



REGISTERED MAIL

Universal Aide Society
c/o 275 Judges Row
Qualicum Beach BC V9K 1G7

Attention: Ms. Susan J. Sampson

BN: 89154 0981

File #:1045178

April 28, 2009

Subject: Revocation of Registration
Universal Aide Society

Dear Ms. Sampson:

The purpose of this letter is to inform you that a notice revoking the registration of Universal Aide Society (the Organization) was published in the *Canada Gazette* on April 25, 2009. Effective on that date, the Organization ceased to be a registered charity.

Consequences of Revocation:

- a) The Organization is no longer exempt from Part I Tax as a registered charity and is no longer permitted to issue official donation receipts. This means that gifts made to the Organization are no longer allowable as tax credits to individual donors or as allowable deductions to corporate donors under subsection 118.1(3), or paragraph 110.1(1)(a), of the *Income Tax Act* (the Act), respectively.
- b) By virtue of section 188 of the Act, the Organization will be required to pay a tax within one year from the date of the Notice of Intention to Revoke. This revocation tax is calculated on prescribed form T-2046 "*Tax Return Where Registration of a Charity is Revoked*" (the Return). The Return must be filed, and the tax paid, on or before the day that is one year from the date of the Notice of Intention to Revoke. A copy of the Return is enclosed. The related Guide RC-4424, "*Completing the Tax Return Where Registration of a Charity is Revoked*", is available on our website at www.cra-arc.gc.ca/E/pub/tg/rc4424.

Section 188(2) of the Act stipulates that a person (other than a qualified donee) who receives an amount from the Organization is jointly and severally liable with the Organization for the tax payable under section 188 of the Act by the Organization.

- c) The Organization no longer qualifies as a charity for purposes of subsection 123(1) of the *Excise Tax Act* (ETA). As a result, the Organization may be subject to obligations and entitlements under the ETA that apply to organizations other than charities. If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-888-830-7747 (Quebec) or 1-800-959-8287 (rest of Canada).

In accordance with *Income Tax Regulation* 5800, the Organization is required to retain its books and records, including duplicate official donation receipts, for a minimum of two years after the Organization's effective date of revocation.

Finally, we wish to advise that subsection 150(1) of the Act requires that every corporation (other than a corporation that was a registered charity throughout the year) file a *Return of Income* with the Minister of National Revenue (the Minister) in prescribed form, containing prescribed information, for each taxation year. The *Return of Income* must be filed without notice or demand.

If you have any questions or require further information or clarification, please do not hesitate to contact the undersigned at the numbers indicated below.

Yours sincerely,



Danie Huppé-Cranford
Director
Compliance Division
Charities Directorate
Telephone: 613-957-8682
Toll free: 1-800-267-2384

Enclosures

- Copy of the Return (form T-2046)
- Canada Gazette publication



REGISTERED MAIL

Universal Aide Society
c/o 275 Judges Row
Qualicum Beach, B.C.
V9K 1G7

July 18, 2008

BN: 89154 0981 RR0001
File #:1045178

Attention: Ms. Susan J. Sampson, Director

**Subject: Notice of Intention to Revoke
Universal Aide Society**

Dear Ms. Sampson:

I am writing further to our letter dated May 6, 2008 (copy enclosed), in which you were invited to submit representations as to why the Minister of National Revenue (the "Minister") should not revoke the registration of Universal Aide Society (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA").

The Charity informed us on July 7, 2008, that it has chosen not to respond to our letter of May 6, 2008.

Consequently, for each of the reasons mentioned in our letter dated May 6, 2008, I wish to advise you that, pursuant to the authority granted to the Minister in subsections 149.1(2) and 168(1) of the ITA, which has been delegated to me, I propose to revoke the registration of the Charity. By virtue of subsection 168(2) of the ITA, revocation will be effective on the date of publication of the following notice in the *Canada Gazette*:

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.

Business Number	Name
89154 0981 RR0001	Universal Aide Society Gabriola, B.C.

Should you wish to appeal this Notice of Intention to Revoke the Charity's registration in accordance with subsection 168(4) of the ITA, a written Notice of Objection, which includes the reasons for objection and all relevant facts, must be filed within **90 days** from the day this letter was mailed. 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 fact that the Charity may have filed a Notice of Objection, a copy of the revocation notice, described above, will be published in the *Canada Gazette* after the expiration of **30 days** from the day this letter was mailed. The Charity's registration will be revoked on the date of publication.

Consequences of Revocation:

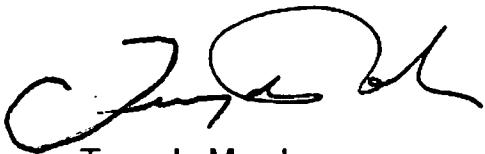
As of the effective date of revocation:

- a) 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**. This means that gifts made to the Charity would not be allowable as tax credits to individual donors or as allowable deductions to corporate donors under subsection 118.1(3), or paragraph 110.1(1)(a), of the ITA, respectively;
- b) 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. This revocation tax is calculated on prescribed form T-2046 "*Tax Return Where Registration of a Charity is Revoked*" (the "Return"). The Return must be filed, and the tax paid, on or before the day that is one year from the date of the Notice of Intention to Revoke. A copy of the relevant provisions of the ITA concerning revocation of registration, the tax applicable to revoked charities, and appeals against revocation, can be found in Appendix "A", attached. Form T-2046, and the related Guide RC-4424, "*Completing the Tax Return Where Registration of a Charity is Revoked*", are available on our website at www.cra-arc.gc.ca/charities;
- c) the Charity will no longer qualify as a charity for purposes of subsection 123(1) of the *Excise Tax Act* (the "ETA"). As a result, the Charity may be

subject to obligations and entitlements under the ETA that apply to organizations other than charities. If you have any questions about your GST/HST obligations and entitlements, please call GST/HST Rulings at 1-888-830-7747 (Quebec) or 1-800-959-8287 (rest of Canada).

Finally, I wish to advise that subsection 150(1) of the ITA requires that every corporation (other than a corporation that was a registered charity throughout the year) file a *Return of Income* with the Minister in prescribed form, containing prescribed information, for each taxation year. The *Return of Income* must be filed without notice or demand thereof.

Yours sincerely,



Terry de March
Director General
Charities Directorate

Attachments:

- CRA letter dated May 6, 2008;
- Your letter dated July 7, 2008; and
- Appendix "A", Relevant provisions of the ITA



REGISTERED MAIL

May 6, 2008

Universal Aide Society
c/o 275 Judges Row
Qualicum Beach, B.C.
V9K 1G7

Attention: Ms. Susan J. Sampson, Director

BN: 89154 0981 RR0001

File #: 1045178

Subject: Audit of Universal Aide Society

Dear Ms. Sampson:

This letter is further to the audit of the books and records of Universal Aide Society (the "Charity") by the Canada Revenue Agency (the "CRA"). The audit related to the operations of the registered charity for the period from January 1, 2003 to December 31, 2005.

