



CANADA REVENUE  
AGENCY      AGENCE DU REVENU  
DU CANADA

OCT 26 2007

REGISTERED MAIL

Friends of the Lord's Ranch  
10A Birchpoint Road  
Magnetawan, ON  
P0A 1P0

Attention: Mr. Joseph Kraemer

BN: 888588647RR0001  
File #: 0606764

**Subject:      Notice of Intent to Revoke**  
**Friends of the Lord's Ranch**

Dear Mr. Kraemer:

I am writing further to our letter dated July 19, 2007 (copy enclosed), regarding the proposed revocation of Friends of the Lord's Ranch (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA"), and to your letter dated June 25, 2007 advising that the charity had ceased operations and was requesting revocation of registered charitable status.

For each of the reasons mentioned in our letter dated July 19, 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)(a) of the Income Tax Act and that the revocation of registration is effective on the date of publication of this notice.*

**Business Number**  
888588647RR0001

**Name**  
Friends of the Lord's Ranch  
Magnetawan, Ontario

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  
Canada Revenue Agency  
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 or public institution for purposes of subsection 123(1) of the *Excise Tax Act* (the "ETA"), effective 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 or public institutions. If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-800-959-8287.

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  
Director General  
Charities Directorate

Attachments:

- Our letter dated July 19, 2007
- Your letter dated June 25, 2007
- Appendix "A", Relevant provisions of the *Income Tax Act*
- Form T2046 – Tax Return Where Registration of a Charity is Revoked
- Guide RC4424E Completing the Tax Return Where Registration of a Charity is Revoked



CANADA REVENUE AGENCY AGENCE DU REVENU DU CANADA

REGISTERED MAIL

July 19, 2007

Friends of the Lord's Ranch  
10A Birchpoint Road  
Magnetawan, Ontario  
P0A 1P0

BN: 88858 8647 RR0001  
File #: 0606764

**Attention: Mr. Joseph Kraemer:**

**Subject: Audit of Friends of the Lord's Ranch**

Dear Mr. Kraemer:

This letter is further to the audit of the books and records of Friends of the Lord's Ranch (the "Charity") by the Canada Revenue Agency (the "CRA"). The audit related to the operations of the Charity for the period from November 1, 2003 to October 31, 2006.

At a meeting on May 3, 2007 with your representative, Mr. Gerard Thompson, at his residence [REDACTED] Mr. Thompson was advised that the CRA had identified specific areas of non-compliance with the provisions of the Income Tax Act (the "ITA") and/or its Regulations in the following areas:

Canada

<b>AREAS OF NON-COMPLIANCE:</b>		
	<b>Issue</b>	<b>Reference</b>
1.	Devotion of Resources - Control of Activities Outside Canada and Gifts to Non-Qualified Donees	149.1(2); 168(1)(b); 149.1-definition “charitable organization”; 149.1(10)
2.	Disbursement Quota	149.1(2)(b); 168(1)
3.	T3010A Information Returns	149.1 (2); 168(1)(c); 149.1(14)
4.	Books and Records	149.1(2) 168(1)(e) 230(2)(a)
5.	Official Donation Receipts	149.1(2); 168(1)(d) Regulations 3501 & IT-110R3

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 prescribed 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. Devotion of resources to charitable activities- lack of control of activities outside Canada and gifts to non-qualified donees**

The definition of a “charitable organization” found in section 149.1 of the ITA permits a registered charity to carry out its charitable activities itself and subsection 149.1(10) of the ITA deems the gifting of funds to qualified donees to be a devotion of the charity’s resources to charitable activities. It therefore can devote its resources to charitable activities both inside and outside Canada, in the following two ways:

- It can carry out its own charitable activities either directly or through a duly appointed agent, contractor or partner. In contrast to the relatively passive transfer of money or other resources involved in making gifts to qualified donees, carrying on one's own activities implies that the Canadian charity is an active and controlling participant in a program or project that directly achieves a charitable purpose; and
- It can make gifts to other organizations that are on the list of qualified donees set out in the ITA. Qualified donees include Canadian registered charities, certain universities outside Canada, the United Nations and its agencies as well as a few foreign charities.

