

# OUSELEY HANVEY CLIPSHAM DEEP LLP

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July 3, 2002

Board of Directors  
The Chess Federation of Canada  
E-1 2212 Gladwin Crescent  
Ottawa, Ontario  
K1B 5N1

Dear Board Members: **Re: Management Letter on the Review Engagement of the April 30, 2002 Financial Statements**

During the course of our review of the financial statements of the Federation for the period ended April 30, 2002, we identified some matters which may be of interest to management. A review does not constitute an audit and consequently we do not express an audit opinion on the financial statements. We wish to emphasize that control over and responsibility for the prevention and detection of defalcations or other irregularities or errors or omissions must rest with you.

As a result of our observations on this year's review, we have outlined below some suggestions for your consideration. This letter is not exhaustive, and deals with the more important matters that came to our attention during the review. Minor matters were discussed with your staff.

1) Although the accounting records were difficult to work with the previous year, there was a significant deterioration in the current year. As a result, the Board took action a few months ago and arranged for a bookkeeper, Pat Hendrick, to review and correct the banking transactions for the year. She discovered approximately 80 errors just in the banking transactions. In addition, numerous coding errors were noticed during the year end review. Many of the errors in the books are also due to high staff turnover and lack of familiarity with accounting routines.

Pat patched up the records as best she could but it was a challenge to bring all the numbers together at year end as accurately as possible. In certain instances we had to rely on educated guesses. Our approach was to primarily focus on the balance sheet accounts so as to determine the bottom line. We also reviewed, compared and analyzed revenue and expenditure accounts to determine if they were reasonable.

As an accounting system the database system is hard to work with and is susceptible to error. Other low cost, popular accounting systems (such as Accpac Simply Accounting and Quick Books) are far more efficient and reliable. We recommend that necessary summary reports be programmed from the database which can be entered into a traditional accounting software.

Arrangements have been made by management to have Pat Hendrick come in on a regular basis to review the records, make corrections and do the necessary reconciliations each month. We concur with this.

2) The accounts receivable sub ledger and accounts payable sub ledger were both out of balance in comparison to their control accounts. This could result in a failure to record and recognize amounts owing by customers and amounts owing to creditors. The former is more serious in that it could result in non collection of amounts owing to the Federation. This situation can be remedied with proper accounting software and the assistance of an experienced bookkeeper.

3) Some of the government filings were not done properly and on time – this includes payroll remittances, GST, sales tax and annual T4 returns. This has already resulted in some penalties and interest. Employment insurance was not properly deducted and remitted. It recently came to light that Serge issued T4's to employees but never filed them with the government - this could result in a penalty of \$25 per day, to a maximum of \$2,500 and with a minimum penalty of \$100. Directors can be held personally liable for failure to remit payroll deductions. We recommend that a list be made of all government filings and their due dates and that management reports compliance to the Board.

4) The financial statements for year ended April 30, 2002 show a significant loss (\$33,811) from operations. If this continues then the Federation will start to encounter cash flow problems. You may wish to consider establishing a line of credit with the bank. We recommend that budgetary controls be strengthened to prevent overspending. You may wish to establish a committee to investigate how to increase revenues and decrease costs. Most non-profits provide a lot of attention on membership numbers since it is normally the most important variable to determining overall revenues. A Membership Committee may be an option to consider.

5) According to revised GST rules for charities, only 60% of the GST collected on taxable sales is to be remitted. However on disbursements, charities can only claim 50% of the GST paid. The Federation has been remitting 100% of all GST collected and claiming a credit of 100% on all GST paid. GST should be filed in accordance with the current rules.

The following is some commentary on the financial statements:

i) The decrease in cash from \$59,943 to \$22,070 is primarily due to the loss for the year of \$33,811. The decrease in inventory from \$102,948 to \$82,098 is mainly due to the sale back to Michael Yip of about \$17K of books. This was also the major reason for the decrease in accounts payable from \$29,358 to \$15,452.

ii) Sales of books and equipment are up from \$199,350 to \$208,593. However that is mainly due to the Michael Yip transaction – otherwise sales would have decreased.

iii) Cost of sales increased from \$128,118 to \$147,747, primarily due to the Michael Yip transaction which has a gross profit of only \$2K. The gross profit on equipment was about 4K less than amounts earned in previous years – we were not able to come up with a proper explanation (possibilities include coding errors, failure to properly record and bill customers, etc.) However, sales of computer software improved by 11.7K over the previous year and the gross profit was about 1K better than the rate earned in previous years.

iv) Membership revenues continued their gradual decline of recent years although they were down only about 2K from the previous year.

v) Salaries, benefits and staff travel were up by over 11K. This is primarily due to about \$4,700 in staff travel including a \$1,500 moving allowance. The use of casual labour increased by about 8K over the previous year. Wages expense includes about \$4K of termination pay. Note that certain payroll amounts have not been collected from former employees. Chris Collins was overpaid \$428.77 on vacation pay and Serge Archambault was overpaid \$1,209.27 on EI deductions and Chris Collins \$101.68 on EI deductions.