The CRA has identified specific areas of non-compliance with the provisions of the *Income Tax Act* (the "ITA") and/or its Regulations in the following areas:

AREAS OF NON-COMPLIANCE:		
	Issue	Reference
1.	Failure to Devote all of its Resources to its own Charitable Activities	149.1(1), 149.1(2), 168(1)(b)
2.	Providing personal benefit to a proprietor, member, shareholder, trustee or settler	149.1(1), 149.1(2), 168(1)(b)
3.	Issuing Receipts not in Accordance with the <i>ITA</i> and/or its Regulations	149.1(2), 168(1)(d), Reg. 3501
4.	Failure to Maintain Adequate Books and Records	149.1(2), 168(1)(e), 230
5.	Failure to File an Information Return as Required by the <i>ITA</i>	149.1(2), 149.1(14), 168(1)(c)

Vancouver Island Tax Services
1415 Vancouver Street
Victoria BC

Mailing Address:
Vancouver Island Tax Services
c/o 9755 King George Hwy.
Surrey, BC V3T 5E1

Services fiscaux de l'Île de Vancouver
1415, rue Vancouver
Victoria, C-B

l'adresse postale :
Services fiscaux de l'Île de Vancouver,
A/S 9755 Aut. King George
Surrey, C-B V3T 5E1

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 and common law 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*.

Below we provide an overview of the requirements for registration and identify the areas of non-compliance. Attached to this letter, at Appendices "A", "B" and "C", we provide details of our findings and elaborate on the non-compliance matters.

Identified Areas of Non-Compliance:

1. Charitable Purposes and Activities and Failure to Devote all of its Resources to its own Charitable Activities:

In order for an organization to be recognized as a charity, it must be constituted and operated exclusively for charitable purposes, and it must devote all of its resources to charitable activities carried on by the organization itself.

The term "charitable" is not defined in the *ITA* and it is therefore necessary to rely on the jurisprudence in the *Common Law*. The Courts have recognized four general categories of charitable purposes: (1) the relief of poverty; (2) the advancement of religion; (3) the advancement of education; and (4) other purposes beneficial to the community as a whole (or a sufficient section thereof) in a way that the law regards as charitable. This last category merely identifies an additional group of purposes that have been held charitable at law rather than qualifying any and all purposes that provide a public benefit as charitable.

In the Supreme Court decision of *Vancouver Society of Immigrant and Visible Minority Women v. M.N.R.* [1999] 1 S.C.R. 10, Iacobucci J. speaking for the majority, summarized the requirements for charitable registration at paragraph 159, as follows:

In conclusion, on the basis of the Canadian jurisprudence, the requirements for registration under s. 248(1) come down to two:

- (1) the purposes of the organization must be charitable, and must define the scope of the activities engaged in by the organization; and*
- (2) all of the organization's resources must be devoted to these activities.*

The Charity was registered effective July 1, 1995 "to engage in, establish, maintain and carry out benevolent projects and charitable undertakings to assist the needy and eradicate poverty in the developing countries; to engage in activities to obtain financial aid and to provide relief in the way of commodities such as medicine, food and clothing

to assist the poor in developing countries; to provide and assist in self help programs involving farming and education to improve nutrition and hygiene in the developing countries; and to provide medical and dental personnel for field work in the developing countries."

We do not dispute that the wording of these objects could possibly be seen in a charitable vein.

Turning to the "devotion of resources", a registered charity may only use its resources (funds, personnel and/or property) in two ways, both inside and outside Canada – for charitable activities undertaken by the charity itself, under its continued supervision, direction and control; and for gifting to "qualified donees" as defined in the *ITA*.

CRA acknowledges that it is not always practical for a registered charity to become directly involved in charitable activities because of 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, CRA 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.

Where a registered charity chooses to operate through an appointed agent or representative ("intermediary"), it must be able to substantiate, generally through documentary evidence, that it has arranged for the conduct of certain specific activities on its behalf, and has not simply made a transfer of resources to a non-qualified donee. A charitable organization is not at liberty to transfer funds or resources to other individuals or entities unless the recipient is an employee of the charity, an agent of the charity under contract, or a qualified donee. To this end, the charity must be able to demonstrate to the CRA's satisfaction that it maintains control over, and is fully accountable for, the use of resources provided to the intermediary, at all times.

The existence of an arrangement that demonstrates sufficient and continuing direction and control over, and full accountability for, all resources and related activities, is critical. The arrangement must establish that the activities in question are, in fact, those of the Charity.

In this respect, the Charity has not shown that through its programs and arrangements for the undertaking of activities, it devotes all of its resources to its own charitable activities. The Charity has not shown that the activities are charitable and that it has continued supervision, direction and control over the programs.

In addition, over the period being audited, the Charity made financial contributions to organizations that are not considered to be "qualified donees" under the *ITA*.

2. Providing Personal Benefit to a Proprietor, Member, Shareholder, Trustee or Settlor:

A "charitable organization" is one of which "... no part of its income is payable, or otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settlor thereof" (subsection 149.1(1) of the *ITA*).

It is our view that the resources of the Charity have benefited Shirley and Yuri Gremyachev and a corporation controlled by these individuals. The Charity has not otherwise shown that the support given to the Gremyachevs and the corporation constitutes a charitable use of its resources.

We would add that where a charity has provided a personal benefit to any "proprietor ...", the *ITA* does provide for a possible alternative to a revocation action. Subsection 188.1(4) ("undue benefit") provides for a penalty equal to 105% of the amount of the benefit. This penalty increases to 110% and the suspension of tax-receipting privileges for a repeat infraction within 5 years. We do not believe that this is an appropriate alternative, given the serious nature of the matter of non-compliance.

3. Issuing Receipts Not in Accordance with the *ITA* and/or its Regulations:

The *ITA* provides various requirements with respect to the issuing of official donation receipts by registered charities. These requirements are contained in Regulation 3501 of the *ITA* and include:

- a statement that it is an official receipt for income tax purposes;
- name and address of the charity as on file with the CRA;
- charity's registration number;
- serial number of the receipt;
- place or locality where the receipt was issued;
- day or year donation was received;
- day on which the receipt was issued if it differs from the day of donation;
- full name, including middle initial, and address of the donor;
- amount of the gift;
- (pending amendment) value and description of any advantage received by the donor;
- (pending amendment) eligible amount of the gift;

- signature of an individual authorized by the charity to acknowledge donations; and
- (pending amendment) name and Web site address of the Canada Revenue Agency -www.cra.gc.ca/charities.

For non-cash gifts (gifts in kind), these additional elements must be identified:

- day on which the donation was received (if not already indicated);
- brief description of the property transferred to the charity;
- name and address of the appraiser (if property was appraised); and
- (pending amendment) deemed fair market value of the property in place of amount of gift above.

