



OCT 17 2007

BY REGISTERED MAIL

Fondation Francis Jude Wilson/Francis Jude Wilson
Foundation
2510, rue Coloniale
St-Lazare, Québec
J7T 2M2

BN: 85984 4144RR0001
File: 3027016

Attention: Mr. Marc Dacosta, President

**SUBJECT: Notice of Intention to Revoke
Fondation Francis Jude Wilson/Francis Jude Wilson Foundation**

Dear Mr Dacosta:

I am writing further to our letter dated August 27, 2007 (copy enclosed), in which you were invited to submit representations to us as to why the Minister of National Revenue should not revoke the registration of Fondation Francis Jude Wilson/Francis Jude Wilson Foundation (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA"). As of this date, we have not received representations to our letter.

Consequently, for each of the reasons mentioned in our letter of August 27, 2007, I wish to advise you that, pursuant to the authority granted to the Minister in subsection 149.1(2) of the ITA, and delegated to me, I propose to revoke the registration of the Charity. By virtue of subsection 168(2) of the ITA, the revocation will be effective on the date of publication in the *Canada Gazette* of the following notice:

Notice is hereby given, pursuant to paragraphs 168(1)(b), 168(1)(c), 168(1)(d) and 168(1)(e) of the Income Tax Act, that I propose to revoke the registration of the organization listed below under subsection 149.1(2), and paragraph 149.1(2)(b) of the Income Tax Act and that the revocation of registration is effective on the date of publication of this notice.

Account Number
85984 4144 RR 0001

Name
Fondation Francis Jude Wilson/Francis Jude Wilson
Foundation
St-Lazare, PQ

.../2

In accordance with subsection 168(2) of the ITA, you can suspend this process (i.e. seek an extended period before revocation) by applying to the Federal Court of Appeal or a judge of that court for a stay. The Court will acknowledge your application and provide you with an action number. We require a copy of the Court acknowledgement of your request for a stay to stop the revocation process.

Should you wish to appeal this Notice of Intention to Revoke the Charity's registration in accordance with subsection 168(4) of the ITA, you are advised to file a Notice of Objection within 90 days from the mailing of this letter. This notice is a written statement that sets out the reasons for the objection and all the relevant facts. The Notice of Objection should be sent to:

Tax and Charities Appeals Directorate
Appeals Branch
25 Nicholas Street
Ottawa, ON K1A 0L5

Please note that, notwithstanding the filing of a Notice of Objection, the Charity must seek the above-noted stay to prevent revocation from occurring. Unless the Canada Revenue Agency receives notice that an application for a stay has been filed to the Federal Court of Appeal or judge of that court regarding this revocation, we intend to proceed with the publication of the above notice in the *Canada Gazette* in **30 days** thereby affecting the revocation of the organization's registration.

Consequences of a Revocation

As of the date of revocation of the registration of the Charity, which is the date upon which the above-noted notice is published in the *Canada Gazette*, the Charity will no longer be exempt from Part I Tax as a registered charity and **will no longer be permitted to issue official donation receipts.**

Additionally, by virtue of section 188 of the ITA, the Charity will be required to pay a tax within one year from the date of the Notice of Intention to Revoke the Charity's registration. This revocation tax is calculated on prescribed form T-2046 "*Tax Return Where Registration of a Charity is Revoked*". The return must be filed and the tax must be paid on or before the day that is one year from the date of the Notice of Intention to Revoke a charity's registration. For your reference, I have attached a copy of the relevant provisions of the ITA in Appendix "A" concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation. Form T-2046, along with the related Guide RC-4424, "*Completing the Tax Return Where Registration of a Charity is Revoked*", are also attached for your information.

Also, the Charity will no longer qualify as a charity for purposes of subsection 123(1) of the *Excise Tax Act* (the "ETA"), effective on the date of revocation. As a result it may be subject to obligations and entitlements under the ETA that apply to organizations other than charities. The relevant ETA provisions are attached in Appendix "B". If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-800-959-8287.

Furthermore, I wish to advise you that pursuant to subsection 150(1) of the ITA, a return of income for each taxation year in the case of a corporation (other than a corporation that was a registered charity throughout the year) shall without notice or demand therefore, be filed with the Minister in prescribed form containing prescribed information.

