



APR 04 2007

BY REGISTERED MAIL

Canadian Literacy Enhancement Society
130-10691 Shellbridge Way
Richmond, British Columbia V6X 2W8

Attention: Ms. Pamela Winthrope

BN: 88930 1305 RR 0001

**SUBJECT: Notice of Intention to Revoke
Canadian Literacy Enhancement Society**

Dear Ms. Winthrope:

I am writing further to our letter dated June 20, 2006 (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 Canadian Literacy Enhancement Society (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA").

We reviewed the written response of August 15, 2006 (copy attached) provided by Mr. ██████████ of ██████████ Chartered Accountants. You will find our comments in Appendix "A" attached. Mr. ██████████ also advised us verbally on September 12, 2006 that the current board of directors was not able to obtain representations from the previous board as to address or provide explanations for the concerns noted in our June 20, 2006 letter.

Conclusion

After careful review of the representations included in the letter of August 15, 2006, it is our conclusion that sufficient reasons have not been provided as to why the Charity's status as a registered charity should not be revoked. The Charity failed to demonstrate that the acquisition and distribution of Advanced Reading Courses to various organizations across Canada meets the necessary elements of direction and interaction to be considered educational in the charitable sense and has failed to address the remaining concerns identified in our letter of June 20, 2006.

Consequently, for each of the reasons mentioned in our letter dated June 20, 2006, 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

.../2

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)(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.

Business Number	Name
88930 1305 RR0001	Canadian Literacy Enhancement Society Richmond, British Columbia

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

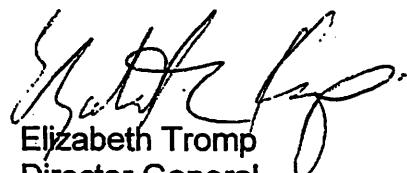
As of the date of revocation of the registration of the Charity, which is the date upon which the above-noted notice is published in the *Canada Gazette*, the Charity will no longer be exempt from Part I Tax as a registered charity and will no longer be permitted to issue official donation receipts.

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 "B" 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 "C". 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,



Elizabeth Tromp
Director General
Charities Directorate

Attachments

- Our letter dated June 20, 2006
- Your letter dated August 15, 2006
- Appendix "A", Our comments on your letter of August 15, 2006
- Appendix "B", Relevant Provisions of the *Income Tax Act*;
- Appendix "C", 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*.

Canadian Literacy Enhancement Society

Charity Tax Audit for the fiscal period from July 1, 2003 to June 30, 2004

COMMENTS ON REPRESENTATIONS OF AUGUST 15, 2006

Charitable Activities

The audit conducted by the Canada Revenue Agency (the "CRA"), had identified that Canadian Literacy Enhancement Society (the "Charity"), had not conducted any of the activities as described in the Charity's Application for Registration.

It is clear that, from our audit, the Charity does little more than participate in a tax shelter arrangement-issuing receipts to "donors" and immediately purchasing and distributing Advanced Reading Courses ("ARC") from [REDACTED] - for a price significantly higher than the cost to produce the ARCs. Noting that the Charity immediately began making payments to [REDACTED] following registration in July 2003, and that almost 100% of the Charity's assets have since been devoted to such purchases, it is clear that this was the intended, yet not stated activity of the Charity - and not those described in the application. We note, additionally, that notwithstanding this fact, the Charity indicated that it had not been formed for the purpose of giving more than 50% of its income away to qualified donees, when, in fact, this appears to have been its intended mode of operation from the onset.

Under paragraph 149.1(4.1)(c) of the *Income Tax Act* (the "ITA"), *the Minister may revoke the registration of a charity, if a false statement, within the meaning assigned by subsection 163.2(1), was made in circumstances amounting to culpable conduct, within the meaning assigned by that subsection, in the furnishing of information for the purpose of obtaining registration of the charity.*

The representations of August 15, 2006 state "[...]the Society has undertaken many activities to promote its stated objectives[...]" however the audit findings do not support this claim and the Charity failed to provide documentary evidence to show otherwise.