When a registered charity issues a receipt to acknowledge a gift of non-cash property, the charity is responsible to ensure that the value on the receipt is accurate. Generally, a member of a charity, or another individual, can attest to the value of the property if the value of the property is less than \$1,000 and as long as the member or individual has sufficient knowledge of the property.

In those circumstances where the value of the property exceeds \$1,000, we strongly recommend that the property be appraised by an independent third party; an independent party is one who is not affiliated with the charity or the donor. The person should be knowledgeable about the principles, theories, and procedures of the applicable valuation discipline and follow the *Uniform Standards of Professional Appraisal Practice* or the standards of the profession.

We recognize that appraisals are not required under the *ITA* or its Regulations. However, it is our view that the onus remains with the Charity to ascertain that the value assigned to non-cash gifts received is reflective of the fair market value of the goods being donated.

In each scenario, the person determining the fair market value of the item should be competent and qualified to evaluate the particular property being donated. Also, he should be knowledgeable about and active in the marketplace for the specific property.

The Charity has not shown that it sought, nor has it provided, independent appraisals of the non-cash property received. **It has issued receipts to acknowledge non-cash gifts that were not issued in accordance with Regulation 3501.**

We would add that where a charity issues receipts with incorrect or false information, subsection 188.1(7) provides for a possible alternative to a revocation action. This provision provides for a penalty equal to 5% of the eligible amount stated on the receipt. This penalty increases to 10% for a repeat offence within five years. A charity that issues an official donation receipt that includes deliberately false information may be liable to a penalty equal to 125% of the eligible amount stated on the receipt and if the penalty is in excess of \$25,000, the charity is also liable to one year's suspension of its

charitable status. We do not believe that this is an appropriate alternative, given the serious nature of the matter of non-compliance.

In conclusion, it is our view that the Charity has not complied with the requirements of the *ITA* in that it has issued receipts for gifts or donations otherwise than in accordance with the *ITA* and the Regulations or that contains false information.

4. Failure to Maintain Adequate Books and Records:

Section 230(2) of the *ITA* requires that every registered charity maintain adequate books and records, and books of account, at an address in Canada recorded with the Minister. In addition to retaining copies of donation receipts, as explicitly required by section 230(2), section 230(4) provides that

“every person required by this section to keep books of account shall retain:

- (a) the records and books of account referred to in this section in respect of which a period is prescribed, together with every account and voucher necessary to verify the information contained therein, for such period as prescribed; and
- (b) all other records and books of account referred to in this section, together with every account and voucher necessary to verify the information contained therein, until the expiration of six years from the date of the last taxation year to which the records and books relate.”

The policy of the CRA relating to the maintenance of books and records, and books of account, is based on several judicial determinations, which have held that:

- it is the responsibility of the registered charity to prove that its charitable status should not be revoked¹;
- a registered charity must maintain, and make available to the CRA at the time of an audit, meaningful books and records, regardless of its size or resources. It is not sufficient to supply the required documentation and records subsequent thereto²; and
- the failure to maintain proper books, records and records of account in accordance with the requirements of the *ITA* is itself sufficient reason to revoke an organization's charitable status³.

¹ *The Canadian Committee for the Tel Aviv Foundation vs. Her Majesty the Queen*, 2002 FCA 72 (FCA)

² *Supra*, footnote 3; *The Lord's Evangelical Church of Deliverance and Prayer of Toronto v. Canada*, (2004) FCA 397

³ (*College Rabbinique de Montreal Oir Hachaim D'Tash v. Canada (Minister of the Customs and Revenue Agency*, (2004) FCA 101; *ITA* section 168(1)

It is our view that the Charity failed to maintain adequate books and records and to provide complete access to its records for our inspection.

5. Failure to File an Information Return As Required by the *ITA*:

Pursuant to subsection 149.1(14) of the *ITA*, every registered charity must, within six months from the end of the charity's fiscal year end, file a Registered Charity Information Return (T3010A) 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 requirements to file an Information Return if it fails to exercise due care with respect to ensuring the accuracy thereof.

The Charity has improperly completed T3010A returns for the December 31, 2003 through December 31, 2005 fiscal periods, as there were numerous errors and omissions.

The Charity's Options:

a) No Response

You may choose not to respond. In that case, 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*.

b) Response

Should you choose to respond, please provide your written representations and any additional information regarding the findings outlined above within **60 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:

- no compliance action necessary;
- the issuance of an education letter;
- resolving these issues through the implementation of a Compliance Agreement; or
- 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.

If you have any questions or require further information or clarification, please do not hesitate to contact the undersigned at the numbers indicated below.

Yours sincerely,

Helga Hemsworth, CGA

Audit Division

Telephone: (250) 363-0172

Fax: (250) 363-3862

Enclosures: Appendices A - C

c.c. Blake Bromley- Benefic Law Corp.

Universal Aide Society

DETAILS RELATED TO THE AUDIT

The following presents details and support of the position expressed in our letter that the Charity is non-compliant in the following areas:

1. Failure to Devote all of its Resources to its own Charitable Activities.
2. Providing Personal Benefit to a Proprietor, Member, Shareholder, Trustee or Settlor.
3. Issuing Receipts Not in Accordance with the *ITA* and/or its Regulations.
4. Failure to Maintain Adequate Books and Records.
5. Failure to File an Information Return as Required by the *ITA*.

1. Failure to Devote all of its Resources to its own Charitable Activities:

It is our finding that the Charity's primary activity is the brokering of relief shipments. The Charity acted as a broker¹ by providing services, involving the acquisition and shipping of relief shipments, on behalf of other organizations for a fee. The Charity also made gifts of cash and property to non-qualified donees.

BROKERING

In the period under audit (2003 through 2005), the Charity has been involved with approximately 1770 shipments of relief goods and has reported revenues therefrom in excess of \$7.3 million, representing 99% of its total revenues. Most of this revenue is from U.S. non-profit organizations, with 50% from Feed the Children in the U.S. The process involving the relief shipments includes four functions, albeit that the methods may vary somewhat for each shipment: (i) receiving notification of the availability of goods for shipment; (ii) finding sponsors to pay costs related to the shipment of the relief goods; (iii) finding recipients for the goods if the donor has not already identified such; and (iv) arranging for the shipment of the goods from their place of origin to the recipient's location.

¹ According to Black's Law Dictionary, (Revised Eighth Edition) "broker" is defined as "an agent who acts as an intermediary or negotiator, esp. between prospective buyers and sellers ...". A broker may, by contract, have title to property pass through it (though it usually does not), and it may, by contract, collect from the consumer, but a broker does not deal on its account.

Two preliminary requirements must be met for a finding that an individual is acting as a broker: "the person is acting for compensation; and the person is acting on behalf of someone else". The most important determining factor of what constitutes a "broker" is whether the party is dealing for itself or for another.