vi) Office expenses are up almost \$7.5K over the previous year. This increase was due to purchase of a large supply of school tube cartons for mailings at a cost of about \$2.5K; increased postage expense of about \$2.1K (increased use of the postage meter and includes an additional \$1,000 allocated to fill the meter just before year end) and additional professional fees of \$3.1K for bookkeeping assistance and computer technical assistance.

vii) Other executive and administration is up by about \$2.9K due primarily to increases in presidential expenses and for the expenses for FIDE representation.

viii) International expenses are up over \$5K. This is primarily due to the fact that FIDE expenses exceeded FIDE fees by about \$5.5K.

ix) Note that contributions to clubs, provincial affiliates and the Foundation of \$13,348 (including a subsidy of \$1,547 to the ICC program) basically come from donation revenues of \$14,918. Other program revenues and expenses of \$46,815 are offsetting (re: the Chess Olympics, CYCC and Pugi Fund).

We have reviewed all of the issues in this report with Gerry Litchfield and received his comments thereon. We would also like to express our appreciation for the co-operation which we received during the course of our review from the staff. We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

Yours sincerely,

OUSELEY HANVEY CLIPSHAM DEEP LLP

*Brian Watson*

Per: Brian D. Watson CA

cc: Gerry Litchfield

**THE CHESS FEDERATION OF CANADA  
LA FÉDÉRATION CANADIENNE DES ECHECS**

UNAUDITED FINANCIAL STATEMENTS

APRIL 30, 2002

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# OUSELEY HANVEY CLIPSHAM DEEP LLP

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## **REVIEW ENGAGEMENT REPORT**

**To the Members:**  
**The Chess Federation of Canada:**

We have reviewed the balance sheet of the Chess Federation of Canada as at April 30, 2002 and the statements of changes in net assets and revenue and expenditure for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Federation.

A review does not constitute an audit and consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

**OUSELEY HANVEY CLIPSHAM DEEP LLP**  
Chartered Accountants

Ottawa, Ontario  
June 21, 2002

**THE CHESS FEDERATION OF CANADA**  
**LA FÉDÉRATION CANADIENNE DES ÉCHECS**

**BALANCE SHEET**  
**AS AT APRIL 30, 2002**  
**UNAUDITED**

	2002	2001
<b>CURRENT ASSETS</b>		
Cash	\$ 22,070	\$ 59,943
Accounts receivable	8,501	9,910
Inventory	82,098	102,948
Prepaid expenses	3,575	3,589
	<hr/> 116,244	176,390
<b>CAPITAL ASSETS (note 2)</b>	<hr/> 105,297	105,725
	<hr/> \$ 221,541	\$ 282,115
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 15,452	\$ 29,358
Entry fees payable	940	8,543
Deferred membership revenue	41,044	41,044
	<hr/> 57,436	78,945
<b>DEFERRED CONTRIBUTIONS (note 3)</b>	<hr/> 12,052	17,306
<b>NET ASSETS</b>		
Invested in capital assets	105,297	105,725
Unrestricted	46,756	80,139
	<hr/> 152,053	185,864
	<hr/> \$ 221,541	\$ 282,115

Approved on behalf of the Board:

Director

Director

**THE CHESS FEDERATION OF CANADA**  
**LA FÉDÉRATION CANADIENNE DES ÉCHECS**

**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED APRIL 30, 2002**  
**UNAUDITED**

	2002	2001
<b>INVESTED IN CAPITAL ASSETS</b>		
Balance - beginning of year	\$ 105,725	\$ 110,857
Purchase of capital assets	4,500	-
<u>Amortization of capital assets</u>	<u>(4,928)</u>	<u>(5,132)</u>
<b>Balance - end of year</b>	<b>\$ 105,297</b>	<b>\$ 105,725</b>
 <b>UNRESTRICTED</b>		
Balance - beginning of year	80,139	69,705
Net revenue (expenditure) for the year	(33,811)	5,302
Purchase of capital assets	(4,500)	-
<u>Amortization of capital assets</u>	<u>4,928</u>	<u>5,132</u>
<b>Balance - end of year</b>	<b>\$ 46,756</b>	<b>\$ 80,139</b>

