



COPY

BY REGISTERED MAIL

APR 21 2006

TLC Counselling Ministries Association
1440 52nd Street NE
Suite 350, #204
Calgary, Alberta T2A 4T8

Attention: Mr. Thomas Cook, President

BN: 88887 7933 RR0001
File #: 3000240

SUBJECT: Notice of Intent to Revoke
TLC Counselling Ministries Association

Dear Mr. Cook:

I am writing to you further to our letter dated January 28, 2005 (copy attached), in which you were invited to submit representations to us as to why the Minister of National Revenue should not revoke the registration of TLC Counselling Ministries Association (hereinafter, the "Association") in accordance with subsection 168(1) of the *Income Tax Act* (hereinafter, the "Act").

We have reviewed your written responses of February 24, 2005; you will find our comments in Appendix "A" attached.

Conclusion

Our view remains unchanged in light of the information outlined in Appendix "A", and I wish to advise you that pursuant to the authority granted to the Minister in subsection 168(1) of the Act, and delegated to me by the Minister, I propose to revoke the registration of the Association. By virtue of subsection 168(2) of the Act, the revocation will be effective on the date of publication in the *Canada Gazette* of the following notice:

.../2

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 and that the revocation of registration is effective on the date of publication of this notice.

File Number	Business Number	Name
3000240	88887 7933 RR0001	TLC Counselling Ministries Association Calgary, Alberta

Should you wish to appeal this notice of intention to revoke the charity registration in accordance with subsection 168(4) of the Act, 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

Consequences of a Revocation

As of the date of revocation of the registration of the Association, which is the date upon which the above-noted notice is published in the *Canada Gazette*, the Association 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, the Association may be subject to tax pursuant to Part V, section 188 of the Act. For your reference, I have attached a copy of the relevant provisions of the Act (Appendix "B") concerning revocation of registration and the tax applicable to revoked charities as well as appeals against revocation.

Furthermore, by virtue of section 188 of the Act, TLC Counselling Ministries Association 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 T2046 "*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. Form T-2046, along with the related Guide RC-4424 are also attached for your information.

I wish to advise you that pursuant to subsection 150(1) of the Act, 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 Division

Attachments:

- Our letter dated January 28, 2005;
- Appendix "A" – Our comments on the letter of February 24, 2005;
- Appendix "B" – Relevant provisions of the *Income 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"



Canada Customs
and Revenue Agency

Agence des douanes
et du revenu du Canada

EDMONTON TAX SERVICES OFFICE
9700 JASPER AVENUE
EDMONTON, ALBERTA
T5J 4C8

TRACK #:
RT 911550723 CA

Jan 28, 2005

TLC Counselling Ministries Association
#350, #204, 1440 – 52 Street, NE
Calgary, AB T2A 4T8

ATTENTION: Ms. Grace Plept & Mr. Thomas Cook, President

Dear Sir/Madam:

Re: B/N: 88887 7933 RR0001
Charity Audit for the period from 2001-01-01 to 2002-12-31

This letter is further to an audit of the books and records of account of TLC Counselling Ministries Association (the "Charity"). The audit relates to the operations of the charity for its fiscal period 2001-01-01 to 2002-12-31.

The audit has raised serious concerns about the Charity'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 a particular registered charity does not comply with these provisions, the Minister may revoke that charity's registration in the manner described in subsection 168(2) of the Act. The balance of this letter describes the Canada Revenue Agency's (the "CRA'S") concerns.

Personal Benefits

Under the definition of a "charitable organization" per subsection 149.1(1) of the Act, no part of a charity's income is payable to, or is otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof. The CRA considers the meaning of the term "trustee" to include persons having general control and management of the administration of a charity, including directors of corporations established for charitable purposes.

The CRA's position regarding the remuneration of directors is that *bona fide* payments for actual services rendered do not constitute a "personal benefit" of the type prohibited by the Act. Accordingly, a registered charity may remunerate its directors for other services performed on behalf of the charity, as long as those payments are reasonable under the circumstances.

Section 67 of the Income Tax Act also stipulates that no deduction shall be made in respect of an outlay or expense in respect of which any amount is otherwise deductible under this Act, except to the extent that the outlay or expenses was reasonable in the circumstances.

The audit identified that the Charity had increased the salary of its two principal employees – [REDACTED] and [REDACTED] from a combined annual salary of \$42,000.00 in 1997 to \$60,000.00 in 2001 and to \$278,000.00 in 2002.