In (i) "**receiving notification of the availability of goods for shipment**", the Charity is notified by various foreign and Canadian organizations ("originator of relief goods"), about the availability of relief goods. The organizations are aware of the Charity's services by reputation and through referrals. Usually the Charity agrees to arrange the shipping of the goods, once it finds a sponsor for the shipment (see item (ii)). In some cases, the originators charge a nominal procurement / handling fee for the goods.

The shipments are usually pre-packed container loads of goods such as medicine, used medical equipment, used hospital beds, used wheelchairs, Vitameal, liquid vitamins, vegetable seeds, flower seeds, schoolbooks, comics, new & used clothing, shoes, toys, beanie babies, and, in some cases, a used ambulance /vehicle. Many of the goods originate outside of Canada, and are shipped directly from their location of origin to the final intended destination/recipient organization (see items (iii) and (iv) below). In many cases, it appears that the originator has pre-determined the intended recipients of the goods as well. (see item (iii)).

In (ii) "**finding sponsors to pay costs related to the shipment of the relief goods**", the Charity then contacts its sponsorship clients ("sponsors"). These clients have sponsored shipments in the past or have been referred to the Charity. The Charity charges the sponsor a fee to cover all or a portion of the costs related to the procurement of the goods and/or transporting the goods from their place of origin to their place of destination.

Once the Charity locates organizations to sponsor the relief shipments, it invoices each sponsor for the costs or a portion of the costs for shipping the relief goods from their origin to their destination. The amounts invoiced for sponsorship fees were, on average, between \$3,000 USD - \$5,000 USD per shipment. In many cases, a single shipment was sponsored by more than one sponsor, when a single sponsor could have paid the full costs of the shipment by itself. We found that overall the Charity nets approximately \$500 per shipment, after receiving monies from sponsors and paying procurement and shipping costs.

The audit found that, in exchange for the sponsorship fee, the sponsor received documentation from the Charity indicating that the shipment belonged to the sponsor. The sponsor received documentation such as an invoice containing the value assigned to the goods; a "donation letter" containing the value assigned to the goods; an inventory listing, a bill of lading showing sponsor or the Charity as the shipper; and/or customs clearance documents (ie customs invoices, packing lists) showing the shipment was sent from the sponsor.

The "donation letter" provided to each sponsor states that the Charity,

"...is pleased to donate to [sponsor's name] one 40' container of [type of goods] with a total donated value of [value assigned to the container].

It is our understanding that this donation, now that it is under your control, will not be bartered or sold and will be used in accordance with your charitable purpose and according to your instructions....

We are pleased to be identified with your organization and this donation is a sign of our continued support and partnership.

Should you have any questions or concerns regarding this donation or if we can assist you further by arranging the shipping to the consignee of your choice do not hesitate to call our office at [office phone number]."

It would seem that either the Charity or the originator of the goods assigns the value to the goods. Where the Charity assigns the value, it might be based on each type of item contained within the shipment. The Charity's Executive Director, Shirley Gremyachev also informed CRA that she "validated" shipments and in some cases performed research on-line to determine values. A "comparative validated inventory list" showed an itemized description of the goods to be shipped. The Charity has not identified who prepared these lists (i.e. the originator of the goods or the Charity).

In (iii) "***finding recipients to accept the shipments if the donor has not already identified such***", the Charity then contacts organizations that have accepted shipments in the past, or who have been referred as being willing to accept shipments ("recipients").

The Charity requests all potential recipient organizations to complete a "Request for Humanitarian Aid" form providing general information about itself, such as its activities, where it is located, the type of humanitarian aid requested and how it would distribute any cargo shipments received, before the Charity might decide upon providing it with goods. It would seem that a recipient is one that is registered with the government of the country in which it operates and that can receive donated goods customs/duty free. The recipient must accept the complete contents of a container.

Three main recipients were Missionaries of the Poor, Sisters in the Philippines (MOPS), SOSEP/Ministerio Esperanza de Vida in Guatemala, and Blessings Hospital in Malawi.

A copy of the completed "Request ..." is provided to the sponsor by the Charity.

Also, the Charity utilizes a standard Program Agreement and/or Recipient Agency Agreement in every situation where it engages with the recipient. The form of agreement seems to be more in a template form, with changes only to the name of the recipient and certification areas. The Agreement implies the recipient "accepts full responsibility for the goods [handling, preparation, feeding or distributing donated items] and related functions...; bear[s] final responsibility for any and all decisions related to this Program Agreement..."; is "responsible for distribution of cargo received"; and "for completing the final distribution report provided by UAS [the Charity]".

In (iv) “*arranging for the shipment of the goods from their place of origin to the recipient's location*”, the Charity bears the costs incurred up to the point where the goods reach the destination port where they are offloaded. The recipient organization is then responsible for any costs associated beyond this point such as local transportation, customs, storage, etc. Goods are shipped directly from their location of origin to the recipient location. Each shipment is assigned a unique seven-digit number whereby the first four digits represent the year in which the goods were shipped. (i.e. #2003-xxx indicates the goods were shipped in 2003).

The Charity requests that all recipients then complete a “Cargo Distribution Report”, providing details on when the cargo arrived, who distributed it, how it was distributed and to whom, including the number of recipients and any personal stories of how the cargo benefited the recipients.

A copy of the completed “Cargo …” is provided to the sponsor.

Please note that we have also obtained additional information and documentation not offered nor provided by the Charity in context with a number of the issues surrounding the brokering function. This information was obtained from certain sponsors that are registered charities.

CRA found that the documents the Charity provided to these sponsors were different from the documents the Charity provided to CRA during the audit. For example, for a particular shipment, 1) the bill of lading provided by the Charity to CRA showed the Charity as the shipper, whereas the bill of lading provided to the sponsor showed the sponsor as the shipper. 2) the invoice for the sponsorship fees provided to the sponsor showed the value assigned to the goods, whereas the sponsorship invoices provided to CRA did not include any values. 3) the donation letter (containing the value assigned to the goods) was provided by the Charity to the sponsor, but was not provided to CRA.

Is the “Brokering” Charitable?

Overall, it is our view that the Charity has not shown that in undertaking its “brokering” function, it devotes all of its resources to charitable activities.

Ownership of Goods

Given the Charity's corporate objectives, we wish to begin our discussion on the understanding that the Charity, to satisfy the requirements for registration, is a provider of relief goods. And in fact, the Charity's “Registered Charity Information Return” (T3010A) describes its ongoing programs at section C2 to be to “Procure and distribute needed products to developing countries either alone or in partnership with other entities”. For this purpose, the Charity must show that it is in ownership of the goods that are distributed.

It is our view that the Charity has not shown that it had legal title to, or beneficial ownership of the relief goods reported to be received by it². The Charity has not shown that the originator of the goods has transferred them to the Charity. While the Charity had agreed in some cases to pay the nominal procurement costs and costs associated with shipping the goods, it seems unlikely that paying such costs would equate with the Charity becoming the owner of the goods. We would also comment that the fees paid could not be seen to be a payment for warehousing of the Charity's goods.

