



JUL 11 2007

BY REGISTERED MAIL

CanAfrica International Foundation
2866 Crosscurrent Drive
Mississauga, Ontario L5N 2M2

Attention: Mr. Danso-Dapaah

BN: 85819 4244 RR0001

**SUBJECT: Notice of Intention to Revoke
Audit of CanAfrica International Foundation**

Dear Mr. Danso-Dapaah:

I am writing further to our letter dated May 7, 2007 (copy enclosed), in which you were invited to submit representations to us as to why the Minister of National Revenue should not revoke the registration of CanAfrica International Foundation (the "Charity") in accordance with subsection 168(1) of the *Income Tax Act* (the "ITA"). As of this date, we still have not received any response to our letter.

Consequently, for each of the reasons mentioned in our letter of May 7, 2007, I wish to advise you that, pursuant to the authority granted to the Minister in subsection 149.1(2) and 149.1(4.1) of the ITA, and delegated to me, I propose to revoke the registration of the Charity. By virtue of subsection 168(2) of the ITA, the revocation will be effective on the date of publication in the *Canada Gazette* of the following notice:

Notice is hereby given, pursuant to paragraphs 168(1)(b), 168(1)(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
85819 4244 RR0001

Name
CanAfrica International Foundation
Mississauga, Ontario

.../2

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

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

Yours sincerely,



Terry de March
A/Director General
Charities Directorate

Attachments

- Appendix "A", Our letter dated May 7, 2007
- Appendix "B", Relevant Provisions of the *Income Tax Act*;
- Appendix "C", Relevant Provisions of the *Excise Tax Act*;
- Form T-2046, *Tax Return Where Registration of a Charity is Revoked*;
- Guide RC-4424, *Completing the Tax Return Where Registration of a Charity is Revoked*.



APPENDIX "A"
REGISTERED MAIL

CanAfrica International Foundation
2866 Crosscurrent Drive
Mississauga, Ontario L5N 2M2

Attention: Mr. Danso-Dapaah

BN: 85819 4244 RR0001

File #: 3021740

May 7, 2007

Subject: Audit of CanAfrica International Foundation

Dear Mr. Danso-Dapaah:

This letter is further to the audit of the books and records of CanAfrica International Foundation (the "Charity") by the Canada Revenue Agency (the "CRA"). The audit related to the operations of the registered charity for the period from June 1, 2002 to May 31, 2004. A review the Registered Charity Information Return (the "T3010") of fiscal period ending May 31, 2005 was also performed.

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

AREAS OF NON-COMPLIANCE:		
	Issue	Reference
1.	Books and Records	230(2), 149.1(2)
2.	Official Donation Receipts	Regulation 3501, 168(1)(d), 149.1(2)
3.	Disbursement Quota	149.1(2)(b)
4.	Devotion of Resources to Charitable Activities	168(1)(b), 149.1(2)
5.	Charity Information Return	168(1)(c), 149.1(2)
6.	Remuneration & Benefit Reporting	Regulation 200(1), 6(1)(a)

The purpose of this letter is to describe the areas of non-compliance identified by the CRA during the course of our audit as they relate to the legislative provisions applicable to registered charities and to provide the Charity with the opportunity to address our concerns. In order for a registered charity to retain its registration, it is required to comply with the provisions of the ITA and Common Law applicable to registered charities. If these provisions are not complied with, the Minister of National Revenue may revoke the Charity's registration in the manner prescribed in section 168 of the ITA.

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

Identified Areas of Non-Compliance:

1. Books and Records

Subsection 230(2) of the ITA 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 the CRA with the information required by the ITA as well as enables them to verify the accuracy of reported information through the conduct of audits.

In addition to the retention of copies of the donation receipts that subsection 230(2) explicitly requires, subsection 230(4) also states, "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 Charity provided minimal books and records and the records that were provided were considered to be inadequate. As a result, the Charity was unable to support the revenue and expenditures as recorded or to demonstrate that the expenditures as reported in the T3010s were of a charitable nature.