As part of the audit, the annual Charity's report from the external accountant, CAMI Accounting & Business Strategies, was reviewed. The report indicated that the reason for the extensive increase in salary was due to the increase of benevolent gifting to the needy through [REDACTED]. However, there was no supporting documentation or information provided during the audit to support the payout of benevolent payments to the poor by [REDACTED]. The report also mentioned observations and concerns about possible areas of non-compliance with CRA and of maintaining its charitable status. It was pointed out that only reasonable salaries and out of pocket expenses can be paid and therefore, the salaries of [REDACTED] should reflect their compensation for services rendered only. In addition, the accountant also made the recommendations to the Board that the current employment contract terms should be reviewed to see if the salaries had increased disproportionately, and if so, the Charity should be prepared to justify current terms by way of increases in duties, or correction of salary levels to align with comparable remuneration with other charitable organizations for employees doing comparable work.

The Charity's minutes dated May 22, 2002 also raised concerns about the extensive increase to [REDACTED] salaries. The board members also made reference to their awareness that "there are people at the head of charities in Canada who are making this amount of money, but few are in the church."

During the audit, no employment agreement was provided by the Charity for [REDACTED]. Thus, the basis for such payments could not be determined. In its February 4, 1997 Board Minutes there was a budget worksheet showing [REDACTED] salary budget that detailed their personal needs totalling \$42,600 for the year. Other than this information, no other information was available to determine the basis for the [REDACTED] salaries. It appears from the August 12, 2002 minutes that even hiking their salaries to \$250,000 per year was insufficient to support the [REDACTED] needs and the Board agreed to advance money as needed to the [REDACTED] in the form of personal loans. At December 31, 2002 the Charity had advanced \$43,623.52 to the [REDACTED] personal loans.

In addition, the audit revealed that [REDACTED] and [REDACTED] received payments either directly or indirectly through payments by the Charity of personal bills or expenses on their behalf in the year 2002. Additional payments totalling \$38,365.93 were identified as follows:

- Payments for a total of \$16,500.00 were made to [REDACTED] per diem meals for the year, based on 250 working days at \$33.00 per day. No reduction was made for the times that [REDACTED] were both at their home in Ontario and for all the lunches and dinners that had been charged to the Charity when they travelled or were hosting under a hospitality expense account. We observed that expenses for food were incurred throughout the year.
- Payments for personal entertainment for a total of \$3,643.85 were made to various credit card accounts for charges from travel agencies for hiring tour operators for overseas trips or trips in Canada.
- Payments for a total of \$4,164.80 were made to various credit card accounts for personal expenditures. Credit card charges included purchases of personal merchandise, travel bags, etc. Insufficient documentation was kept to demonstrate the purpose and nature of the expenditure incurred and therefore, the expenses incurred would be considered as not related to the Charity's activities.
- Payments for a total of \$14,057.28 were made for the lease of a vehicle for Mr. [REDACTED] while he was in Toronto. No mileage log was available to demonstrate that the leased vehicle was used primarily for business use.

The absence of supporting documentation does not allow the Charity to prove to CRA that any of the above payments were for reimbursement of expenses incurred on behalf of the Charity nor to prove that [REDACTED] in [REDACTED] capacity as the president of the Charity, did not receive any personal benefits.

Under paragraph 168(1)(b) of the Act, the Minister may, by registered mail, give notice to the Charity that the Minister proposes to revoke its registration because it ceases to comply with the requirements of the Act relating to its registration as such.

Devotion of Charitable Resources – Large, Abnormal Expenses

The audit identified that the Charity had incurred excessive and extravagant expenses towards meals, gifts, travel and accommodations during the year of 2002. No information or documentation was evident to support that the expenses were incurred for charitable purposes. Example of some of the expenses are identified as follows:

	<u>FY. 2002</u>
One night stay at [REDACTED] in Centerreach, NY	\$ 1,369.19
One night stay at [REDACTED] in Centerreach, NY	1,374.06
One night stay at [REDACTED] at Calbasas, CA	714.33
One night stay at [REDACTED] at Calbasas, CA	714.33

Flight tickets for [REDACTED]		
Calgary – Denver – LA, CA – Denver – Atlanta	17,075.07 (3x\$5691.69)	
Flight tickets for [REDACTED]		
Toronto – Orlando, FL – Toronto	2,035.20	
Flight tickets for [REDACTED]		
Calgary – Denver – Calgary	6,675.88	
Flight tickets for [REDACTED]		
Calgary – Toronto – Orlando, FL – Toronto	7,400.42 (2x\$3700.21)	
Flight tickets for [REDACTED]		
Toronto – Honolulu – Syney, Australia – Vancouver		
- Calgary	21,223.38	
Excessive Meal Expenses (excluded out of country's meal expenses)	13,762.45	
Gifts to [REDACTED] speaker for Global Mission, Australia	3,555.30	
Flight tickets for [REDACTED]		
Calgary – Birmingham – Frankfurt – Calgary	3,229.06 (2x\$1614.53)	
 Total Expenses	 \$79,128.27	

