

BDW

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June 30, 2003

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, 2003 Financial Statements**

During the course of my review of the financial statements of the Federation for the period ended April 30, 2003, I identified some matters which may be of interest to management. A review does not constitute an audit and consequently I do not express an audit opinion on the financial statements. I 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 my observations on this year's review, I have outlined below some suggestions for your consideration. This letter is not exhaustive, and deals with the more important matters that came to my attention during the review. Minor matters were discussed with your staff.

1) There was a significant improvement in the quality of the accounting records this year. This is mainly because the bookkeeper, Pat Hendrick, is checking the accounting records each month and reconciling the bank, checking payroll, etc. This arrangement is also good practice from an internal control perspective in that it provides for a greater segregation of duties. I recommend that the Federation continues with this service.

2) One of the major assets of the Federation is inventory. During my analysis it was noted that approximately 25% of the inventory is slow moving. Although it is inevitable that a certain amount of inventory will eventually turn out to be unsaleable or obsolete, care should be taken to ensure that these types of losses are minimal. You may wish to implement special discounts and promotions on these slow moving items.

3) 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. Although the net result is not expected to be significantly different, GST should be filed in accordance with the current rules.

The following is some commentary on the financial statements:

- i) There has been a significant improvement in operations compared to last year – the net revenue was \$12,579 as compared to net expenditure of \$33,811 in the previous year. This improvement is mainly due to a decrease of salaries, benefits and staff travel of \$33,821 and an improvement in gross profit on the sales of books, equipment and software of \$14,884.
- ii) Sales of books and equipment are up from \$208,593 to \$222,878, an increase of 10.8%. The gross margin on sales has also improved, to 34.0% from 29.2%.
- iii) The largest change on the balance sheet is an increase in inventory of \$13,625, from \$82,098 in the previous year to \$95,723. This was pretty much financed by the net revenue for the year of \$12,579.
- iv) Membership revenues stabilized after years of gradual decline. The increase in membership revenues of \$2,219 was mainly due to an increase in the number of life memberships purchased (\$2,975 in 2003 compared to \$1,319 in 2002). Note that life membership revenues are transferred to the Chess Foundation of Canada.
- v) As noted above, salaries, benefits and staff travel decreased by \$33,821, from \$81,497 to \$47,676. This decrease was due to the fact that much of the work was handled by one staff person in 2003 whereas there were two staff for most of the previous year. Staff travel also decreased by \$3,910 and the use of contracted casual labour decreased by \$2,811.
- vi) Office expenses decreased by \$2,919, from \$39,355 to \$36,436. Although there was an increase in professional fees of \$5,266 (due to bookkeeping assistance and consulting fees for the database), this was more than offset by savings in office supplies, postage and telephone.
- vii) Other executive and administration decreased by \$2,552, from \$5,550 to \$2,998, due to a decrease in presidential expense and other executive expense.
- viii) Note that contributions to clubs, provincial affiliates and the Foundation of \$20,518 was primarily financed by donation revenues of \$16,310.
- ix) Other programs revenue of \$81,387 (re: the Chess Olympics, CYCC and Pugi Fund) are offset by corresponding expenses for the same amount. The increase of \$37,104 over the prior year is primarily due to activities related to the Chess Olympics.

I have reviewed all of the issues in this report with Gerry Litchfield and received his comments thereon. I would also like to express my appreciation for the co-operation which I received during the course of my review from Gerry and from Pat Hendrick. I 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. I accept no responsibility to a third party who uses this communication.

Yours sincerely,

Brian Watson

Brian D. Watson CA

cc: Gerry Litchfield

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

UNAUDITED FINANCIAL STATEMENTS

APRIL 30, 2003

BDW

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REVIEW ENGAGEMENT REPORT

To the Members:
The Chess Federation of Canada/
La Fédération canadienne des échecs:

I have reviewed the balance sheet of the Chess Federation of Canada/ La Fédération canadienne des échecs as at April 30, 2003 and the statements of changes in net assets and revenue and expenditure for the year then ended. My 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 me by the Federation.

