ruling letter, dated October 19, 20XX, recognizing the organization's exempt status under I.R.C. § 501(c)(15) for the tax year(s) at issue because it did not operate as an "insurance company" as that term is used in I.R.C. § 501(c)(15).

When the Internal Revenue Service's issued a favorable ruling to ORG in its determination letter, dated October 19, 20XX, the ruling was based upon information that ORG provided at the application stage. The IRS clearly Stated within this letter that the ruling was not only contingent upon ORG actually operating as it represented that it would within its application, but also required that ORG inform the IRS as to any change in purposes, character, or method of operation:

> Based on the information supplied, and assuming your operations will be as Stated in your application for recognition of exemption, we have determined you are exempt from United States income tax under section 501(a) of the Code as an organization described in section 501(c)(15) commencing on January 1, 20XX, for tax years when your net written premiums (or, if greater, your direct written premiums) do not exceed the $0 limit prescribed by section 501(c)(15).
>
> ***
>
> This ruling is based on the financial and other information submitted in support of your application. Based solely on that information, we have concluded you are a "company" or "association" within the meaning of section 501(c)(15) of the Code, and have the business purpose of conducting the activities described in your application. This ruling is not effective unless you actually operate as represented. We are not ruling on issues other than exempt status. We have not been asked and we have not considered whether any of your transactions would give rise to the application of the provisions of either section 842 or 845 of the Code.
>
> Please notify the State Tax Exempt and Government Entities (TE/GE) Customer Service office if there is any change in your name, address, sources of support, purposes or method of operation. If you amend your organizational document or bylaws, please send a copy of the amendment to that office. The mailing address is: Internal Revenue Service, TE/GE Customer Service, Address, City, State Zipcode.
>
> [Emphasis added for underlined].

An organization may not rely on a favorable determination letter if the organization omitted or misstated a material fact in its application or in supporting documents. An organization also may not rely on a favorable determination if there is a material change, inconsistent with exemption, in the organization's character, purposes, or methods of operation after the determination letter is issued. Treas. Reg. section 601.201(n)(3)(ii); Rev. Proc. 2004-1, 2004-1 I.R.B. 1; Rev. Proc. 90-27, 1990-1 C.B. 514.

The Government's conclusion that ORG cannot rely upon its favorable determination letter, dated October 19, 20XX, is based upon a comparison between information submitted by ORG to the IRS within its Form 1024 application for tax-exempt status with ORG's financial and operational information identified within this report. In concluding that ORG cannot rely on its favorable determination letter, dated October 19, 20XX, the Government emphasizes that the signing of ORG's Form 1024 under penalties of perjury by ORG's director, Director-1, on 7/17/20XX, occurred 2 weeks after ORG engaged in its first sale of real property interests on 7/3/20XX. This sale involved ORG's one-third interest in the Property-2 real property, resulting in gross proceeds of $0 and a net gain of $0. The Form 1024 gave no disclosure about this sale and subsequent sales of real property interests that occurred in November-December, 20XX, even though ORG had already held interests in the Property-2 and Property-1 properties when Director-1 signed it on 7/17/20XX.

The Government further emphasizes that it was critical for ORG to have submitted complete financial information and an accurate description of its proposed activities during the application process in consideration of Director-1's position as officer/director, his level of education, and his 30+ years of business experience, which placed him in a position that he knew about ORG's real property sales occurring in July, November, and December of year 20XX.

Misrepresentation of Sources of Financial Support and Nature of Expenses

In response to Part II – Line 2 of Form 1024, which requires an applicant to list its present and future sources of financial support, beginning with the largest source, ORG represented to the IRS that insurance premiums would be its largest source of financial support, followed by investment income and shareholder capital contributions. In response to Part III-Section A and Schedule I of Form 1024, ORG represented to the IRS that its revenues were entirely from premiums and expenses related entirely to its exempt purpose without making any projections with respect to tax-sheltered sales of real property interests.