Flight expenses incurred for various trips to United States and Australia were not supported with documentation/ agenda/ itinerary to clearly demonstrate the purpose and need for the trips. Copies of the flight tickets were not available; therefore, the auditor was not able to determine the class of the seats, number of passengers travelling and their names and other services purchased. In addition, a flight ticket for the amount of \$2,035.20 was purchased for [REDACTED] for a trip to Orlando, FL. No information or documentation was evident to explain the relationship of [REDACTED] to the Charity and the purpose of her trip. The 2002 Ministry Calendar provided to CRA indicated that the Orlando trip was for a TLC Board retreat and meetings. There were other travel costs incurred for other members for this trip. The Charity has not justified nor demonstrated the need to hold Board meetings and a retreat outside of Canada.

In addition, numerous meals expenses were incurred after congregational meetings for debriefing with the Ministers and members of the leadership team. Such expenditures are personal in nature and are for the personal enjoyment of those in attendance. Costs of meals recorded under hospitality in 2002 amounted to \$22,508.51 consisting of \$13,762.45 incurred in Alberta and Ontario and the balance of \$8,746.06 for meals other than in Alberta and Ontario. These meal expenses are not considered as being incurred for charitable purposes.

Section 67 of the Income Tax Act also stipulates that no deduction shall be made in respect of an outlay or expenses in respect of which any amount is otherwise deductible

under this Act, except to the extent that the outlay or expenses was reasonable in the circumstances.

Under paragraph 168(1)(b) of the Act, the Minister may, by registered mail give notice to the Charity that the Minister proposes to revoke its registration because it ceases to comply with the requirements of the Act relating to its registration as such.

Funds Sent Overseas/Out of Canada Activities

The audit indicates that the charitable activities operating outside of Canada did not comply with the requirements of the Income Tax Act. The Charity did not maintain adequate documentation to support the expenditure of its funds on its overseas missionary activities. The 2002 T3010 disbursements for outside Canada totalled \$105,505 while the general ledger account recorded total expenditures of \$127,199. There is no documentation available to us for verifying the accuracy of the funds sent overseas.

The Act requires a charity to devote its resources to its own activities. A registered charity can carry on its charitable activities through intermediaries such as agent, a contractor, or any other body. Where a charity transfers funds, property, or resources to contractors, agents or partners who carry its activities abroad, these arrangements can be an acceptable devotion of the charity's resources to its "own activities" providing:

- the charity has obtained reasonable assurance before entering into agreements with individuals or other organizations that they are able to deliver the services required by the charity (by virtue of their reputation, expertise, years of expenses, etc.);
- all expenditures will further the Canadian charity's formal purposes and constitute charitable activities that the Canadian charity carries on itself;
- an adequate agreement is in place (the Department recommends a written agreement containing the minimum elements outlined below);
- the charity provides periodic, specific instructions to individuals or organizations as and when appropriate;
- the charity regularly monitors the progress of the project or program through adequate reports and records of expenditures received from other party;
- where appropriate, the charity makes periodic payments on the basis of this monitoring (as opposed to a single lump payment) and maintains the right to discontinue payments at any time if it is not satisfied.

Where a charity's arrangements do not satisfy those guidelines, the charity must otherwise satisfy the Agency that it retains the degree of control required by law over the ultimate

use of the resources passed to another party. An organization that cannot clearly demonstrate the necessary degree of control is unlikely to qualify for registered charitable status. If registered, the organization may be subject to loss of its charitable status. It is preferable for the charity to put in place a formal agreement with its intermediary body.

Written agreements should typically include **at least** the following information:

- names and addresses of all parties;
- the duration of the agreement or deadline by which the project must be completed;
- a description of the **specific** activities for which funds have been transferred, in sufficient detail to outline clearly the limits of the authority given to the recipient to act for the Canadian charity or on its behalf;
- provision for **written** progress reports from the recipient of the Canadian charity's funds or other resources, or provision for the charity's right to inspect the project on reasonably short notice, or both;
- provision that the Canadian charity will make payments by instalments based on confirmation of reasonable progress that the resources provided to date have been applied to the specific activities outlined in the agreement;
- provision for withdrawing or withholding funds or other resources at the Canadian charity's discretion;
- provision for maintaining adequate records at the charity's address in Canada;
- in the case of agency agreements, provision for the Canadian charity's funds and property to be segregated from those of the agent and for the agent to keep separate books and records; and
- the signature of all parties, along with the date.

Copy of the publication RC4106(E) is enclosed for your reference.