Concerning the arrangement with the sponsor, the "donation letter" identifies that the Charity is donating the goods to the sponsor. The sponsor has reported the values assigned to these goods as received and expended, including the sponsorship fee, in its annual returns. For example, Canadian Food for the Hungry paid a sponsorship fee of \$6,600 USD for shipment #2004-205 and received a donation letter from the Charity stating it had received a shipment of medicine valued at \$13,583,286 USD; Children's Emergency Foundation paid sponsorship fees totalling \$20,100 CAD for several shipments and received donation letters with values at \$2,571,451 CAD. Again, the Charity has not shown that it has ownership of the goods and is able to then transfer title to the sponsor. (The sponsors, in turn, would not be able to claim these amounts as received and disbursed, with the exception of the sponsorship fee.)

We also note discrepancies in the Charity's reporting of the goods in its annual information returns (T3010A). For fiscal years prior to 2003, the Charity consistently reported the receipt of non-cash gifts in its notes to the financial statements. Note 3 of the "Notes to the Financial Statements" for the December 31, 2003 fiscal year end reads as follows:

"The "fair market wholesale value of all goods shipped for 2003 as determined by management was in excess of \$200 million (2002 – over \$170 million)."

However, these goods were not included in the Charity's T3010A for that year.

For fiscal years after 2003, there is no reporting of these "gifts" either in the T3010A or the financial statements.

We believe that it is reasonable to expect that if the Charity owned the goods, it would have reported them both in its annual returns and financial statements both as received and disbursed.

² We do note the Charity was able to support the ownership of a small amount of medicine and Vitameal (shipments #2003-627; #2004-038; #2004-153; #2004-174; #2004-204 & #2004-459), however, the Charity could not support that it controlled the distribution of these shipments.

Valuation of Goods

Further, if the Charity owned the goods, the Charity would have to ensure the goods were recorded and reported at their fair market value. As discussed in the accompanying letter, the onus is on the Charity to show the value assigned to goods is reflective of the fair market value.

In some cases, the Charity accepted the valuation assigned by the originator of the goods. Although Charity may have personal knowledge about the originator, and trusts or has confidence that the goods are as identified and valued by the originator, this is not sufficient and cannot be a substitute for a properly applied and documented system of assessment. Likewise, where the Charity has valued the goods itself, the valuation method must be clearly supported with documentation. The Charity has not shown that the values assigned to the goods represent fair market value, and that the individual assigning such values, was properly qualified to do so.

For the most part, it would seem that a majority of the goods were wholesale items originating in the U.S. or other foreign countries. Valuations may have been based on single unit items for sale in the U.S., and did not necessarily take into account such factors as: goods being supplied in bulk quantities; the lifespan of the goods (e.g. medicines, vitamins); and the likelihood of identifying a value given the general nature of the good (e.g. used clothing, used medical equipment). We believe that these were some of the factors that should have been considered in establishing any fair market value of the goods.

In some cases, the values assigned to bulk medicines appear not to have taken into consideration that the medicines may have been close to their expiry dates and/or their useful lifespan. For example, the Charity arranged for the shipment of medicine that was valued by the originating organization at \$6,819,646 USD by paying a \$1,500 USD handling fee in May 2004. The Charity assigned the goods a market value of \$13,583,286 USD (shipment #2004-205). The medicines were shipped from the U.S. warehouse to the Philippines on April 29, 2004, arrived in May 2004 and cleared customs in September 2004. The medicines had expiry dates between April and November 2004. In another instance, shipment #2005-123 contained medicine valued at \$5,158,750 USD, of which over 50% of the medicine had expiration dates between April and May 2005. The medicine was shipped in March 2005.

In the above examples, we suggest that the value assigned to the goods would not be that obtained in an open market by a willing buyer. Aside from the fact that the first instance included a valuation almost double that of the amount identified by the originating organization, it does not appear reasonable that a buyer would not expect that a short shelf life or stale-dated medicines would significantly impact the value of the goods.

We found that some of the shipments of medicine did not include pertinent information such as manufacture date, expiry date, dosage, manufacturer, etc.

We also found instances where items with nominal values were shown on paperwork with significant values. For example, shipment #2005-399 included building supplies and other items valued at \$287,041 CAD, whereas the invoices showed the value at \$2,446 CAD.

Overall, it is our view that the Charity did not show due diligence in establishing the fair market value of the goods being shipped, if in fact the goods belonged to the Charity. The valuations assigned to the goods do not appear to be supportable.

Other

We are concerned as to why the Charity has represented itself as the owner of the goods, and also, as not being the owner of the goods. Inherently, by presenting itself as the owner of the goods, then being able to transfer them to the sponsors, this then places the sponsors in a somewhat similar circumstance of having to show that they have acquired ownership of the goods and that they transferred the goods to the final recipient organization. The documentation that was provided does not, in our view, clearly enable the sponsors to show the goods as their own. If in fact there was a transfer of a good, the sponsor would also be compelled to show evidence that it had properly identified the fair market value of the good.

The Charity's actions are further brought into question, given the fact that the Charity is granting to each sponsor an "authority" to claim the entire value of the goods as established by the Charity or the originator of the goods, even though the sponsor might pay for only a portion of the shipping costs. (Ms. Gremyachev also confirmed this fact). This would result in any possible number of charities claiming the same value for the goods. In fact, on shipment #2005-249 the Charity accepted payments of \$23,100 USD from five sponsors. The effect could be to convey the authority, through the donation letter, of enabling goods to be claimed at a value of five times the value assigned to the goods.

These matters also impact on the disbursement quota requirements of the sponsors (if a registered Canadian charity). The sponsors report the goods as non-receipted donations or income, and then report the goods plus the sponsorship fee as a charitable expenditure. Questionably, without the sponsor having the ability to report these goods as charitable expenditures, it could place a sponsor in a more uncertain status in meeting its disbursement quota. Further, Ms. Gremyachev has promoted the benefit of a sponsor being able to expend such a good toward meeting its disbursement quota in e-mail communications between the Charity and a sponsor. Ms. Gremyachev has also made representations that she is aware that the reporting of relief shipments assist the sponsors in meeting their disbursement quota. But as stated throughout, it is quite probable that neither the Charity nor the sponsor charity could reasonably establish that either has in fact obtained ownership of the goods – which would preclude any possibility that the sponsor could claim the fair market values identified, as charitable expenditures.

Supervision, Direction and Control

In considering whether the Charity has supervision, direction and control over its activities, we must first consider whether it inherently undertakes a charitable program.

In regard to the Request for Humanitarian Aid form, the Charity has not shown that it has implemented any criteria to identify the types of goods it believes would accomplish its charitable goals, and for which it wishes to engage the recipient to support it to that end. Rather, it would seem that the Charity leaves the type of good to the discretion of the recipient organization. It is difficult to appreciate that without the Charity identifying the types of goods it wants to utilize to accomplish its goals, that the goods themselves would necessarily be used to provide relief in a charitable manner.