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

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

Brian Watson

Brian D. Watson
Chartered Accountant

Ottawa, Ontario
June 19, 2003

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

BALANCE SHEET
AS AT APRIL 30, 2003
UNAUDITED

	2003	2002
CURRENT ASSETS		
Cash	\$ 25,797	\$ 22,070
Accounts receivable	7,471	8,501
Inventory	95,723	82,098
Prepaid expenses	2,391	3,575
	<hr/> 131,382	116,244
CAPITAL ASSETS (note 2)	<hr/> 101,624	105,297
	<hr/> \$ 233,006	\$ 221,541
CURRENT LIABILITIES		
Accounts payable	\$ 17,474	\$ 15,452
Entry fees payable	3,905	940
Due to the Chess Foundation of Canada (note 4)	1,175	-
Deferred membership revenue	41,011	41,044
	<hr/> 63,565	57,436
DEFERRED CONTRIBUTIONS (note 3)	<hr/> 4,809	12,052
NET ASSETS		
Invested in capital assets	101,624	105,297
Unrestricted	63,008	46,756
	<hr/> 164,632	152,053
	<hr/> \$ 233,006	\$ 221,541

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, 2003
UNAUDITED

	2003	2002
INVESTED IN CAPITAL ASSETS		
Balance - beginning of year	\$ 105,297	\$ 105,725
Purchase of capital assets	1,250	4,500
<u>Amortization of capital assets</u>	<u>(4,923)</u>	<u>(4,928)</u>
Balance - end of year	\$ 101,624	\$ 105,297
 UNRESTRICTED		
Balance - beginning of year	46,756	80,139
Net revenue (expenditure) for the year	12,579	(33,811)
Purchase of capital assets	(1,250)	(4,500)
<u>Amortization of capital assets</u>	<u>4,923</u>	<u>4,928</u>
Balance - end of year	\$ 63,008	\$ 46,756

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED APRIL 30, 2003
UNAUDITED

	2003	2002
REVENUE		
Sales of books, equipment and software	\$ 222,878	\$ 208,593
Shipping and handling charges	12,775	9,356
Membership fees	69,921	67,702
Contribution from related party (note 4)	3,619	6,622
Rating fees	19,506	21,368
Publication sales and advertising	5,816	5,121
Donations	16,310	14,918
Other programs (note 3)	81,367	46,815
Other revenue	1,247	2,794
	<hr/> 433,439	<hr/> 383,289
EXPENDITURE		
Cost of sales	147,048	147,647
General and administrative		
Salaries, benefits and staff travel	47,676	81,497
Building and equipment expenses	17,059	16,936
Office	36,436	39,355
Other executive and administration	2,998	5,550
	<hr/> 104,169	<hr/> 143,338
Programs		
Publications	57,161	54,034
International	10,597	10,199
Contributions to clubs, provincial affiliates and the Foundation	20,518	15,067
Other programs (note 3)	81,367	46,815
	<hr/> 169,643	<hr/> 126,115
	<hr/> 420,860	<hr/> 417,100
NET REVENUE (EXPENDITURE) FOR THE YEAR	\$ 12,579	\$ (33,811)

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2003
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

				2003		2002
		Cost	Accumulated Amortization	Net		Net
Land	\$ 20,000	\$ -	\$ 20,000	\$ 20,000		\$ 20,000
Building	142,852	67,893	74,959	74,959		78,082
Furniture and equipment	5,000	3,896	1,104	1,104		1,380
Computer equipment	8,000	6,805	1,195	1,195		1,784
National library	8,540	4,174	4,366	4,366		4,051
	\$ 184,392	\$ 82,768	\$ 101,624	\$ 101,624		\$ 105,297

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2003
UNAUDITED

3. DEFERRED CONTRIBUTIONS

	Olympic Donations	CYCC Program	Kalev Pugi Program	TOTAL
Balance - beginning of year	\$ 2,112	\$ 7,999	\$ 1,941	\$ 12,052
Add: contributions	33,073	40,026	1,025	74,124
Less: amount recognized as revenue	(34,016)	(45,551)	(1,800)	(81,367)
Balance - end of year	\$ 1,169	\$ 2,474	\$ 1,166	\$ 4,809

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 (2002 - \$500) and life membership fees of \$2,975 (2002 - \$1,319) have been paid into the Foundation from the Federation. The Foundation has contributed \$3,619 (2002 - \$6,622) in support of the Federation's general operations and \$1,025 (2002 - \$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, 2003 and 2002 and the years then ended were prepared by another firm of accountants and are as follows:

	2003	2002
BALANCE SHEET		
Assets	\$ 144,285	\$ 143,116
Liabilities	-	4,219
Net assets	\$ 144,285	\$ 138,897
STATEMENT OF REVENUE AND EXPENDITURE		
Revenue	\$ 10,388	\$ 34,496
Expenditure	5,000	7,925
Net revenue for the year	\$ 5,388	\$ 26,571

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

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2003
UNAUDITED

5. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current presentation.