It was further claimed that "[...] the bulk of its activity was the purchase and distribution of the Advanced Reading Course which addresses those all encompassing concerns: Literacy in all disciplines, and at all levels of capabilities." While the Courts recognize "self-study" as an acceptable means of education, they also stipulate that simply making materials with which this might be accomplished is not enough. The Charity provides ARCs to educational institutions but does not involve itself in the actual training of individuals. It does not assess the quality, educational value or usefulness of the ARCs, indicating instead:

"The net task of the directors was to decide on how best to efficiently distribute the courses to these students. It was decided that if the educators and educated of the universities themselves would review the Advanced Reading Courses and be duly impressed, through them, would be the best means of fulfilling the charity's main objective and also provide a method of distribution."

As such, it appears the sole activity of the Charity was to gift property to educational institutions that may, or may not, be used for genuine educational activities by those institutions. The Charity conducted no follow-up to determine how, or if, these products were used. As such, it cannot be concluded that the Charity devoted its resources to charitable activities carried on by it - as it has not met the standard to demonstrate that the Charity is educating the public in a manner the law regards as charitable. At best, it can be said that the Charity distributed property to organizations which may, or may not, have actually been used for charitable programs.

In addition, the representations state that there was a demand from educators and academic counsellors at universities across Canada, and that educators are recommending and utilizing the Advanced Reading Course as an educational tool in English departments, study skills workshops, learning and resource centres, college prep programs and reading comprehension workshops. We contacted several of the organizations listed in the August 15, 2005 letter and confirmed the Advanced Reading Courses were not part of the formal programs offered by the educational institutions. The Advanced Reading Courses were generally handed out to students during student orientation or made available from student union associations or student centres at no charge. The students are not graded or monitored, and no follow up was conducted by the organizations to determine the effectiveness of the course.

Further, notwithstanding the fact that we do not believe this activity to be charitable as educational, the Charity is unable to demonstrate how the ARCs were distributed given that, as noted in our previous letter, it failed to maintain or provide documentation with respect to the ARCs purportedly distributed (and used) by the educational institutions. This is due to the fact that, the Charity did not in fact take possession of the ARCs but instead allowed the ARC manufacturer to ship product to a third party located in Alberta, who was neither an employee nor a contractor of the Charity, who in turn handled the distribution of the property. This alone (i.e. failure to keep proper books and records to support activities) is grounds for the revocation of the Charity under paragraph 168(1)(e) of the ITA. However, we believe it is also evidence supporting the conclusion that the Charity did not advance education in the charitable sense - again, that the Charity provided materials, but did not concern itself with whether these were actually used to advance the skills of abilities of the participants.



Canada Revenue Agency Agence du revenu du Canada

REGISTERED MAIL

June 20, 2006

Canadian Literacy Enhancement Society
c/o 7720 Alouette Court,
Richmond, BC V7A 1S2

Attention: Bernice Thill, Director

Dear Ms. Thill,

Re: Charity Audit of Canadian Literacy Enhancement Society

BN: 889301305RR0001 (3023726)

Audit Period: July 1, 2003 – June 30, 2004

This letter is further to the audit of the books and records of the Canadian Literacy Enhancement Society (the “Society”), which was conducted by the Canada Revenue Agency (“CRA”). The audit relates to the operations for the fiscal period ending June 30, 2004.

The audit has raised serious concerns about the Society’s compliance with certain provisions of the Income Tax Act (the “*Act*”). For a registered charity to retain its registration, it must comply with the provisions of the *Act*. If the provisions are not complied with, the Minister may revoke the charity’s registration in the manner described in subsection 168(2) of the *Act*. The balance of this letter describes the audit findings with respect to the operations and activities of the Society, and outlines the CRA’s position for the grounds for revocation of the Society’s registered charity status.

Objects and Activities

Background

The Society obtained its registered charity status effective July 1, 2003. The registration was based on the information supplied by the Society and on the assumption that it would be carrying on the activities as stated in its application.

The purposes (sometimes referred to as “objects”) of the Society as stated in its Constitution are as follows:

- a) To promote the advancement of literacy among young adults.

Canada

- b) To conduct research into training methods and techniques that foster, encourage and improve literacy.
- c) To provide information to individuals, schools and government in regard to literacy and education.
- d) To develop public awareness of the problem of illiteracy.