**THE CHESS FEDERATION OF CANADA**  
**LA FÉDÉRATION CANADIENNE DES ÉCHECS**

**STATEMENT OF REVENUE AND EXPENDITURE**  
**FOR THE YEAR ENDED APRIL 30, 2002**  
**UNAUDITED**

	2002	2001
<b>REVENUE</b>		
Sales of books and equipment (note 5)	\$ 208,593	\$ 199,350
Shipping and handling charges	9,356	9,235
Membership fees	66,383	68,681
Contribution income from related party (note 4)	6,622	4,522
Rating fees	21,368	18,567
Publication sales and advertising	5,121	7,428
Donations	14,918	13,727
Other programs (note 3)	46,815	29,302
Other revenue	2,794	2,613
	<hr/> 381,970	<hr/> 353,425
<b>EXPENDITURE</b>		
Cost of sales (note 5)	147,647	128,118
General and administrative		
Salaries, benefits and staff travel	81,497	69,020
Building and equipment expenses	16,936	15,569
Office	39,355	31,889
Other executive and administration	5,550	2,698
	<hr/> 143,338	<hr/> 119,176
Programs		
Publications	54,034	52,478
International	10,199	4,989
Contributions to clubs, provincial affiliates and the Foundation	13,748	14,060
Other programs (note 3)	46,815	29,302
	<hr/> 124,796	<hr/> 100,829
	<hr/> 415,781	<hr/> 348,123
<b>NET REVENUE (EXPENDITURE) FOR THE YEAR</b>	<b>\$ (33,811)</b>	<b>\$ 5,302</b>

**THE CHESS FEDERATION OF CANADA**  
**LA FÉDÉRATION CANADIENNE DES ECHECS**

**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2002**  
**UNAUDITED**

**1. SIGNIFICANT ACCOUNTING POLICIES**

(a) Organization

The Chess Federation of Canada / La Fédération canadienne des échecs was incorporated as a not-for-profit organization under the Canada Corporations Act and is a registered charity under the Income Tax Act. The Federation's mission is to promote and encourage generally in Canada, the knowledge, study and playing of the game of chess.

These financial statements do not include the accounts of the Chess Foundation of Canada as detailed in note 4.

(b) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the average cost basis.

(c) Amortization

Amortization is provided on the reducing balance basis as follows:

Building	4%
Furniture and equipment	20%
Computer equipment	33%
National library	20%

(d) Revenue Recognition

The organization follows the deferral method of accounting for revenues. Membership fees are recorded as revenues in the period to which they relate. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable only if the amount to be received can be reasonably estimated and collection is reasonably assured.

**2. CAPITAL ASSETS**

				2002	2001
		Cost	Accumulated Amortization	Net	Net
Land	\$ 20,000	\$ -	\$ 20,000	\$ 20,000	
Building	142,852	64,770	78,082	81,336	
Furniture and equipment	5,000	3,620	1,380	1,725	
Computer equipment	8,000	6,216	1,784	2,663	
National library	7,290	3,239	4,051	1	
	\$ 183,142	\$ 77,845	\$ 105,297	\$ 105,725	

**THE CHESS FEDERATION OF CANADA**  
**LA FÉDÉRATION CANADIENNE DES ECHECS**

NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2002  
UNAUDITED

3. DEFERRED CONTRIBUTIONS

	Olympic Donations	CYCC Program	Kalev Pugi Program	TOTAL
Balance - beginning of year	\$ 275	\$ 15,643	\$ 1,388	\$ 17,306
Add: contributions	1,837	38,421	1,303	41,561
Less: amount recognized as revenue		(46,065)	(750)	(46,815)
Balance - end of year	\$ 2,112	\$ 7,999	\$ 1,941	\$ 12,052

Olympic donations are designated to provide financial support for participation of Canadian representatives in the International Chess Olympiads. The Canadian Youth Chess Championships (CYCC) entry fees cover the cost of sending players to the world championships. The Kalev Pugi Fund was established as a bequest in the Chess Foundation of Canada. Each year interest earned by this Fund is transferred from the Foundation to the Federation to provide travel assistance for junior players.

Contributions to these programs are recognized as revenue in the year in which the related expenditures are incurred.

4. RELATED PARTY TRANSACTIONS

The Chess Foundation of Canada is effectively controlled by The Chess Federation of Canada since the Federation appoints the Foundation's Board of Trustees. The Foundation was established as a trust to financially help the Federation promote and develop chess. Donations of \$500 (2001 - \$500) and life membership fees of \$1,319 (2001 - \$2,063) have been paid into the Foundation from the Federation. The Foundation has contributed \$6,622 (2001 - \$4,522) in support of the Federation's general operations and \$1,303 (2001 - \$1,303) towards the Kalev Pugi junior program.

The Foundation has not been consolidated with the Federation's financial statements. Financial summaries of the unconsolidated Chess Foundation of Canada as at April 30, 2002 and 2001 and the years then ended were prepared by another firm of accountants and are as follows:

	2002	2001
<b>BALANCE SHEET</b>		
Assets	\$ 143,116	\$ 112,326
Liabilities	\$ 4,219	\$ -
Net assets	\$ 138,897	\$ 112,326
<b>STATEMENT OF RECEIPTS AND DISBURSEMENTS</b>		
Receipts	\$ 34,496	\$ 10,488
Disbursements	\$ 7,925	\$ 5,824
Excess of receipts over disbursements	\$ 26,571	\$ 4,664

**THE CHESS FEDERATION OF CANADA  
LA FÉDÉRATION CANADIENNE DES ECHECS**

NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2002  
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5. SALE OF BOOKS

Included in sales and cost of sales is a transaction in which inventory of books costing \$17,080 was sold back to the author for total proceeds of \$19,386 which includes offsetting accrued royalties.