Yours sincerely,



Terry de March
A/Director General
Charities Directorate

Attachments

- Our letter dated August 27, 2007
- Appendix "A", Relevant Provisions of the *Income Tax Act*,
- Appendix "B", Relevant Provisions of the *Excise Tax Act*,
- Form T-2046, *Tax Return Where Registration of a Charity is Revoked*;
- Guide RC-4424, *Completing the Tax Return Where Registration of a Charity is Revoked*.

REGISTERED MAIL

Fondation Francis Jude Wilson/Francis Jude Wilson Foundation
2510, rue Coloniale
St-Lazare, Québec
J7T 2M2

Attention: Mr. Marc Dacosta, President

Charity Account Number:
85984 4144RR0001
Charity File Number:
3027016

August 27, 2007

Mr. Dacosta:

RE: Audit of Fondation Francis Jude Wilson/Francis Jude Wilson Foundation

This letter is further to the audit of the books and records of Fondation Francis Jude Wilson/Francis Jude Wilson Foundation (the "Charity") by the Canada Revenue Agency (the "CRA"). The audit related to the operations of the registered charity for the period from August 1, 2004 to July 31, 2005. Additionally, for the purposes of this review, we have considered certain information available to us with respect to activities conducted in fiscal 2006.

The results of this audit indicate that the Charity appears to be in non-compliance of certain provisions of the *Income Tax Act* (the "ITA") or its Regulations. The CRA has identified specific areas of non-compliance with the provisions of the ITA or its Regulations in the following areas:

AREAS OF NON-COMPLIANCE:		
	Issue	Reference
1.	Non-Charitable Purpose and Activities	168(1)(b)
2.	Gifts	Regulation 3501, 118.1, 168(1)(d)
3.	Disbursement Quota	149.1(2)(b)
4.	Charity Information Return (T3010)	168(1)(c), 149.1(2)
5.	Books and Records	230(2)

The purpose of this letter is to describe the areas of non-compliance identified by the CRA during the course of our audit as they relate to the legislative provisions applicable to

registered charities and to provide the Charity with the opportunity to address our concerns. In order for a registered charity to retain its registration, it is required to comply with the provisions of the ITA and Common Law applicable to registered charities. If these provisions are not complied with, the Minister of National Revenue may revoke the Charity's registration in the manner described in section 168 of the ITA.

The balance of this letter describes the areas of non-compliance in further detail.

Identified Areas of Non-Compliance:

1. Charitable Purpose and Activities:

The Charity is registered as a charitable organization. In order to satisfy the definition of a "charitable organization" pursuant to subsection 149.1(1) of the ITA, "charitable organization" means an organization.... "All the resources of which are devoted to charitable activities".

To qualify for registration as a charity under the ITA, an organization must be established for charitable purposes that oblige it to devote all its resources to its own charitable activities. This is a two-part test. First, the purposes it pursues must be wholly charitable and second, the activities that a charity undertakes on a day-to-day basis must support its charitable purposes in a manner consistent with charitable law. Charitable purposes are not defined in the ITA and it is therefore necessary to refer, in this respect, to the principles of the common law governing charity. An organization that has one or more non-charitable purposes or devotes resources to activities undertaken in support of non-charitable purposes cannot be registered as a charity.

Failure to pursue its charitable mandate

As above, registered charities are required to pursue activities in furtherance of the purposes for which they are established.

The Charity was registered "to maintain a fund to finance bursaries to students of the Weston School, establish fundraising campaigns to improve the Weston School, accumulate and invest funds" on August 1, 2004.

However, based on our audit we have found little evidence that the Charity has undertaken activities in support of its charitable mandate since the date of registration. In fact, the evidence on the file, as outlined below, demonstrates that the preponderance of the effort and resources of the Charity are devoted to participating in a tax planning donation arrangement while an incidental and comparatively insignificant amount of effort and resources are devoted to charitable programming. Therefore, as explained below, it is our view that the Charity is not operating in pursuit of its charitable purposes.

It appears, based on our audit that the Charity has yet to implement the activities for which it was registered. The Charity does not appear to have any established criteria for its

scholarship program nor does it follow the procedures outlined in its application for charitable status as per your letter dated July 27, 2004, in part 3 of the application form.