To achieve its charitable purposes, in its Application for Registration the Society explained that its intended activities would be:

- 1) supporting or establishing programs to enhance reading and numeracy skills, study habits or learning ability;
- 2) evaluating existing programs, courses or techniques that fit the needs of educational institutions in Canada;
- 3) acquiring such programs and make them available at no cost to beneficiaries;
- 4) establishing communications with teachers, school administrators, librarians and student counsellors to tell them about the Society's research and charitable project;
- 5) providing additional resources to students or any other interested individuals or families that will enhance education, literacy, studying and learning;
- 6) encouraging research and development in new methods of improving literacy; and
- 7) soliciting "wish lists" from educational institutions and libraries in Canada to determine the kinds of educational materials schools require.

Analysis of Activities

From a review of the documentation provided by the Society during the audit, and its website, it appears that the Society's primary activity for the fiscal period ending June 30, 2004 was the purchasing of Advanced Reading Courses ("ARCs"). However, it appears that the Society did not conduct any of the activities as described in its Application for Registration which were intended to be pursued in furtherance of its purposes. Nor did the Society carry out other activities listed on its website such as the Canlit Recognition Awards & Scholarships.

The Society's main activity falls under its STAR (Success Through Advanced Reading) program. From our review, it appears the program consists of the acquisition and distribution of ARCs to various student unions or associations across Canada. An ARC is a self-study course that introduces the participant to a method of reading that, through applied study, can enable the participant to improve not only reading speed but also

understanding and retention of the material chosen to read. The course materials are made up of a workbook and cassette tape.

We would advise that the courts have held that the advancement of education in the charitable sense means formal training of the mind, advancing the knowledge or abilities of the recipient, improving a useful branch of human knowledge through research, and raising the artistic taste of the community. An educational charity must make a targeted attempt to educate others, whether through formal or informal instruction, training, plans of self-study, or otherwise. Instruction or training must be provided in a structured manner. Simply providing an opportunity for people to educate themselves by making available materials is insufficient for the activity to be regarded as charitable within the legal accepted definition of charity under the advancement of education. No matter how useful the provision of information may be on occasion, it lacks the necessary element that characterizes education in the charitable sense.

In light of the above, it is our position that the provision of Advanced Reading Courses to student unions or associations lacks the necessary elements of direction and interaction to be considered as educational in the charitable sense.

Other Concerns

We would take this opportunity to advise that the *Act* requires registered charities to devote their resources (physical, financial and human) to their own activities or to gift their funds over to other specific organizations termed "qualified donees". A "qualified donee" is any of those organizations listed as such in the *Act*, however, for practical purposes, the term generally refers to another Canadian registered charity. A registered charity may not simply act as a conduit to channel funds to another organization or individual to which a Canadian taxpayer could not directly make a gift and acquire some tax relief.

Canada Revenue Agency acknowledges that it is not always practical for a registered charity to become directly involved in charitable activities because of its limited financial resources, the size of the project or because the charity lacks the necessary expertise to operate effectively in a particular area of interest. Accordingly, Canada Revenue Agency will consider that a registered charity is involved in its own charitable activities if the charity demonstrates that it maintains the same degree of **control** and **responsibility** over the use of its resources by another entity as it would if its activities were conducted by the charity itself. A charitable organization is not at liberty to transfer funds into other hands unless the recipient is an employee of the charity, an agent of the charity under contract, or a qualified donee.

With regard to the acquisition and distribution of the ARCs, the following findings of our audit indicate that the Society did not maintain the same degree of control and responsibility over the use of its resources by another entity as it would if its activities were conducted by the Society itself:

- The Society provided twelve purchase orders for the acquisition of 52,840 ARCs totalling \$6,605,000 from [REDACTED] between the period of July 2003 to June 2004. The purchase orders do not appear to be made on a systematic or consistent basis (i.e. number of units required, date units are required, volume discounts).
- The Society made payments totalling \$6,725,000 to [REDACTED] throughout the fiscal year. The payments were apparently made as deposits against the purchase of the ARCs.
- The payments were made on the purchase orders, prior to receiving the purchase invoices and prior to receiving any ARCs. However, the payments did not always correspond to the purchase orders.
- Although Keith Wilson, the Society's representative, stated that the payments were deposits paid in advance in order to receive volume discounts, no documentation was provided regarding any purchase agreements or discount rates offered by [REDACTED]
- As of June 30, 2004, the Society had been invoiced for 28,600 ARCs totalling \$3,575,000. (Invoice #6 dated April 30, 2004 for 14,300 ARCs totalling \$1,787,500; Invoice #7 dated May 27, 2004 for 14,300 ARCs totalling \$1,787,500)
- The ARCs were not shipped until August 2004. Furthermore, the shipping invoice provided by Keith Wilson dated February 23, 2004 shows 50,000 ARCs shipped from [REDACTED] to [REDACTED] and sold to [REDACTED] [REDACTED]. There was no reference to the Society on the invoice.
- Keith Wilson explained during the initial interview that the ARCs were shipped directly from the manufacturer (not [REDACTED] to a party named Marie, to be distributed to educational institutions across Canada. Mr. Wilson could not provide the name of the manufacturer and had difficulty in recalling the surname of [REDACTED] or where she resided.
- The Society did not maintain documentation regarding the distribution of ARCs. It was indicated that [REDACTED] maintained this documentation. However, there was no indication that [REDACTED] was an employee or agent of the Society.
- The Society failed to provide detailed shipping invoices or packing lists showing the items and quantity shipped to various educational institutions.

Other Activities

The Society issued a donation receipt for \$5,000 for seven programs designed to increase sales and personal wealth such as "The Science of Getting Rich Principles of Prosperity..."

and "Info-Preneuring-How to Make Millions in Your Information Business". In response to our queries regarding the use and existence of these assets, Keith Wilson stated that the Society's directors used the programs to carry out the activities of the charity. From our review, it appears that "Get Rich" programs are not consistent with the Society's purpose of advancing literacy.

Conclusion

In light of the above, it appears that the Society has failed to carry on charitable activities in compliance with the requirements of the *Act*. As a result, the Society does not meet the definition of a charitable organization under subsection 149.1(1) of the *Act*. Pursuant to paragraph 168(1)(b) of the *Act*, the Minister may, by registered mail, give notice to a registered charity that the Minister proposed to revoke its registration because the charity fails to comply with the *Act*.

Devotion of Resources

Subsection 149.1(1) of the *Act* defines a charitable organization as: "an organization, whether or not incorporated, all the resources of which are devoted to charitable activities carried on by the organization itself." This would include not only financial resources but material and human resources as well.

As stated in the previous sections, CRA has determined that the Society has failed to carry on any charitable activity. Our analysis of the Society's expenditures confirms our position that the charity failed to devote its resources to charitable activities. Of the \$6,762,869 expended during the year, \$6,725,000 (99%) was paid to [REDACTED] for the purchase of advanced reading courses. The remaining expenditures of \$37,869 were to [REDACTED] for fundraising (\$24,500), an appraisal billed to [REDACTED] (\$4,173), [REDACTED] for website & services (\$3,500), [REDACTED] for packaging (\$2,020), the directors for travel & entertainment (\$600), and miscellaneous office expenses (\$3,076).

Because the charity has failed to devote its resources to charitable activities, it does not meet the definition of a charitable organization under subsection 149.1(1) of the *Act*. Pursuant to paragraph 168(1)(b) of the *Act*, the Minister may, by registered mail, give notice to the registered charity that the Minister proposes to revoke its registration because the charity fails to comply with the *Act*.

Gifts

Return of a Gift

The charity issued two cheques totalling \$61,750 to donors for a refund of their donations. CRA's position is that a registered charity may not generally return a donor's gift. At law, a gift transfers ownership of the gift (money or property) from the donor to the charity. Once the transfer is made, the charity is obliged to use the gifts to carry out their charitable activities.

There may be some exceptions such as a gift attached with a condition subsequent. A condition subsequent may occur when a gift is made on the condition that the charity uses the funds for a specific program. The charity may not be able to carry out the program. If the condition subsequent fails, and the gift reverts back to the donor, the charity should advise the Canada Revenue Agency that the original gift is being returned to the donor. A condition subsequent may result in a subsequent tax liability.

For the Society to transfer its funds back to a donor at the donor's request is the equivalent of making a gift to a non-qualified donee.

Gifts to Non-Qualified Donees

For the purposes of the *Act*, when a registered charity transfers its resources to an entity, other than a qualified donee, but fails to maintain effective control and direction over those resources, the result is the same as a gift to a non-qualified donee.