*Audit Findings:*

The audit disclosed that the Charity sent funds to Our Lady Youth Center in El Paso, Texas, U.S.A. A copy of the formal Agency Agreement between the Charity and Our Lady Youth Center, was requested by the CRA in letters dated January 31, 2006, January 15, 1986 and October 7, 1983, however, the Charity failed to provide this document.

Since the ITA requires a charity to show that it effectively directs and actually controls its own activities, the agency agreement that a charity puts in place and the manner that the charity implements that agreement does not allow the charity to discharge its statutory obligations. The charity must show that it maintained control and direction of the funds it sent to its agent and must also maintain adequate documentation to support this.

The audit did not reveal that the Charity kept adequate documentation to demonstrate that it maintained control and direction over its funds sent to Our Lady Youth Center. Adequate documentation such as, monthly financial statements (accountability of the funds disbursed), progress reports, agreements, quarterly updates, meeting minutes, invoices and receipts to substantiate disbursements were not available.

Furthermore, it appears the Charity gifted the following amounts to Our Lady Youth Center, which is a non-qualified donee:

- In fiscal 2003, \$9,764
- In fiscal 2004, \$9,500
- On December 29, 2006, \$34,080

The audit findings disclosed that on December 29, 2006, subsequent to the CRA's initial contact and prior to the audit, the Charity closed its accounts at the TD Canada Trust and its investment accounts at CIBC Wood Gundy and sent the balance of \$34,080.22 (US \$28,920.76) to Our Lady Youth Center. The Charity provided the CRA auditor with a

copy of the external accountant's financial statements for the additional two months (November and December 31, 2006). According to the financial statements the Charity presently does not have any assets or liabilities.

It is our belief that the Charity did not exercise the required degree of direction and control over the use of its funds, and/or over the activities conducted with those funds, to establish that it was carrying out its own charitable activities in accordance with the provisions of the ITA. Rather, it appears that the Charity was acting as a conduit; funding the programs of Our Lady Youth Center.

## 2. Disbursement Quota

Under 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 five or less of its immediately subsequent taxation years.

### Audit Findings:

The audit revealed that the Charity did not meet its disbursement quota in fiscal years ended October 31, 2003, October 31, 2005 and October 31, 2006 as calculated below:

Year	Donation received in prior fiscal	Disbursement quota for the year	Amount spent on charitable activities per Financial Statements	Disbursement quota shortfall
2002	\$17,537	\$14,030	\$13,875	\$155)
2003	\$13,851	\$11,081	\$9,764	\$1,317
2004	\$11,631	\$9,305	\$9,500	(\$195)
2005	\$12,456	\$9,965	0	\$9,965
2006	\$12,046	\$9,637	0	\$9,637
			Cumulative Disbursement Quota Shortfall	<u>\$20,569</u>

Note: The amounts as recorded in the financial statements did not reconcile to the amounts as recorded in the T3010A

There would appear to be a cumulative disbursement shortfall of \$20,569 in fiscal year ended October 31, 2006.

### **3. T3010A Information Returns (Non-filing and Incorrect Information)**

Pursuant to subsection 149.1(14) of the ITA, every registered charity must file a Registered Charity 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.

It is the responsibility of the Charity to ensure that the information 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.

#### **Audit Findings:**

As of the date of this letter, the Charity has not filed its T3010A returns for the two consecutive fiscal years ended October 31, 2005 and October 31, 2006. These returns were due on April 30, 2006 and April 30, 2007 respectively.