We believe that if in fact the Charity was providing goods to another entity to accomplish the Charity's goals, the Charity should also be satisfied that the entity has the capacity to do so, and would then apply the goods in support of the Charity's goals. A number of the "Request ..." forms contain information that is rather general and non-specific in detail. For example, the goods requested are general items such food stuffs, paper products, or medicines. The persons to be assisted are also general such families, elderly or single parents. Also, some of the forms are not completed in their entirety. The Charity has not shown that these forms clearly establish that any entity that is sanctioned to receive and utilize the goods in accomplishing the Charity's goals has in fact the capacity to do so.

Turning to the donation letter, the Charity has not established that it has the capacity to donate the goods to the sponsor. Also, statements providing for an understanding that the "donation" is under the control of the sponsor, and that the sponsor would use such in accordance to its charitable purpose and according to its instruction, in addition to an offer by the Charity to assist the sponsor further by arranging the shipping to a consignee of the sponsor's choice, seem inconsistent with the described method of operation.

Given that the originator of the goods has approached the Charity to provide for the distribution of the goods to a recipient (and in many cases the originator of the goods has identified the recipient), the Charity has not shown that it is probable that the sponsor would then have control over the goods, and that the sponsor would then be responsible for applying the goods toward its charitable purposes and under its instructions.

Rather, this arrangement would seem to suggest that the sponsor is merely supporting the program by paying the costs to ship the goods to the recipient that is chosen either by the originator of the goods or the Charity. The probability for a sponsor to have the capacity to determine a recipient of its choice seems rather remote if at all practical (especially when more than one organization sponsors the same shipment). Again, it would seem that the sponsor may be compelled to agree to the shipment of the goods to an already pre-determined recipient, at least in many circumstances.

It also appears that the Charity engages the recipient via a Program Agreement and/or Recipient Agency Agreement in every instance. This again seems inconsistent with the provisions of the donation letter, in that the donation letter seems to suggest that the goods have been donated to the sponsor, without conditions. Further, these agreements failed to contain precise details on the activities to be conducted by each party, and especially the activities to be conducted by the agent (the recipient) on the Charity's behalf, a description of the project, the location/region where the project would take place, the duration of the project, the costs to be borne by each party if applicable, and the agent's reporting requirements. For example, the Program Agreement for shipment #2005-249 with Missionaries of the Poor, Sisters ("MOPS") states that:

- Neither party, the Charity nor MOPS, will hold the other party responsible for the project (Paragraph 4).
- The Charity also does not take any responsibility on the "fitness for consumption or use of all items provided" (Paragraph 5).
- MOPS bears final responsibility for any and all decisions related to the program agreement (Paragraph 7).
- MOPS is responsible for paying all costs in the Philippines, including customs fees, demurrage, storage, and in-country shipping ... (Paragraph 9)

In regard to the Cargo Distribution Report, these have not identified the Charity's actions in ensuring that the goods were distributed as per the Charity's instructions, and the persons they were intended to be distributed to. Also, the report, which is completed by the recipient organization, contains responses that are very general and broad. For example, goods were distributed to the poor and needy, and/or many benefited from the medicines and supplies. Statements such as these do not confirm whether all goods contained in the cargo were distributed, and whether they were distributed to eligible beneficiaries. Further, it is not certain whether the Charity requests additional details when the report fails to contain information necessary to establish that the goods were distributed as instructed by the Charity.

We also believe that in having supervision, direction and control, the Charity should be able to show that it had first-hand knowledge and awareness of the goods being received by it, and shipped to the recipient. The fact that the Charity does not physically inspect the goods being shipped³ could suggest that it has not shown due diligence in establishing that the goods are as stated and are appropriate for the Charity's purposes. An example of this is shipment #2005-099 which was supposed to have contained vitamin supplements, however it contained PALGIC, an antihistamine. Another example is shown under section #4 – Failure to Maintain Adequate Books and Records – Specified Gift.

³ Although there may be a few instances whereby the Charity may view/review property prior to it being shipped, it appears this would be the exception to the rule.

Conclusion

It is our view that the Charity has not shown that through its various arrangements with originators of goods, sponsors and recipients, in respect to its brokering function, that it devotes its resources to its own charitable activities. The various forms of documentation that have been produced and agreed to between the parties, presumably to support a conclusion that the Charity does devote its resources to its own charitable activities, does not support such a conclusion.

MONETARY DONATIONS

The Charity gifted the following amounts, in the periods noted, to organizations that are not recognized as qualified donees under the *ITA*:

Recipient Organization/Person	Amount Received	Period(s) Amount Received
Social Assistance Centre - Kaliningrad Russia	\$80,000 USD	2003
Missionaries of the Poor, Sisters – Philippines	\$70,000 USD	2003, 2004, 2005
Meros International Foundation – Philippines	\$21,094 USD	2003, 2004, 2005
Children's Hunger Relief Fund – USA	\$20,000 USD	2004, 2005
Belarussian Children's Fund – Belarus	\$13,280 USD	2003, 2004, 2005
Feed the Children – USA	\$2,000 USD	2003
Colby Crothers Scholarship Fund – USA	\$1,000 USD	2004
Convoy of Hope – USA	\$2,000 USD	2003
Andrey Moiseev	\$11,996 USD	2003, 2004
Total Gifts to Non-Qualified Donees	<u>\$221,370 USD</u>	

The Charity, in making these gifts, has not devoted its resources to its own charitable activities.

2. Providing Personal Benefit to a Proprietor, Member, Shareholder, Trustee or Settlor:

In context with the requirement that a charity be established on a non-profit basis, our findings are that Shirley and Yuri Gremyachev, and their corporation Ruscan Services Ltd ("Ruscan") appear to have financially benefited from the activities of the Charity.

The Gremyachev's received rental income paid by the Charity for business use of their home; use of the Charity's three vehicles for personal reasons; payment/reimbursement

of a variety of personal expenses; and, consulting income⁴ from a U.S. organization the Charity dealt with regarding seed shipments. Of the expenses considered to be personal, the employees benefited the most from the reimbursement of travel expenses for their relocation during the winter months to Nice, France and subsequently their return to Gabriola, B.C. during the summer, for travel expenses paid to have the employees' relatives travel from Russia to Gabriola, B.C., and for other trips and expenses that appear unrelated to the Charity's activities.