Where a charity administers scholarships to students attending post secondary school, the following procedures are necessary to show that the charity operated a charitable program, applied its resources to charitable activities, and maintained full direction and control over its resources:

- Scholarships should be awarded on the basis of pre-established selection criteria;
- There should be assurance that the student actually attended the school for which they received the scholarship by a statement of attendance provided by the school;
- A receipt should be provided by the student, for which the scholarship was intended, that they received the funds;
- In order to support that scholarship funds were used for their intended purpose, the charity should retain source documents, (receipts, vouchers, cancelled cheques), pertaining to such expenditures.

Additionally, since the time of registration, the Charity's activities seemingly have consisted of selecting one student to be the recipient of a \$10,000 post-secondary scholarship¹. The Charity has reported the scholarship as charitable expenditures however the funds remain earmarked for the student if and when the student actually attends post-secondary education; no expenses have been incurred. At the same time, the Charity issued receipts for approximately \$10,560,650 for the same tax years. While it is not unusual for a foundation to invest income received in order to generate a sustainable endowment fund, it is our view that, as explained below, it is unlikely that the "investments" entered into by the Charity will ever be fully utilized (or utilizable) for the purpose of its charitable mandate.

We would note that the Charity, while issuing receipts for substantial monetary "donations", has subsequently utilized these funds in a way likely to be detrimental to the sustainability of its assets. As a part of the tax shelter arrangement in which the Charity has participated, it is obligatory that the funds received be directed to purchase a royalty agreement from an offshore company. It does not appear that the Charity has access to the funds, the royalty payments received to date appear to be extremely low (e.g., for 2006 the Charity reported royalty payments of 0.09% on the trading capital), a profit is likely to be generated only twice a year and finally, the Charity only has a right to potential monthly royalty payments. The Charity does not have a right to the trading capital but rather would receive a portion of the trading capital if the balance of the trading capital increases over the life of the contract. Based on the trading capital's performance, we are not convinced that the Charity will ever receive a portion of the trading capital.

¹ We are concerned that the Charity may also be operating in a manner which is *ultra vires* (i.e., outside of its mandate). Of concern is the fact that, given the proportionately low level of charitable activity *already* engaged in by the Charity, "earmarking" the funds for scholarships further delays the actual expenditures on charitable activity.

It is the CRA's view, based on the above that the Charity is neither pursuing the objectives for which it was registered nor is it investing in a prudent manner for future activity. In fact, the primary activity of the Charity to date appears to have been issuing tax receipts in support of a tax shelter for amounts that are purportedly placed in pre-arranged "investments" that the Charity has little, if any access to.

Non-Charitable Purpose

It is our considered view, based on our audit, that not only does the Charity not pursue its charitable purpose, but in fact, the Charity's primary purpose appears to be to support, promote and participate in a tax shelter arrangement, and one that appears to be somewhat abusive of the charitable tax incentive. As outlined below, this appears to have resulted in the Charity receipting millions of dollars of donations while receiving and devoting a comparatively insignificant amount of resources to charitable activities.

As previously noted, the Charity was registered effective August 1st, 2004, and notified of this fact by letter dated August 13th, 2004. The Charity represented, at the time of registration, that it intended to maintain a fund to finance bursaries to students of the Weston School; establish fundraising campaigns to improve the Weston School; and to accumulate and invest funds. It further represented that, it "require [d] federal status in order to obtain additional donations from corporations and individuals." Within days of receiving its registered status, the Charity entered into an agreement with Equita Management ("Equita") whereby, in consideration for a purchase price, the Charity wished to receive certain royalty payments from Equita. The payment of the purchase price was to be made solely from the donation amounts received in the 2004 calendar year pursuant to the Equita Management Charitable Donation Program (marketed by Equita) and the Donation Program Supporting Canadian Amateur Athletics, Foundations and Charities (marketed by Parklane Financial Group Limited).

In its first year following registration, for the fiscal period ending July 31, 2005, the Charity somewhat immediately received in excess of \$2,371,650 in gifts for which it issued official donation receipts. All "gifts" were received from participant donors in the 2004 Donation Program Supporting Canadian Amateur Athletics, Foundations and Charities, TS 069260, tax shelter. In the second year following registration, the Charity received \$8,195,000 in gifts for which it issued official donation receipts, all of which were related to the Charity's participation in the 2005 Donations Canada, TS 070623, tax shelter.