The Charity's representative could not provide us with a hard copy of the Information Return (T3010A) and the financial statements for the fiscal year ending October 31, 2004. The review of the online copy of the T3010A filed with the Charities Directorate revealed that the Charity improperly completed the Information Return for the fiscal period ending October 31, 2004, in that many items reported were incorrectly identified or omitted. Specifically:

- Under subsection A3, the Charity listed the BN number of Friends of the Lord's Ranch rather than the international organization linked with the Charity;
- Under subsection B1, the Charity did not attach a list of Directors/Trustees and Like Officials;
- Under subsection C4, when asked whether the Charity carried on programs, directly or indirectly, outside Canada, the NO box was checked, whereas the YES box should have been;
- Line 4200-Total assets were underreported by \$2,128;

- Line 4500-The Charity could not reconcile the total of tax-receipted donations amount of \$12,456 with the total donation amount of \$12,834.34 as shown on the synoptic journal;
- Line 4700-The Charity could not reconcile the total revenue amount of \$13,198 with the synoptic journal amount of \$11,785;
- Line 4950-The Charity could not reconcile the total expenditures amount of \$1,432 with the synoptic journal amount of \$896; and
- Line 5010- Total management and administration expenditures included in line 4950 was not answered.

#### **4. Failure to Maintain Adequate Books and Records**

Pursuant to paragraph 230(2)(a), registered charities must maintain adequate books and records of account at a single address in Canada that is registered with the CRA. This provision is intended to enable a charity to accurately provide the CRA with the information required by the ITA in order to enable the CRA to verify the accuracy of reported information through an audit and to determine whether there are any grounds for the revocation of the charity's registration.

##### *Audit Findings:*

The representative was unable to provide adequate books and records. The records that were provided were not organized or up to date. The information was not readily available during the audit and the official donation receipt book and deposit book were missing. A review of the Charity's synoptic journal and minute file folder indicated that they were not kept up-to-date. The minutes of the A.G.M. and the Board meetings were not available for the audit period.

There was also no proper log system maintained to show the number of official donation receipts purchased against those that are officially issued and/or are voided.

#### **5. Official Donation Receipts**

The ITA stipulates various requirements pertaining to official donation receipts issued by registered charities. These requirements are contained in Regulations 3500 and 3501 of the ITA and are described in some detail in the Interpretation Bulletin IT -110 R3 entitled "*Gifts and Official Donation Receipts*". This publication is available on our website at [www.ccra-adrc.gc.ca/tax/charities](http://www.ccra-adrc.gc.ca/tax/charities).

*Audit Findings:*

The audit revealed that the official donation receipts were not issued in accordance with Regulations 3500 and 3501 of the ITA nor were they issued in accordance with Interpretation Bulletin IT -110R3 "Gifts and Official Donation Receipts" as explained hereafter:

- The registered address of the Charity was not amended on the official donation receipts and on legal documents;
- The addresses of the donors were not shown on the official donation receipts; and
- The Charity was not able to provide copies of all the donation receipts to the auditor. The receipt numbers 403 to 462 were not provided to us, but were recorded as being issued as per the Charity's synoptic journal. Each receipt must be prepared at least in duplicate and the Charity is required to keep on file a copy of every official receipt issued with the signature of the authorized person.

For your information effective January 1, 2005, every Charity must include the name and Web site address of the Canada Revenue Agency on all official donation receipts.

**Conclusion:**

Please provide your written representations and any additional information regarding the findings outlined above 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. 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 168(1) 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 that individual to discuss your file with us.

We are returning herewith the two deposit books to Gerard Thompson, which were borrowed from him on May 3, 2007.

If you require further information, clarification, or assistance, I may be reached at (780) 495-6277.

Yours sincerely,



*PLX*  
Shaukat Moosa, CGA  
Auditor  
Audit Division  
Edmonton Tax Services Office  
Encl.  
Telephone: (780) 495-6277  
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Edmonton AB T5J 4C8  
cc: Mr. Gerard Thompson  
236 Varsity Estates Grove NW  
Calgary, Alberta T3B 4C7