The Charity also paid consulting fees to Ruscan for services that have not been established to be in connection with the Charity's activities. These payments were connected to specific shipments of the Charity. Additionally, Ruscan received revenue from U.S. charities, including Food for the Hungry Inc., a sponsor of the Charity's shipments. Ruscan had drafted a Memorandum of Agreement between Food for the Hungry Inc., whereby Ruscan agreed to perform the same activities as those done by the Charity. In the agreement, Ruscan agreed to provide shipment and donation documentation including Humanitarian Aid Request forms, Recipient Agency Agreements, Value Letters from UAS (the Charity), Cargo Distribution Reports, and Bills of Ladings for a fee of \$42,000 USD annually for between 70 to 85 shipments (to be adjusted if the number of shipments were either under or over the stated number of shipments)

We found that the Charity also paid unsubstantiated fees (consulting, finder's fees, administrative fees and secretarial services fees) to employees or directors, or corporations of employees or directors or spouses/family members, of organizations that the Charity regularly dealt with. (Please refer to Section 5 – Maintenance of Books and Records – General for additional details).

Inherently, the Charity is in contravention of the requirement that "no part of its income is payable, or otherwise available for, the personal benefit of any proprietor, member, shareholder, trustee or settler thereof". This also supports that the Charity does not devote its resources to its own charitable activities.

3. Issuing Receipts Not in Accordance with the ITA and/or its Regulations:

The Charity received a gift of medicine from Steven Rosenhek on November 20, 2003, which was shipped to a recipient in that year. Mr. Rosenhek valued these medicines at \$81,155, presumably based on a 2000 catalogue that he provided to the Charity. He did not provide the Charity with the manufacturer nor the expiry date of the medicines.

The Charity issued receipt #502 for the donation but it was voided by the Charity, as it did not contain the correct donor name (Steven Rosenhek versus Dr. Shoel Rosenhek). Receipt #504 recorded the donation value at \$81,155, and it was also voided.

⁴ The Gremyachev's received \$74,500 USD in 2003 in relation to the seed shipments.

On April 20, 2004, Mr. Rosenhek instructed the Charity to issue two receipts for the donation – one for 2003 and the other for 2004 – and to issue them in the name of a Dr. Shoel Rosenhek. The Charity complied with this request.

Additionally, when the medicines were shipped in 2003, and assigned shipment number 2003-627, the value declared for customs purposes was \$2,400 USD.

The receipts issued as a result of the donated medicine are not in compliance with Regulation 3501 as follows:

- Receipts were issued to acknowledge gifts of property without indication of the name and address of the appraiser (Regulation 3501(1)(e.1)(iii)).
- Receipts did not contain the actual date the medicine was donated (Regulation 3501(1)(e.1)(i)).
- Receipts were issued without an accurate or appraised fair market value (Regulation 3501(1)(h)(ii)).

The Charity also issued letters to donors for Vitameal totaling \$100,858 in 2004 that were not in compliance with the *ITA* and its Regulations.

4. Failure to Maintain Adequate Books and Records:

Throughout the CRA's audit of the Charity, we have encountered instances where the Charity appears to have failed to maintain complete records to support the activities and the reported income and expenses. Also, it is our view that the Charity failed to provide CRA access to all of its records. Of the records provided, we have identified specific areas of concern that will be discussed in further detail below.

For background purposes, the audit commenced in April 2005 and was to review the Charity's operations for the fiscal period ending December 31, 2003. (The audit was subsequently expanded to include the fiscal periods ended December 31, 2004 and 2005 in March 2007.) To facilitate the audit, the auditor requested that the Charity provide access to and provide all records maintained by the Charity to substantiate the activities, income and expenditures reported on its annual returns.

CRA attended the offices of the Charity in April 2005 and in July 2005. During these audit visits, incomplete records were provided to us.

At a meeting held between the Charity, its representatives and CRA on March 26, 2007, the Charity and its representatives agreed to provide the documentation for the December 31, 2003 fiscal period that had not been provided previously, and all documentation for fiscal periods ended December 31, 2004 and December 31, 2005. CRA also requested that the Charity provide all electronic records and correspondence

of the Charity for these periods, and to respond to CRA's queries regarding ownership, valuation and documentation.

Specifically, CRA requested that the Charity identify which shipments it had ownership of, provide documentation to support ownership, and explain how the valuations were determined, and identify which documentation was prepared by the Charity. During the meeting, the Charity's representatives could not agree on whether the Charity did in fact take ownership of the relief shipments. The Charity agreed at that time, to provide all requested books and records, and respond to CRA's queries within three weeks from the date of the meeting.

The Charity provided the books and records to CRA on July 3, 2007, excluding the electronic records. The Charity did not identify any shipments as being owned by the Charity, nor did the Charity provide adequate valuations.

CRA's Electronic Commerce Audit Specialist (ECAS) attended the Charity's office to obtain the electronic records on September 26, 2007. These records were also incomplete and Ms. Gremyachev confirmed that various records were not maintained as they had been destroyed. Specifically,

- A majority of the electronic records were from 2006 and 2007. Shirley Gremyachev informed the ECAS auditor that the older data had been deleted.
- The Charity reported that it did not maintain any backup of electronic records for prior years except for the Simply Accounting records that were retained at the accountant's office.
- The ECAS auditor was also informed that the Charity did not maintain e-mail correspondence electronically. Shirley Gremyachev accessed e-mails through on-line web-mail. Copies of the correspondence were not kept unless Shirley Gremyachev deemed them important, in which case the e-mails were printed.
- Shirley Gremyachev also informed the ECAS auditor that Yuri Gremyachev's computer did not work and that it was recently taken into a computer repair shop where it was getting a new hard drive. The ECAS auditor was not able to review or retrieve data from this computer.

The following provides a more detailed account of the records that have not been provided in full.

Maintenance of Books and Records:

Our review has indicated the Charity did not maintain adequate books and records in the following facets of the Charity's operations:

General:

- Official donation receipts prepared to acknowledge receipt of non-cash property were not adequately supported. Refer to the section entitled "Issuing Receipts Not in Accordance with the ITA and/or its Regulations" above for our findings and discussion.
- The supporting records provided to substantiate the Charity's activities were incomplete. Refer to the section entitled "Failure to Devote all of its Resources to its own Charitable Activities" above for our findings.
- Payments for certain consulting, finder's fees, administrative services and secretarial services were not supported with adequate details regarding the type/nature of the services supplied to the Charity in exchange for the fees charged/paid. The Charity has failed to show how these payments relate to the Charity's mandate. Please refer to Appendix "B" for a list of those persons and organizations that received these types of payments.
- The Charity has paid for a number of expenses appearing personal in nature. The Charity was unable to show that the expenses, summarized in Appendix "C", were incurred in furtherance of the Charity's registered objects and activities.
- The T3010A returns were completed incorrectly. Refer to the section entitled "Failure to File an Information Return as Required by the ITA" below for our findings.
- The Charity overstated its tax-receipted income in 2004 by \$141,434.
- Correspondence, electronic or otherwise, and donation letters were not maintained.
- Electronic records, as confirmed by Ms. Gremyachev, were not maintained for the required period – until the expiration of six years from the end of the last tax year to which they relate.