Under paragraph 168(1)(b) of the Act, the Minister may, by registered mail give notice to the Charity that the Minister proposes to revoke its registration because it ceases to comply with the requirements of the Act relating to its registration as such.

Benevolent Payments

The audit indicates that total payments of \$8,350.00 were made to various individuals as benevolent payments by the Charity (note: not paid personally by [REDACTED]). The Charity

did not have selection criteria for granting the benevolent payments. The selection criteria for granting benevolent funds should also meet the "Public Benefit" requirement.

The public benefit requirement for all charities comprises of two parts:

- the purpose must confer a tangible benefit; and,
- the benefit must be conferred on the public or a significant section thereof.

Official Donation Receipts

Regulation 3501 of the Act provides various requirements in respect of official donation receipts issued by registered charities. Interpretation Bulletin IT-110R3 entitled "Gifts and Official Donation Receipts" attached sets out our policy regarding other requirements. Our review indicated that the Charity issued donation receipts in 2001 totalling \$21,000.00 for money received in 2002.

T3010 Information Return

Expenses for the year 2001 totalling \$19,438.07 were reported in the year 2002. No adjustment was made in the year 2001. Information returns for years 2001 and 2002 should be amended to reflect the actual expenses incurred for these two years. 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.

Books and Records

Section 230(2) of the Income Tax Act requires every registered charity to maintain adequate records and books of account at an address in Canada recorded with the Minister. The purpose of this requirement is to enable the charity to accurately provide CRA with the information required by the Act as well as to enable CRA to verify the accuracy of reported information through the conducting of audits.

In addition to the retention of copies of donation receipts that section 230(2) explicitly requires, such books and records should included as a minimum standard:

- a book of account into which is entered the details (names, dates, amounts, etc) in respect of all receipts and disbursements;
- all bank statements, pass books, duplicate deposit slips, cancelled cheques and any other notes or memos that may have be supplied by the bank; and
- all bills, invoices, statements, etc. in support of expenditures made.

The Charity is not meeting its requirement to maintain adequate books and records failed to exercise due care with respect to ensuring the accuracy thereof.

The Charity's books and records and internal accounting controls supporting them are considered to be inadequate. During the review, insufficient documentation was kept for the majority of the credit card charges. Charge receipts were kept but original invoices related to the charges were missing. The auditor was unable to review the type and nature of the expenditure being paid and to conclude whether the expenditure was charitable in nature and as reported in the Information Return.

Summary Highlights per TLC's financial statements

Personal loans advanced to the President, [REDACTED]	\$ 43,613
Administrative salaries and expenses amounted to 17.5% of receipts	157, 287
Counselling Ministry expenses – cell phones	32, 395
- meals hospitality	22,508
- contract salary	43,250
Ministry wages and benefits	289,680
Vehicle lease	9,899
Airfare	85,699
Vehicle rental	9,389
Accommodation	21,405
Meals per diem	16,500
Misc travel	<u>4.162</u>
Total	<u>735,787</u>

The Charity expended \$735,787 out of its total receipts of \$895,277 in 2002 for the majority on [REDACTED] and some of his associates. Our review of a few of the recorded tapes selected concluded that the main message led to fundraising for the churches and ministry. The Charity's revenue had increased significantly over the last two years and this increase may be attributable to [REDACTED]. However, the purpose of the Charity is to carry out charitable activities and our preliminary audit findings do not lead us to this conclusion. Unlike a profit organization where a person/employee is rewarded for his efforts and accomplishment in making the organization profitable, we do not believe that the Charity should have remunerated and spent the majority of its receipts on them.

Conclusion

For each of the reasons indicated above, it appears that there are sufficient grounds for revocation of the Charity's status as a registered charity.

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

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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 Income Tax Act unless, in the opinion of the Director of the applicable Tax Services Office, 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 at 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, subsection 188(1) of the Act.

For your reference, we have attached a copy of the relevant provisions of the Income Tax 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 of National Revenue should not revoke the registration of TLC Counselling Ministries Association in accordance with subsection 168(2) of the Act, you are invited to submit your representations within 30 days from the date of this letter. Subsequent to this date, the Director General of the Charities Directorate will decide whether or not to proceed with the issuance of a Notice of Intention to revoke registration of the charity in the manner described in section 168 of the Act.

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

If you require further information, clarification, or assistance, please contact the undersigned at Canada Revenue Agency, telephone (780) 495-8000.

Thank you for the assistance and cooperation provided during the audit.

Yours truly,


Cecilia Hui, CGA
Auditor
Compliance Branch

Telephone: (780) 495-8000
Fax: (780) 495-6908
Address: 9700 Jasper Avenue
Edmonton, AB T5J 4C8

Charities Directorate
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