It was revealed during the audit that the Charity failed to maintain adequate records to support the donation income reported and official donation receipts issued. The Charity provided copies of the receipt summaries but failed to provide duplicate copies of all official donation receipts issued. Total tax-receipted income reported on the

T3010s filed was substantially lower than the amount of reported on the official donation receipts issued by the Charity. The total tax-receipted income for the fiscal periods ending May 31, 2003, 2004 and 2005 were underreported by \$1,646,297, \$494,408 and \$19,352,064 respectively.

	2005-05-31	2004-05-31	2003-05-31
Total tax-receipted gifts/T3010	\$ 2,203,364	\$9,767,457	\$ 385,160
Total tax-receipted gifts/Summary	\$21,555,428	\$9,758,893	\$1,774,676
Total tax-receipted gifts/Audit	\$ -	\$ 502,972	\$ 256,781
Over (Under) Reported Gifts	-\$19,352,064	-\$ 494,408	-\$1,646,297

Additionally, the bank accounts of the Charity were combined with the personal bank accounts of the Charity's director and complete banking records for all bank accounts maintained by the Charity were not provided. No books of account were maintained and record retention in support of bank transactions and expenditures was incomplete.

The Charity reported \$11,200 (2003), \$9,853,242 (2004) and \$2,088,623 (2005) of gifts in kind tax-receipted on the T3010s filed, but per receipt summaries, the Charity reports \$1,715,859 (2003) and \$9,758,893 (2004). The Charity's records do not indicate how the gifts in kind were used or where the items are stored. The Charity was unable to demonstrate how it used the gifts in kind received for charitable purposes due to a lack of sufficient documentation. For the 2003, 2004 and 2005 fiscal periods, the Charity reports total other activity expenditures at line 5040 in the amounts of \$2,868 (2003), \$8,547,612 (2004) and \$2,578,837 (2005) yet no documentation or explanation was provided to prove what the expenses were incurred for of if the amounts reported were the gifts in kind used.

As can be seen, there are many variances and inconsistencies in the books and records of the Charity. The charity therefore does not appear to be meeting the requirement to exercise due care with respect to ensuring that these books and records are accurate.

2. Official Donation Receipts

a) The Issuance of a Donation Receipt where no gift was made

At law, a gift is a voluntary transfer of property without consideration. In most cases, a gift is a voluntary transfer of property without valuable consideration to the donor. An essential element of a gift is that there be intent to give. It must be clear that the donor intends to enrich the donee, by giving away property, and to grow poorer as a result of making the gift. We have information that would indicate that Mr. Danso-Dapaah appears to be selling official donation receipts to "donors" for 10% of the receipts gross value. It is our view, based on the audit evidence that the primary

motivation of the donor would not appear to be to enrich the Charity, but to make a profit through the tax credit so obtained. It would appear that the money obtained from the sale of these donation receipts did not end up going to the Charity, but instead went to benefit the directors.

b) Inaccurate Information on the Donation Receipts

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

It was revealed during the audit that some of the donation receipts issued by the Charity did not comply with all the requirements of Regulation 3501 of the ITA and Information Bulletin IT-110R3 entitled "Gifts and Official Donation Receipts" as follows:

- The full address, including postal code, of the donor was not indicated on all receipts. (Regulation 3501(1)(g))
- Official donation receipts issued were not issued in sequential order. (Regulation 3501(1)(c)) A review of the receipt summaries provided identified gaps and the Charity appears to have issued different series of receipts. Receipts in 2003 were issued with a receipt number 0123 03 or C0123 03 and the name appearing on the receipt changed from Canafrica International Foundation to CanAfrica International Foundation.
- Receipts were issued bearing duplicated receipt numbers (Regulation 3501(1)(c)). Receipts issued in 2002 and 2003 bore the same serial numbers commencing at 101 and up to 788.
- Receipts were issued without a receipt date (Regulation 3501(e))
- Receipts were issued to recognize donations of property without indication of the name and address of the appraiser (Regulation 3501(1)(e.1)(iii)). The Charity was not able to support the fair market value of the gifts in kind nor were they able to show how the fair market values were determined. The Director stated that the Charity claimed to use the Internet to look up values, but no substantiation was shown to support this claim.
- The official donation receipts issued contained false or inaccurate information.