As indicated above, the Charity has participated in two tax shelters in the 2005 and 2006 fiscal periods by agreeing to accept cash and/or sub-trust units from taxpayers who were also participants in the tax shelters. For fiscal 2005, donor participants pledge a donation amount to the Charity and contribute 31.4% of the donation amount in cash. Donor participants guarantee the remaining 68.6% of the pledged donation amount via a promissory note. The cash amount contributed is comprised of set number of cheques/bank drafts payable to Computershare Trust Company of Canada ("Computershare"), in Trust. The cheques/bank drafts contributed are to pay an arrangement fee and pre-pay loan interest. Donors obtain a loan of \$1,120 per \$1,000 donation from Plaza Capital Corporation (the "Lender") and direct

The Lender to forward the loan amount to Computershare. Donor directs Computershare to forward \$1,000 per \$1,000 donation to the Charity with additional directions to forward \$400.40 per \$1,000 donation to the Insurance Company and \$33.60 per \$1,000 donation to the Lender.

For fiscal 2006, donor participants pledge a donation amount to the Charity and contribute 25% of the donation amount in cash. Donor participants apply to become the beneficiary of the Donations Canada Financial Trust (the "Trust"). The Trust makes an investment in a sub-trust in exchange for sub-trust units and the donor, as a beneficiary of the Trust, is issued the sub-trust units. The donor transfers the beneficial interest in the sub-trust units to the Charity and receives an official donation for the cash contribution and the sub-trust units.

Upon receipt of the "donations" in fiscal 2005, the Charity was required to pay 99% of the "donations" received to a corporation resident in Bermuda. Of the 99% paid to the corporation, 95% was paid to Equita, the Bermuda corporation, for the purchase price of the 2004 Series A Royalty Agreement, and 4% was paid as fundraising/referral fees to Equi-Capital Investment Counsel Inc. ("Equi-Capital"). If profits are earned, 20% of the monthly profit is added to the trading capital, 64% paid to the Charity and 16% is paid to Equita. For the "donations" received in fiscal 2006, 99% was paid to Trafalgar Trading with and 6.25% was paid as fundraising/referral fees. If profits are earned, 0.2% of the principal is paid to Trafalgar Trading with the remaining profit distributed between Trafalgar Trading (20%), Charity (60%) and principal (20%). The funds are to be invested for 20 years with the promoter projecting the Charity will recognize annual expected returns of 8-12%.

In fact, the terms of the royalty agreement appear to accrue little, if any, benefit to the Charity. On average, the royalty agreement yields a profit twice a year thereby resulting in the trading capital being eroded by losses every non-profit yielding month. In the event of a profitable month, a substantial portion of the "profit" is reverted back to the corporation holding the trading capital. Per the 2006 T3010, the Charity reported \$9,681 of interest and investment income, a return of 0.09% on the trading capital. Charities have the ability to withdraw from the trading capital after four years, however the penalties for doing so are such that any principal balance remaining would be eliminated.

The Charity also entered into two fundraising contracts with Antonio lafigliola and Marc Dacosta on August 19, 2004 whereby each is remunerated on a regular monthly basis a fee equal to 20% of all revenues received by the Charity from Equita pursuant to the 2004 Series A Royalty Agreement. Mr. lafigliola assigned all benefits of the August 19, 2004 Memorandum of Agreement to Mr. Dacosta on October 31, 2005.

The result of these arrangements is that, in essence, the Charity received in actual cash returns from the tax shelters a mere \$23,716 in fiscal 2005 and \$81,951 in fiscal 2006 yet issued receipts totalling issued \$10,560,650. From the actual cash returns, the Charity incurred professional fees of \$105,129 and \$129,726 in 2005 and 2006 respectively.

Based on this, it appears that the preponderance of the Charity's funds are directed primarily to the benefit of the tax shelter promoters and to the promotion of the tax shelter arrangement while a scant percentage reverts back to the Charity. In our view, the arrangement described above, particularly the insignificant returns realized by the Charity and its lack of control over its own "investments", demonstrates a willingness of the Charity to lend its receipting privileges for the inappropriate private benefit of the tax planning donation arrangement and its promoters, which is not charitable at law.

The Charity, in our view, has failed to demonstrate any due diligence undertaken to verify the authenticity of the donation program or how participation in the program furthers the objects of the organization. It has failed to safeguard its assets by handing the preponderance of its funds over to an offshore company where it has little or no access to the funds. It has failed to make prudent investments that would generate any beneficial return to the charity. In essence, it seems that the Charity's only activity is issuing receipts for funds solicited by the tax shelter promoters. In most cases, the Charity will have had no interaction whatsoever with the donors, as soliciting and securing donations is handled entirely by the promoters. All of these facts point to a pattern of active willingness to participate in a scheme designed to produce inappropriate tax benefits.