Five factors support that ORG misrepresented its financial information within Form 1024:

- First, during year 20XX, ORG had a gain from the sale of its real property interests that was 0% of aggregate revenue, relative to ORG's premium revenue being 0% of aggregate revenue (0.0% direct written premiums + 0.0% reinsurance premiums = 0.0% total premiums).
- Second, ORG's Form 1024 application failed to disclose the sale of its land interest in the Property-2 property on 7/3/20XX, for which it obtained sales proceeds of $0 and a net gain of $0. [As discussed above, ORG's officer/director, Director-1, signed the Form 1024 on 7/17/20XX, and was in position to have known about this transaction due to his position with ORG, his level of education, and his 30+ years of business experience.]
- Third, ORG's Form 1024 application failed to make any projection as to the subsequent sales of its interests in the Property-2 and Property-1 properties that occurred on 11/6/20XX and 12/19/20XX; along with expenses relating to these sales such as legal costs and property taxes.
- Fourth, ORG's Form 1024 application did not disclose legal and management expenses having no connection with insurance operations that were paid in 20XX. These expenses included $0 paid to the Advisory Firm-2 (check #0, dated 6/30/20XX) as monthly activity for entitlement properties; $0 paid to the CO-2 (wire transfer on 8/13/20XX) to manage property described as "Property-3"; and $0 paid for an invoice (#1, dated 2/20/20XX) billed to the Companies by the legal firm of Law Firm-3.
- Fifth, Director-1's education and business experience described within his resume', along with his being an officer/director of ORG, support his being knowledgeable about ORG's financial and operational information when he signed ORG's Form 1024 on 7/17/20XX under penalties of perjury.

Misrepresentations of Proposed Activities

In response to Part II-Item 1 of Form 1024, ORG represented the following description in regard to proposed activities:

> "ORG is a small property and casualty insurance company formed and licensed under the laws of the Territory. In such capacity, it is licensed to conduct property and casualty related insurance activities. Its activities are specifically limited to the underwriting of property and casualty related risks on both a direct and reinsurance basis. These are as follows:
>
> > Underwriting select lines of property and casualty insurance coverages for business entities that are both related and unrelated hereto. These insurance risks can be categorized, by way of example, errors and omissions insurance, business economic loss, business interruption, bankruptcy protection, employment practices, loss of key employee services, and other lines of property and casualty related risks. Total organizational time devoted to underwriting and administration of insurance estimated to be 0% to 0%.
> >
> > Accepting and issuing reinsurance coverage for select lines of property and casualty insurance risks, including credit disability insurance. No credit life is envisioned within the company. Total organizational time devoted to reinsurance related administration is estimated to be 0% to 0%."

[Emphasis added to underlined areas.]

Three factors support that ORG misrepresented its proposed activities within Form 1024:

- ♣ First, proposed activities were stated to be "specifically limited to the underwriting of property and casualty related risks on both a direct and reinsurance basis". This Statement conflicts with ORG's assets, sources of revenue, and nature of expenses being based primarily upon investment activities rather than from operating an insurance business; by ORG not applying actuarial risk computations to determine its direct policy premium charges; and by ORG having no program and staff to expand its insurance market. ORG failed to represent within its Form 1024 that it would not have risk distribution by having 2 policies in effect during 20XX-20XX, and 5 policies in effect during 20XX.

- ♣ Second, total organizational time was stated to be devoted at an estimated 0% to 0% towards the underwriting and administration of insurance, which conflicts with -

  [a] ORG's direct insurance being limited to the various business activities of its director. [Note 1, "General Information", (at Page 5) of ORG's financial Statements for the 12-month period ended December 31, 20XX]

  [b] ORG not employing insurance agents or market solicitors. The Companies was expected to provide at least 0% of ORG's business and to engage in risk management and cost containment. [Sections IIB and IIC of ORG Business Plan]

  [c] Premiums for ORG's direct insured policies not being based upon actuarial risk computations, and had no documentation supporting how they were computed. Instead, Director-1 – as ORG's "Management" – personally assessed the risk of the direct insureds based upon his knowledge of them. [e.g., ORG response to Item #6 of IDR 3 (year 20XX), requesting rate charts and actuarial reports to support risk transfer and risk distribution between ORG and its direct insureds.]

  [d] ORG's expectation to have a low frequency of claims that would be dealt with on an ad hoc basis. [Section IIID of ORG Business Plan] ORG's ad hoc handling of claims was evident in the informality in paying $0 for a claim filed by the LP-3 by waiving policy deductibles and allowing the claim to be paid for an event occurring outside of the policy coverage period. ORG paid the claim under what it described as a "business decision made outside the terms of the policy" and "related to possible future business from this insured and its affiliates."

♣ Third, total organizational time was Stated to be devoted at an estimated 0% to 0% towards reinsurance related administration, which conflicts with -

[a] ORG's reinsuring a 0% pro-rata portion of group coverage through its agreement with CO-23 not justifying 0% - 0% of organizational time devoted towards reinsurance related administration.