Official donation receipts were not issued in sequential order and based on the fact that additional receipts obtained were not included on the Charity's receipt summaries, we cannot ascertain the missing receipts were not issued to donors. In 2002, we had determined approximately over 600 receipts are not accounted for on the

receipt listing provided and with an average receipt issued of \$7,765, the Charity may have issued receipts for an additional \$4,700,000.

c) Gifts in Kind

The audit results indicated that the Charity had issued receipts for gifts of property other than cash and for which a fair market value of the gifts has not been established. Regulation 3501 of the ITA requires that where the gift is a "gift of property other than cash, the amount that is the fair market value of the property at the time that the gift was made" shall be contained on the official receipt. The Charity was unable to support the fair market value or to demonstrate how these fair market values were determined. The only support was a claim that they used the internet to look up values, but this without any documentation is not adequate to support that the amount recorded on the official receipts represent the fair market value. Furthermore such receipts must show clearly:

- (i) the day on which the donation was received,
- (ii) a brief description of the property, and
- (iii) the name and address of the appraiser of the property if an appraisal was done.

A review of the donation summary lists the gifts in kind received which appear to be comprised of personal items such as used clothing, books, kids ware and so forth however the descriptions of the gift in kind donation repeat and the descriptions do not appear to match the value of the stated amount. For instance, every fifth donor reported on the 2002 and 2003 donation summaries appears to have donated "New clothes, Hardware tools" and a \$50 gift of "New Clothes, Appliances, range, Hardware tools" was receipted. A majority of the gift in kind receipts issued were for amounts in excess of \$1,000 and are all round figures. It was also revealed during the audit that there was no documentation to identify which particular properties were donated by whom as well as the value assigned to each particular property. This brings into question whether the amounts recorded are reflective of the fair market value of the items purported to be donated.

Additionally, third party verification of the official donation receipts issued by the Charity resulted in donors indicating the Charity determined the value of the goods donated yet the Charity provided no criteria or assessment tools used to determine the value of donated goods.

The official donation receipts issued did not contain the date the donation was received, or a description of the property.

The Charity was therefore unable to support the amounts claimed as the fair market values of non-cash donations as reported in their T3010 returns.

3. Disbursement Quota

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

In considering the application of expenditures used to meet the disbursement quota a charity must ensure that they are expensed directly on charitable activities and/or programs. This would include such payments as salaries to persons performing duties directly related to a charitable program, but would not include amounts paid for purely administrative expenses such as fundraising costs, legal or accounting fees and the like.

Based on our calculations, the Charity has not met its disbursement quota for the fiscal periods ending May 31, 2003 and May 31, 2004 as the Charity failed to expend 80% of the prior years receipted income. We have calculated the Charity's cumulative disbursement quota shortfall as:

	31-05-2005	31-05-2004	31-05-2003
Tax-receipted gifts from previous fiscal period (line 4500/T3010)	\$9,767,457	\$ 385,160	\$ -
Disbursement quota requirement for fiscal period (80% of Tax-receipted gifts)	\$7,813,966	\$ 308,128	\$ -
Total amount spent on charitable programs (line 5000/T3010)	\$ 62,455	\$ 42,554	\$ 187,893
Disbursement quota excess /(shortfall)	\$(7,751,511)	\$ (265,574)	\$ 187,893

4. Devotion of Resources to Charitable Activities

a) Non-Charitable Use of Resources - Charitable Activities

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

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

The Charity was registered "to help underprivileged women and children in Africa, Ghana and other developing countries" by promoting "training and employment opportunities for women in the villages of Ghana, provide educational materials for children (books and computers) and raise funds for housing and health care for women and children, distribute books, computers free toys (sic) to hospitalized children, and offer credit to women." on March 3, 2003.