Relief Shipments:

- The Charity has not shown where the shipments originated from and how the Charity obtained the shipment.
- The Charity has not shown that it had legal title to, or beneficial ownership of, the goods purported to be received.
- The Charity did not provide copies of correspondence / e-mails between the Charity and its sponsors relating to the shipments.
- The Charity has not shown how it identified and assessed the needs of the recipients, and then establishing whether it wished to engage the recipient to support it. As explained previously, we have not been provided with adequate information to understand the Charity's process for identifying qualified organizations to act on the Charity's behalf.
- The Charity has not provided support for the valuations assigned to the goods.

- The Charity has not provided copies of documentation prepared for sponsors. We have been able to review certain documents prepared by the Charity through third party sources. This review has identified additional concerns with the Charity's records and operations as discussed below.
- The Charity has not provided details or records on how it directed and controlled the distribution of the goods to the end recipients.

Internal Controls:

The internal controls of the Charity were not adequate in that there was inadequate segregation of duties; inadequate authorization of transactions, inadequate access restriction to resources and records of the Charity, and inadequate documentation was maintained. The operations of the Charity were conducted by Shirley Gremyachev and Yuri Gremyachev, with little overview by the board of directors.

We found that the directors did not approve or review, in detail, the expenditures of the Charity, with the exception of the amounts paid to the Social Assistance Center, tuition fees paid on behalf of Andrey Moiseev, and amounts paid for the Memorial School Fund (all of which were gifts to non-qualified donees). This lack of approval or review contributes to our concern that an extraordinary amount of expenses appear to be personal in nature. Appendix "C" contains an account of the 2003 and 2004 travel and advertising expenses that have not been shown as being related to charitable programs. We believe that this may be the same finding with the 2005 expenses.

Inconsistent Data on Originals and Copies of Documents:

As was mentioned earlier, we obtained additional information and documentation from third parties. There were instances where the documents provided to us by the Charity contained inconsistent data from that obtained from this other source. Copies of the bills of lading provided by the Charity show the Charity as the shipper, whereas the copies obtained from certain sponsors (third parties) show the sponsors as the shipper (i.e. in the latter instance, the shipper was recorded as "[Sponsor organization] – project coordinated by UAS". The Charity also provided copies of invoices for sponsorship fees that did not contain valuations of shipments, whereas copies provided to us by certain sponsors contained values.

Specified Gift:

The Charity reported that it gave a specified gift valued at \$2,615,092 CAD in 2005 to the Cancer Recovery Foundation of Canada ("CRFC"). According to the Charity's records, it donated a 40-foot container of medicines and medical supplies valued at \$2,615,092 USD on May 24, 2005 to CRFC. The donation letter referred to shipment #2005-249, and the Charity provided CRFC documentation for shipment #2005-249.

Our review of the documentation for shipment #2005-249 found that it contained 2,135 pieces of medicine, medical supplies and Vitameal weighing 11,847 kilograms. The shipment comprised of two parts – 1,440 cartons of medicine and medical supplies from Health Partners International of Canada (“HPIC”) and 695 bags of Vitameal from Nuskin Canada Inc (“Nuskin”). The items on shipment #2005-249 were shown with a total value of \$743,762⁵ for which the Charity paid the nominal fee of \$2,000. The shipment was sent on October 19, 2005.

The medicine from HPIC shown with a value of \$2,615,092 USD was part of shipment #2005-256 for which the Charity paid \$2,600⁶. Shipment #2005-256 was comprised of packing lists #2268 and #2288, and was picked up from HPIC on May 24, 2005. The total value shown for this shipment was \$3,605,592 USD⁷.

The records of the Charity did not provide any explanation for this discrepancy. In the absence of the foregoing, it is our stance that neither the Charity nor CRFC were aware of what the underlying goods were.

As stated previously, there are also concerns regarding the values assigned to the goods. (See Section 1 – Failure to Devote all of its Resources to its own Charitable Activities – Valuations of Goods)

In addition, we noted that the APL bill of lading (#APLU 083628183), dated October 19, 2005 and provided to us by CRFC, identifies the shipper as “Project of Cancer Research Foundation – Coordinated by UAS”. This differs from the bill of lading provided by the Charity showing the Charity as the shipper.

We also uncovered that the Charity accepted payments totalling \$23,100 USD from five sponsors and their invoices indicated the sponsors contributed to shipment #2005-249. The Charity also accepted \$8,100 USD from two sponsors for shipment #2005-256. As per Ms. Gremyachev's statement that each sponsor gets to claim the total value of the shipment as theirs, we reasonably estimate the Charity issued donation letters, in addition to the donation letter issued to CRFC, in excess of \$18 million USD related to the medicines received from HPIC for these two shipments.

Furthermore, based on the information reported by the Charity on its annual information returns, the Charity does not and has not reported income, assets or debts in amounts to show that the Charity was able to make a specified gift of this amount in 2005.

⁵ Packing list #2463 valued of \$2,086 plus packing list #2426 valued at \$741,676. No packing lists or values were provided for the Vitameal.

⁶ The Charity paid HPIC \$2,600 (cheque #222) for packing lists #2264 (shipment #2005-264) and #2288 & #2268 (shipment #2005-249).

⁷ Included packing list #2288 valued at \$990,500.

5. Failure to File an Information Return As Required by the ITA:

The Charity has improperly completed its T3010A returns for the 2003 through 2005 fiscal periods as follows:

FPE 31/12/2003:

- If the Charity received ownership of relief shipments and disbursed them, they should have been reported in their entirety.
- The Charity reported it directly managed programs outside of Canada. The audit has indicated, as above, that the Charity did not directly manage any programs outside of Canada. (Section C5)
- Amounts paid to non-qualified donees, salaries, travel, and vehicle expenses were erroneously reported as charitable expenditures on line 5000.
- Gifts to qualified donees were not reported at line 5050.
- Amounts received as gift-in-kind donations were understated by 50%. The Charity received a gift-in-kind donation of medicine the donor valued at \$81,155, however reported only \$40,577⁸ at line 5600.
- The Directors/Trustees Worksheet, form T1235, was not completed in full as the dates of birth and phone numbers of all of its directors were incomplete.

FPE 31/12/2004:

- If the Charity received ownership of relief shipments and disbursed them, they should have been reported in their entirety.
- The amount of total tax-receipted gifts at line 4500 was overstated by \$141,435⁹.

FPE 31/12/2005:

- If the Charity received ownership of relief shipments and disbursed them, they should have been reported in their entirety.
- The total specified gift to qualified donees reported at line 5100 is unsubstantiated. The Charity has not reported income and/or assets to support a distribution of \$2,615,092 in this fiscal period.

⁸ The value of the medicines acknowledged by an official donation receipt in 2003. The Charity issued an official donation receipt for remaining \$40,577 in 2004.

⁹ Donation letters for Vitameal totalling \$100,858; receipt # 507 for medicine \$40,577 discussed in footnote 6.