The audit findings show that the Society made payments of \$6,725,000 to [REDACTED] for the ARCS but failed to direct or control the distribution of the ARCs.

The transfer of the Society's resources to non-qualified donees is not permitted under the *Act*. As a result, the Society has failed to meet the requirements of subsection 149.1(1) of the *Act*. Pursuant to paragraph 168(1)(b) of the *Act*, the Minister may, by registered mail, give notice to the registered charity that the Minister proposes to revoke its registration because the charity is in contravention of the *Act*.

Books and Records

Subsection 230(2) of the *Act* requires every registered charity to maintain adequate records and books of account at an address in Canada recorded with the Minister. A charity must maintain the following:

- (a) information in such form as will enable the Minister to determine whether there are any grounds for the revocation of its registration under this *Act*;
- (b) a duplicate of each receipt containing prescribed information for a donation received by it; and
- (c) other information in such form as will enable the Minister to verify the donations to it for which a deduction or tax credit is available under this *Act*.

Our review of the Society's books and records found that the Society failed to maintain adequate records, and the internal accounting controls were inadequate. In particular:

- the Society failed to maintain original source documentation.
- the bank account was not reconciled correctly at year-end.
- the financial statements did not accurately reflect the financial transactions for several general ledger accounts.
- there was a lack of control over the issuance of donation receipts.
- copies of cancelled cheques were not maintained by the Society.
- there was a lack of documentation for the Society's activities and expenditures.
- documentation regarding donors and donations were maintained by fundraiser [REDACTED], and documentation regarding the ARCs were maintained by [REDACTED]. [REDACTED] The Society did not have an agreement or contract with either individual.
- the Society failed to maintain adequate records for the ARC that it purchased. The Society did not have an agreement or contract with [REDACTED].
- the Society failed to maintain documentation/appraisals regarding gift-in-kind donations.
- the Society did not maintain records of the disposition of sales/personal wealth programs that it acquired by way of a gift-in-kind donation. It could not account for the location of these assets.

Pursuant to paragraph 168(1)(e) of the *Act*, the Minister may, by registered mail, give notice to the registered charity that the Minister proposes to revoke its registration because the charity has failed to comply with the books and records requirements under Section 230 of the *Act*.

Official Donation Receipts

The audit indicated that the donation receipts issued by the Society did not comply with the requirements of Regulation 3501 of the *Act* and Information Bulletin IT110-R3 entitled "Gifts and Official Donation Receipts", as follows:

- The donations receipts issued by the Society, per the donation listing, did not reconcile to the amounts received by the charity. The Society issued donation receipt #30190 for \$10,000 for an amount that it did not receive.

- Official receipts issued for gifts of property other than cash (gifts-in-kind) were not in compliance. The Society issued receipt #30189 for \$5,000 worth of programs to increase sales or personal wealth. There was no indication on the receipt that the gift was a gift-in-kind donation.

Regulation 3501 of the *Act* requires that where the donation is a gift of property other than cash, the amount that represents the fair market value of the property at the time the gift was made, preferably by way of independent appraisal for gifts exceeding \$1,000, must be included on the receipt. In addition, the receipt should include the date on which the donation was received; a brief description of the property; and the name and address of the appraiser of the property, if an appraisal was performed. [See Regulation 3501(1)(e.1)].

- The Society issued official donation receipts to several individuals who did not make contributions to the charity. The bank records show that the amounts received by the Society were from [REDACTED] and not the donors shown on the receipts. (See receipts #30155-57, #30159, #30160, #30175-81) Paragraph 3501(1)(g) of the *Income Tax Regulations* provide that an official donation receipt must bear the name and address of the donor.