A charity must show through documented evidence and proper books and records that it undertook charitable activities in furtherance of charitable purposes and must demonstrate that it operated in compliance with the ITA at all times. This requires, among other things, an organization to show that the activities it undertakes benefit only proper objects of charity considering the relief offered. For instance, an organization relieving poverty must show that the beneficiaries of its programs in fact suffer from conditions associated with poverty. The poor are not simply the destitute, but anyone lacking essential amenities, i.e. food, shelter or clothing, available to the general population.

Our audit revealed the Charity conducted some activity outside Canada however the Charity lacked the necessary documentation to substantiate the activities it stated were undertaken. For instance, the Charity indicates it has trained ten women in crafts by paying eight school fees and donating two computers however no documentation was provided to support this activity as the Director indicated all contracts in Ghana are verbal. The Charity was therefore not able to substantiate that they were devoting their resources to charitable activities.

b) Non-charitable use of resources - Director/Trustee Remuneration

The Charity issued payments to directors/trustees of the Charity in 2003 and 2004. The Charity paid [REDACTED] Danso-Dapaah \$36,000 and [REDACTED] Danso-Dapaah \$10,000 in 2003 as per the Charity's general ledger. The Charity was not able to support that the amount recorded as salaries in the 2004 T3010 of \$44,200 was expended on charitable activities. The Charity was not able to provide any documentation to support that their payments were for work performed. In the absence of adequate records, we are of the opinion that the directors are compensating themselves in the capacity of a director rather than an employee and as such, utilizing the funds of the Charity for personal benefit.

The Charity also records loans payable to [REDACTED] Danso-Dapaah of \$37,192.23 and [REDACTED] Danso-Dapaah of \$24,600. Complete documentation has not been provided to verify the loan provided by the director's to the Charity nor the terms of repayment.

A review of the Charity's general ledger and supporting documentation also indicate the directors are utilizing the funds of the Charity for personal benefit as a number of recorded expenses appear to be incurred for personal benefit rather than for charitable purposes. Refer to Appendix "A".

The Charity has not demonstrated it devoted its resources to charitable activities. A charity must show through documented evidence and proper books and records that it undertook charitable activities in furtherance of charitable purposes and devoted the charity's resources to the charitable activities.

5. Charity Information Return

The audit also indicated that the Charity is improperly completing the Information Return in that many of the items reported were incorrectly identified or omitted.

Subsection 149.1(14) of the ITA requires that the return must be in prescribed form and contain prescribed information. A charity is not properly meeting its information return filing requirements when it fails to exercise due care with respect to insuring the accuracy thereof. 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.

The Charity improperly completed the T3010 for the fiscal periods ending May 31, 2003 to May 31, 2005 in that items reported were omitted. Specifically the following items:

FPE May 31, 2005

- C3 did not indicate where in Canada the Charity operates
- C4 indicates the Charity carried on programs outside Canada via gifts to qualified donees. The Charity did not make any gifts to qualified donees.
- D5 indicates the Charity did not compensate its directors. The Charity appears to have compensated two of its directors.
- D6 indicates the Charity did not indirectly or directly transfer any part of its income or assets to individuals not an arm's length to the Charity. The Charity appears to have availed the directors of the Charity access to the assets (cash) of the Charity, as it would appear the directors received remuneration and personal expenditures were paid with Charity funds.
- E5 reports total tax-receipted gifts at line 4500 of \$2,203 364. The Charity's receipt summary reports total tax-receipted gifts of \$21,555,427.
- G1 indicates the Charity acquired control of a share-capital or for-profit corporation. The Charity is registered as a charitable organization and should have left this section blank as it pertains to charitable foundations only.