Given the manner in which the Charity has structured its financial affairs for the private benefit of the tax shelter and its promoters, its proportionally minimal levels of involvement in these financial arrangements, its failure to act in the best interests of the Charity by choosing prudent investments in favour of those pre-selected and pre-arranged by the tax shelter, it is our view that a collateral purpose, if not primary purpose of the organization is, in fact, to support and promote the tax shelter arrangement. In this regard, based on its activities to-date, have largely consisted of being the receipting arm of a tax-shelter arrangement, with little regard for the mandate and best interests of the Charity itself. Operating for the purpose of promoting a tax shelter is not a charitable purpose at law. As such it is our view that the Charity does not meet the test of "charitable organization", as defined in 149.1(1) in that it not constituted and operated for exclusively charitable purposes.

2. Gifts:

It is our position that the Charity has contravened the *Income Tax Act* by accepting and issuing receipts for transactions that do not qualify as gifts. We offer the following explanations to support our position.

No Animus Donandi

Under the common law, a gift is a voluntary transfer of property without consideration. However, an additional essential element of a gift is *animus donandi* - that the donor must be motivated by an intention to give. It must be clear that the donor intends to enrich the donee, by giving away property, and to generally grow poorer as a result of making the gift.

It is our view that the vast majority of the transactions involving the Charity fail to meet this latter element. The common theme, found throughout all of the transactions, is that through a series of transactions and a minimal monetary investment, "donors" profit through the tax credits so obtained. It is clear that the primary motivation of the donors is an intent to profit, and, as such, these transactions fail to qualify as gifts at law.

In support of this position, we note that:

- The promotional material for the Donations Canada 2005 program promises the donor will receive a tax credit at the highest marginal tax rate for the combined value of the gifts and provides charts calculating the donors return on cash investment of at least 49% and as high as 94%;
- The donor receives an official donation receipt for the 31.4% cash contribution and the 68.6% pledged amount of the donation in the 2004 Donation Program Supporting Canadian Amateur Athletics, Foundations and Charities. The donor receives an official donation receipt for the 25% cash contribution and the 75% beneficial trust interest in the 2005 Donations Canada program;
- "Donors" guarantee the remaining 68.6% as a promissory note for a loan in the 2004 Donation Program Supporting Canadian Amateur Athletics, Foundations and Charities; and
- Transactions are pre-arranged and handled entirely by promoters or other pre-arranged third parties. Participants in these arrangements are merely expected to put forward a minimal investment to receive generous tax receipts in return;
- Minimal information is provided to the prospective "donors" as to how the "donations" will benefit the charity, or to the activities of the charity they are supporting.

These points, in our opinion, evidence that these transactions are primarily motivated by the donor's intent to enrich him/herself rather than an intent to make a gift to charity. As such, it is our position that there is no intention to make a "gift" within the meaning assigned at 118.1 of the ITA.

Property donated

We are concerned that the property, purportedly donated to the Charity through the tax shelter arrangement may not *actually* be property that has been donated or received by the Charity.

The participants themselves contribute, as above, a mere 31.4% or 25% of the property purportedly received by the Charity. The remainder of the property "donated" consists of low or non-interest bearing loans made to individuals, but issued directly to Computershare Trust Company of Canada or consists of sub-trust units received by the individuals for no consideration. The Charity itself does not receive itself, have access to or seemingly even verify the amounts received. These are, instead, subject to a mandatory transfer to an offshore "investment". The Charity has no access to the investments and receives little, if any, return.

We are extremely concerned that the purported property, beyond the actual cash contributed by participants (much of which is siphoned off by the promoters, the insurance company and the lender) may not exist other than notations on paper as investments "owned" by the Charity. This is suggested by the fact that the Charity has no control over the use of the property "donated", has no access to the investments, places its investments in an off-shore jurisdiction rather than more traditional investments, and chooses this investment despite the low-rate of return. In fact, the promotional materials advertise, to donors, "A great cash on cash return which is further enhanced with early participation."² The materials provided for the 2004 Donation Program Supporting Canadian Amateur Athletics, Foundations and Charities do not specify the terms of repayment, by the donors, for the promissory note nor are we convinced the donors will repay the note.