Control and Content of Receipts

The controls for the issuance of donation receipts are inadequate in that they did not prevent errors or omissions. In particular:

- several receipts in the numerical sequence were missing or unaccounted for (#30008, #30016-30035, #30152)
- dates on "copy" of receipt did not agree with original receipt (#30011, #30038, #30042, #30166)
- receipt number on "copy" of receipt did not agree with original receipt (#30012, #30036/39)
- amount on official receipt did not agree with amount received by the charity (#30040, #30125, #30156)
- voided or cancelled receipts were not maintained on file (Eg. #30067) [IT-110R3 Paragraph 20]
- year on "official" copy not shown (#30086, #30090-93, #30097, #30102)
- receipt #30315 issued for April 2004 is out of sequence. The last number issued in sequence is #30213 for June 2004.
- the address shown on the receipts issued during the audit period did not agree with the address on file with the Charities Directorate. [See Regulation 3501(1)]
- the receipts did not show the day on which the amounts were received, when the receipt was issued at a later date. [See Regulation 3501(1)]

- the receipts did not contain the signature of an authorized person on receipts (#30191, #30193-#30213)
- the Society did not retain at least one exact copy of the official donation receipts issued. (#30191, #30193-#30213)

Pursuant to paragraph 168(1)(d) of the *Act*, the Minister may, by registered mail, give notice to the registered charity that the Minister proposes to revoke its registration because the charity issues a receipt for a gift or donation otherwise in accordance with the *Act*.

Reporting on T3010A Information Return

Our review of the Society's T3010A information return indicated that several items on the return were completed incorrectly or omitted.

Section E – Financial Information

The amounts reported on the T3010A return did not reconcile to the financial statements filed with the return. The Society did not include the prepaid deposits (████████) of \$5,260,750 on the T3010A return. As well, the amounts shown for liabilities of \$7,374,921 did not agree with the balance sheet (\$416).

Section F – Other Required Information

The Society indicated that it had received \$372,600 in gifts-in-kind on line #5600. However, Keith Wilson stated that they had only received \$5,000 for gift-in-kind donations.

Directors / Trustees Worksheet

We noted that the directors / trustees worksheet was not completed in full. The worksheet did not include the required information for all of the directors. For each director/trustee, the information provided should include the home address, telephone number and birthdate of each individual.

Revised Financial Statements

During our audit, you provided us with revised financial statements for the fiscal year ended June 30, 2004. If a charity revises its financial figures so that it would require a revision to the amounts reported on the T3010A return, a Registered Charity Adjustment Request (Form T1240) should be filed with the Charities Directorate of CRA.

Pursuant to paragraph 168(1)(c) of the *Act*, the Minister may, by registered mail, give notice to the registered charity that the Minister proposes to revoke its registration because the charity fails to file an information return as required under the *Act*.

Conclusion

For each of the reasons listed above, it appears that there are grounds to revoke the Society's status as a registered charity. Therefore, under paragraph 168(1)(b) of the *Act*, The Minister of National Revenue (the "Minister"), may, by registered mail, give notice to the Society that he proposes to revoke its registration because it ceases to comply with the requirements of the *Act* relating to its registration as such.

The consequences to a registered charity of losing its registration include:

1. The loss of its tax exempt status as a registered charity, which means that the charity would become a taxable entity under Part I of the *Act* unless it qualifies as a non-profit organization as described in paragraph 149(1)(l) of the *Act*;
2. Loss of the right to issue official donation receipts for income tax purposes, which means that gifts made to the charity would not be allowable as a tax credit to individual donors as provided under subsection 118.1(3) of the *Act* or as a deduction allowable to corporate donors under paragraph 110.1(1)(a) of the *Act*;
and
3. The possibility of a tax payable under Part V, section 188 of the *Act*.

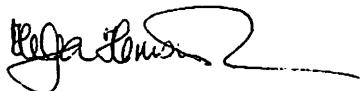
For your reference, we have attached a copy of the relevant provisions of the *Act* concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation.

If you do not agree with the facts outlined above, or if you wish to present any reasons why the Minister should not revoke the registration of the Charity in accordance with subsection 168(2) of the *Act*, we invite you to submit your representation **within 30 days from the date of this letter**. After that date, the Director of Charities will decide whether or not to proceed with the issuance of a notice of intention to revoke the registration of Canadian Literacy Enhancement Society in the manner described under subsection 168(1) of the *Act*.

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

If you require additional information, clarification, or assistance, please contact the undersigned at (250) 363-0172 or by fax at (250) 363-3862, or at the address listed below.

Yours truly,



Helga Hemsworth, CGA
Audit Division
Telephone: (250) 363-0172
Fax: (250) 363-3862
Address: 1415 Vancouver Street
Victoria BC V8V 3W4

c.c. Doug Ference, Director; Hans Hybschmann, Director
Attachments