FPE May 31, 2004

- C3 did not indicate where in Canada the Charity operates
- C4 indicates the Charity carried on programs outside Canada via gifts to qualified donees. The Charity did not make any gifts to qualified donees.
- D5 indicates the Charity did not compensate its directors. The Charity appears to have compensated two of its directors \$44,200. The directors also appear to have received taxable benefits in the form of personal expense paid by the Charity as listed in Appendix "A".
- D6 indicates the Charity did not indirectly or directly transfer any part of its income or assets to individuals not an arm's length to the Charity. The Charity appears to have availed the directors of the Charity access to the assets (cash) of the Charity, as it appears the directors received remuneration and personal expenditures were paid with Charity funds.
- E5 reports total tax-receipted gifts at line 4500 of \$9,767,457. The Charity's receipt summary reports total tax-receipted gifts of \$9,758,892 and further receipts of \$502,972 were obtained.

FPE May 31, 2003

- C3 did not indicate where in Canada the Charity operates
- C4 indicates the Charity carried on programs outside Canada via gifts to qualified donees. The Charity did not make any gifts to qualified donees.
- D5 indicates the Charity did not compensate its directors. The Charity appears to have compensated two of its directors \$46,800. The directors also appear to have received taxable benefits in the form of personal expense paid by the Charity as listed in Appendix "A".

- D6 indicates the Charity did not indirectly or directly transfer any part of its income or assets to individuals not an arm's length to the Charity. The Charity appears to have availed the directors of the Charity access to the assets (cash) of the Charity, as it appears the directors received remuneration and personal expenditures were paid with Charity funds.
- E5 reports total tax-receipted gifts at line 4500 of \$385,160. The Charity's receipt summary reports total tax-receipted gifts of \$1,774,675 and further receipts of \$256,781 were obtained.

6. Remuneration and Benefits Reporting

Where salaries or wages are paid, the ITA requires annual T4 Summaries and T4 Statements of Remuneration Paid be prepared by the employer [Regulation 200(1)]. In addition to the salaries and wages actually paid, the T4 Summaries and T4 Statements of Remuneration Paid must also include the value of all taxable benefits conferred on employees in the year [paragraph 6(1)(a)]. T4 Summaries of remuneration paid must always be based on the calendar year.

In addition to the foregoing annual reporting requirements, where an employer pays an amount in respect of an individual's salary, that employer is required to withhold certain amounts from such payments [subsection 153(1)]. These amounts are in respect of income tax, Canada Pension Plan, Unemployment Insurance, etc. and the withholdings must be remitted to the Receiver General of Canada.

The Charity reported one T4 slip issued in 2004 however the amount reported on the T4 was less than the amount reported by the Charity for salaries, wages, benefits and honorarium. The Charity reported total salary expense of \$44,401 (2005), \$44,200 (2004) and \$46,800 (2003) however the T4 issued in 2004 reported gross salary of \$11,636. The Charity did not issue any T4/T4A's in 2004 or 2005.

Conclusion:

Please provide your written representations and any additional information regarding the findings outlined above **within 15 days from the date of this letter**. After considering the representations submitted by the Charity, the Director General of the Charities Directorate will decide on the appropriate course of action, which may include the issuance of a Notice of Intention to Revoke the registration of the Charity in the manner described in subsection 168(1) of the ITA. Should you choose not to respond, the Director General of the Charities Directorate may proceed with the issuance of a Notice of Intention to Revoke the registration of the Charity in the manner described in subsection 168(1) of the ITA.

- 11 -

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

If you require further information, clarification, or assistance, I may be reached at (613) 957-2212 or by facsimile at (613) 946-7646.

Yours sincerely,

Holly Brant
Audit Advisor
Compliance Section
Charities Directorate
Canada Revenue Agency
320 Queen St. 7th Floor
Ottawa, Ontario K1A 0L5

Enclosure

Cc: [REDACTED] Danso-Dapaah