In this regard, we are somewhat concerned that the pattern of transactions point to an arrangement whereby individual donors are purchasing receipts for a small fraction of the receipt's face value (i.e., that the only property involved is the purchase price paid by participants).

Due Diligence: We note with concern, with respect to this particular issue, that it appears that the Charity's directors have demonstrated a lack of due diligence with respect to receipting practices. In fact, and as above, we feel that the duty of the directors to operate in the best interests of the Charity has been sidetracked by its collusion with the tax shelter arrangements.

In support of this we note that the Charity appears to have failed to demonstrate due diligence in verifying the authenticity of the donation program, as well as how participation in the program furthers the objects of the organization. The president claimed he relied upon the treasurer, [REDACTED], for the accuracy of the information. The Charity did not appear to have undertaken any reasonable efforts to corroborate or contradict the opinions provided by persons directly associated with the tax shelter promoters.

As above, this has resulted in the millions of dollars of deferred or lost revenue.

Pending legislation:

Even if we were of the opinion that the payments made by "donors" to the Charity constituted "gifts", which, in our view is not the case, on December 5, 2003, the Department of Finance introduced new legislation with respect to charitable donations and advantages. These rules allow a taxpayer to make a gift to a charity and receive some advantage in return, however the value on the receipt must reflect the eligible amount of the gift made (i.e., the value of the receipt must reflect the gift less any advantage received by the donor). This new legislation also outlines rules particular to gifts where a taxpayer incurs a limited recourse debt. This legislation, while still pending, is applicable in respect of gifts made after December 5, 2003.

²Promotional materials distributed by the Donations Canada 2005.

It is our view that the participant donor received an advantage, as defined at proposed subsection 248(32), as a result of the cash contribution to the Charity, in the form of receiving a limited-recourse, low-interest debt. A limited-recourse debt is broadly defined to include any unpaid amounts if there is a guarantee, security, or similar indemnity or covenant in respect of the debt. The value of this advantage should have been deducted from the eligible amount of the gift.

In addition, proposed subsection 248(34) generally provides that the gift portion of any transaction involving a limited recourse debt is deemed to be no more than the amount of the initial cash payment. A taxpayer may, additionally, claim a gift with respect to a repayment of the principal amount of the limited-recourse debt in the year it is paid. As such the Charity was not entitled to issue a receipt associated with the limited recourse debt (in this case with reference to the promissory note) and in this regard it is our view that the Charity has issued a receipt for a gift or donation otherwise than in accordance with this ITA, which is cause for revocation by virtue of paragraph 168(1)(d).

Official Donation Receipts:

The law provides various requirements with respect to the issuing of official donation receipts by registered charities. These requirements are contained in Regulations 3500 and 3501 of the ITA and are described in some detail in Interpretation Bulletin IT-110R3 *Gifts and Official Donation Receipts*.

The audit reveals that the donation receipts issued by the Charity do not comply with the requirements of Regulation 3501 of the ITA and IT-110R3 as follows:

- Official receipts did not indicate the day on which the receipt was issued where that day differs from the day or year in which the donation was received (Regulation 3501(1.1)(f)).

3. Disbursement Quota:

In order to maintain its status as a charitable organization within the meaning of paragraph 149.1(2)(b) of the ITA, a registered charity must, in any taxation year, expend amounts that are equal to at least 80% of the aggregate amounts for which it issued donation receipts in its immediately preceding taxation year. A charity is allowed by virtue of 149.1(20) of the ITA to offset any shortfalls in its disbursement quota by applying any excesses in its disbursement quota from its immediately preceding taxation year and 5 or less of its immediately subsequent taxation years.

In considering the application of expenditures used to meet the disbursement quota a charity must ensure that it is expensed directly on charitable activities and/or programs. This would include such payments as salaries to persons performing duties directly related to a

charitable program, but would not include amounts paid for purely administrative expenses such as fund-raising costs, legal or accounting fees and the like.

Based on our calculations, the Charity has not met its disbursement quota for the fiscal period ending July 31, 2006 as it failed to expend 80% of the prior years received income reported on the T3010. We have calculated the Charity's cumulative disbursement quota shortfall based on the information contained on the July 31, 2005 (amended) and July 31, 2006 T3010, as:

Fiscal Period	DQ Excess	DQ Shortfall	Cumulative DQ Excess (Shortfall)
2005	\$1,000.00	\$ 0.00	\$ 1,000.00
2006	\$ 0.00	\$1,866,242.00	-\$1,865,242.00

4. Charity Information Return (T3010):

a) Inaccurate T3010

Pursuant to subsection 149.1(14) of the ITA, every registered charity must, within six months from the end of the charity's fiscal period (taxation year), without notice or demand, file a Registered Charity Information Return with the applicable schedules.