[b] CO-23, not ORG, functioning as the reinsurance administrator by providing ORG with its quarterly retrocession computations that ORG used to report its assumed premium and related deductions within Form 990.

3. **ORG is recommended to not qualify for relief under I.R.C. §7805(b) in the circumstances presented because it cannot continue to rely upon its initial determination letter.**

The government recommends retroactive revocation of ORG's determination letter because there were omissions and misstatements of material fact during the application process, and material changes in operation after the determination letter was issued. Accordingly, it is recommended that ORG's revocation be effective as of January 1, 20XX, the first day of the first tax period covered under this report, and retroactive revocation of ORG's determination letter, dated October 19, 20XX.

While revocation of a determination letter is generally not retroactive, revocation of a determination letter may be retroactive if the organization omitted or misstated a material fact or operated in a manner materially different from that originally represented. Treas. Reg. § 601.201(n)(6)(i); Rev. Proc. § 14.01 (cross-referencing § 13.01 et seq.), 1990-1 C.B. 514. In cases where the organization omitted or misstated a material fact, revocation may be retroactive to all open years under the statute. See Treas. Reg. § 601.201(l)(1). In cases where revocation is due to a material change, inconsistent with exempt status, in the character, the purpose, or the method of operation, revocation will ordinarily take effect as of the date of the material change. Treas. Reg. § 601.201(n)(6)(i); Rev. Proc. 90-27. In any event, revocation will ordinarily take effect no later than the time at which the organization received written notice that its exemption ruling or determination letter might be revoked. Treas. Reg. § 601.201(n)(6)(i).

4. Effective date of ORG's revocation if the Commissioner exercises discretion to grant relief under I.R.C. §7805(b).

Upon request by ORG, the Commissioner TE/GE may grant relief from retroactive revocation under I.R.C. § 7805(b)(8) of the Code. Should ORG make a request for relief from retroactive revocation, following the procedures under Rev. Proc. 2003-4 (which cross references Rev. Proc. 2003-5), the Commissioner is urged to deny such relief.

In requesting relief under I.R.C. § 7805(b)(8), ORG must address each of the following factors:
[1] there has been no misstatement or omission of material facts;
[2] the facts subsequently developed are not materially different from the facts on which the ruling was based;
[3] there has been no change in the applicable law;
[4] the ruling was originally issued with respect to a prospective or proposed transaction; and
[5] the taxpayer directly involved in the ruling acted in good faith in reliance upon the ruling and the retroactive revocation would be to his detriment.

[Treas. Reg. § 601.201(l)(5), Statement of Procedural Rules; Rev. Proc. 96-4, § 12, 1996-1 I.R.B. 94; Rev. Proc. 90-27, § 14, 1990-1 C.B. 514, 518.]

If the Commissioner grants relief to ORG under I.R.C. § 7805(b), the effective date for revocation of ORG's determination letter should be not later than the date on which the organization first received written notice that its exemption might be revoked. Treas. Reg. § 601.201(n)(6)(i); Virginia Education Fund v. Commissioner, 85 T.C. 743, 752-3 (1985), aff'd 799 F. 2d 903 (4th Cir. 1986). This does not preclude the effective date of revocation being earlier than the date on which the organization first received written notice that its exemption might be revoked. Virginia Education Fund v. Commissioner, 85 T.C. at 753.

Taxpayer's Position

To date, ORG's position is unknown with respect to the issues, facts, applicable law, and Government's position discussed in this report. ORG will be allowed a reasonable amount of time to review this report and respond with a rebuttal if considered necessary.

Conclusion Summary

[1] For tax periods ended December 31, 20XX-20XX, ORG is not an insurance company described under I.R. C. § 501(c)(15) and cannot continue to rely upon its initial determination letter, dated October 19, 20XX, recognizing it as exempt under that Code section. This determination was based upon ORG not qualifying as an "insurance company", and ORG policy contracts not constituting "insurance" as supported by –

- [a] Investments were ORG's primary and predominant activity.
- [b] ORG failed to use its capital and efforts primarily to earn income from its insurance activity.
- [c] ORG Insurance policies lacked risk shifting and risk distribution.

[2] ORG cannot continue to rely upon its determination ruling letter, dated October 19, 20XX, recognizing the organization's exempt status under I.R.C. § 501(c)(15) because that ruling was contingent not only upon ORG actually operating as it represented that it would within its application, but also that ORG would inform the IRS as to any change in purposes, character, or method of operation. Facts identified within this examination report that were compared with information from ORG's Form 1024 application disclose that ORG misrepresented information during the application process with respect to sources of financial support, the nature of expenditures, and proposed activities.