It is the responsibility of the Charity to ensure that the information that is provided in its Return, schedules and statements, is factual and complete in every respect. A charity is not meeting its requirement to file an Information Return if it fails to exercise due care with respect to ensuring the accuracy thereof.

The Charity improperly completed the Information Return for the fiscal periods ending July 31, 2005 and July 31, 2006 in that certain items reported were incorrectly identified or omitted. Specifically the following items:

FPE July 31, 2005

- Line 4520 – Charity reports \$2,253,068 as specified gifts included in line 4510. Charity has not received any gifts from other registered charities therefore has not received any specified gifts.
- Line 5020 – Charity failed to report total fundraising fees paid to Equi-Capital Investment Counsel Inc of \$94,866. The Charity reported the amount at line 5010 as management and administration expenses.
- Line 5000 – Charity reports \$1,000 as total charitable expenditures yet audit determined that a) expense was not charitable and b) funds were from a directed donation.
- Section F2 – Charity failed to report total revenues collected by the fundraiser on behalf of the charity, total amounts retained by the fundraiser and net fundraising revenue received by the charity.

FPE July 31, 2006

Line 4500 – Charity reports total tax-receipted gifts of \$8,189,000 when in fact the Charity issued official donation receipts totalling \$8,195,100.

Line 4520 – Charity reports \$7,979,079 as specified gifts included in line 4510. Charity has not received any gifts from other registered charities therefore has not received any specified gifts.

Section F2 – Charity failed to report total revenues collected by the fundraiser on behalf of the charity, total amounts retained by the fundraiser and net fundraising revenue received by the charity.

b) Late Filing of T3010A Information Return:

Subsection 149.1(14) of the ITA requires every registered charity to file a Registered Charity Information and Public Information Return (form T3010A), without notice or demand within six months from the end of each fiscal period. This return must be in prescribed form and contain prescribed information.

The Charity was late in filing its T3010 returns over the following two consecutive fiscal years:

<u>Fiscal year end</u>	<u>Due Date</u>	<u>Date received</u>
31-07-2006	31-01-2007	12-02-2007
31-07-2005	31-01-2006	07-02-2006

5. Books & Records:

Pursuant to paragraph 230(2)(a) of the ITA, every registered charity shall keep records and books of account at an address in Canada recorded with the Minister or designated by the Minister containing information in such form as will enable the Minister to determine whether there are any grounds for revocation of its registration under this ITA.

The director was unable to provide adequate books and records. In the course of the audit, various source documents and bank statements could not be located. Failure to keep proper books and records as required by subsection 230(2)(a) is grounds for suspension under subsection 188.2(2) of the ITA.

Conclusion:

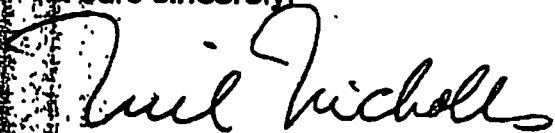
If you do not agree with the concerns outlined above, we invite you to submit your written representations **within 30 days from the date of this letter**. After considering the representations submitted by the Charity, the Director General of the Charities Directorate will decide on the appropriate course of action, which may include the issuance of a Notice of Intention to Revoke the registration of the Charity in the manner described in subsection 168(1) of the ITA and/or the immediate suspension of the Charity's tax receipting privileges and qualified donee status pursuant to 188.2(2) and (3) of the ITA. Should you choose not to

Respond, the Director General of the Charities Directorate may proceed with the issuance of a Notice of Intention to Revoke the registration of the Charity in the manner described in subsection 188(1) of the ITA and/or a notice of suspension as described in 188.2(2) of the ITA.

If you appoint a third party to represent you in this matter, please send us a written authorization naming the individual and explicitly authorizing us to discuss your file with that individual.

If you require further information, clarification, or assistance, I may be reached at (514) 794-0237 or by facsimile at (514) 283-8208.

Yours sincerely,



Neil Nicholls
Verification and Enforcement Division
Tax Services Office: 08 - Montréal

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