[3] ORG is recommended to not qualify for relief under I.R.C. §7805(b) in the circumstances presented because it cannot continue to rely upon its initial determination letter, dated October 19, 20XX. The government recommends that ORG's revocation be effective as of January 1, 20XX – the first day of the first tax period covered under this report -- and retroactive revocation of ORG's determination letter, dated October 19, 20XX. This recommendation is based upon omissions and misstatements of material fact during the application process of ORG's Form 1024, and material changes in operation after ORG's determination ruling letter was issued.

[4] If the Commissioner grants relief to ORG under I.R.C. § 7805(b), the effective date for revocation of ORG's determination letter should be not later than the date on which the organization first received written notice that its exemption might be revoked. This does not preclude the effective date of revocation being earlier than the date on which the organization first received written notice that its exemption might be revoked.

Exhibits

Exhibits supporting facts presented within this report are listed below.

Form 886A	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Exhibit #	***Exhibit Description***
1	ORG Memorandum of Association
2	ORG License No. 9924 under Sections 16(1) and 17 of the Territory Insurance Act of 1994
3A & 3B	ORG Form 990, filed for years 19XX-20XX, preInsurance application for tax-exempt status
4	ORG foreign insurance company election under Code §953(d)
5	ORG Form 1024, Application for Recognition of Exemption Under Section 501(a)
6	IRS ruling letter, dated October 19, 20XX, issued to ORG and recognizing ORG as exempt from federal income tax
7	ORG Business Plan
8	Resume' of Director-1
9A Thru 9C	ORG general ledger for – (A) Year 20XX, (B) Year 20XX, and (C) Year 20XX
0A Thru 0C	ORG audited financial Statements for – (A) Year 20XX, (B) Year 20XX, and (C) Year 20XX
11A Thru 11C	ORG Forms 990 filed for - (A) Year 20XX, (B) Year 20XX, and (C) Year 20XX
12A & 12B	Special Warranty Deeds executed by the LP-1 on 12/29/20XX, to transfer an "undivided one third (1/3) interest" in two properties located in the State of State – (A) County County and (B) County County
13	Special Warranty Deed executed by the LP-1 on 12/31/20XX, to transfer an "undivided one third (1/3) interest" in a property located in County County, State, described as "Property-3
14	Minutes of ORG's Board meeting held on 2/17/20XX
15	Schedule K-1 filed for year 20XX by the CO-18 (EIN)
16	Minutes of ORG Board held on 2/9/20XX
17	ORG policy #01 - 01 written for year 20XX
18	ORG policy #01 - 09 written for year 20XX

Form **886A**	Department of the Treasury - Internal Revenue Service **Explanation of Items**	**Schedule No or Exhibit**
Name of Taxpayer **ORG (" ")**		**Year/Period Ended** **20XX** **20XX** **20XX**

Exhibit #	***Exhibit Description***
19	Law Firm-3 invoice #1, dated 2/20/20XX, billed in the amount of $0 to The Companies
20	ORG policy #02 - 01 written for year 20XX
21	ORG policy #02 - 09 written for year 20XX
22	ORG policy #03 - 01 written for year 20XX
23	ORG policy #03 - 09 written for year 20XX
24	ORG policy #13 - 32 written for year 20XX
25	ORG policy #13 - 31 written for year 20XX
26	ORG policy #13 - 33 written for year 20XX
27A Thru 27C	ORG Agreement with CO-23; and CO-23 quarterly retrocession computations for – (A) Year 20XX, (B) Year 20XX, and (C) Year 20XX
28	ORG's resolution passed on November 30, 20XX, approving line-of-credit financing to the LP-1; copy of the LP-1's check #0, dated 2/27/20XX, payable in the amount of $0 to ORG for the accrued loan origination fee; and copy of ORG's bank Statement for month of February 20XX, showing 2/28/20XX deposit of the LP-1's check #076
29	ORG claim form relating to the $0 claims payment; CO-44's Invoice #130899, dated November 0, 20XX, billed in the amount of $0; and ORG check #0, dated 9/16/20XX, paying the $00 claim to the LP-3 under policy #01 - 01
30A Thru 30D	Minutes of ORG Board meetings held on 2/13/20XX, 4/21/20XX, 6/24/20XX, and 4/30/20XX
31	Shareholder Consent of ORG sole shareholder, CO-51, approved and adopted on 4/30/20XX
32	ORG Plan of Complete of Liquidation