



**Watson Folkins Corey LLP**  
Chartered Accountants

July 6, 2005

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, 2005 Financial Statements**

During the course of our review of the financial statements of the Federation for the period ended April 30, 2005, 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) The bookkeeper, Pat Hendrick, continued to verify the accounting records regularly and to reconcile the bank, check payroll, etc. There was additional work on account of staff turnover and due to implementation of a new Quick Books accounting system. The arrangement for an independent bookkeeper is also prudent practice from an internal control perspective in that it provides for a greater segregation of duties.
- 2) One of the major assets of the Federation is inventory. Our analysis showed that approximately 14% of the inventory is not selling or is slow moving. However this is an improvement over the prior year when it was approximately 25%. 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. We recommend that you continue 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. A rough calculation showed that you have paying slightly more GST each year than is required. GST should be filed in accordance with the current rules and adjustments filed relating to earlier years as far back as possible.
- 4) The petty cash receipts became out of balance. We recommend that the Federation keep track of petty cash on an imprest basis and that policies and procedures be established to clarify the required procedures.
- 5) The Federation is currently being audited by Canada Revenue Agency (CRA) and we understand that several issues have arisen:
  - a) CRA is contending that improper tax receipts have been issued on certain donations; i.e. CRA's position is that there is a personal benefit coming back to the donor on some of the donation receipts. It is therefore possible that this may result in the re-assessment of the personal income tax returns of certain donors.

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It should be noted that CRA's policy (CSP-G05) on this issue is as follows:

"A registered charity cannot issue an official tax receipt if a donor has directed the charity to give the funds to a specified person or family. In reality, such a gift is made to the person or family and not to the charity. However, donations subject to a general direction from a donor that the gift be used in a particular program operated by a charity are acceptable, provided that no benefit accrues to the donor, the directed gift does not benefit any person not dealing at arms' length with the donor, and decisions regarding utilization of the donation within a program rest with the charity."

b) CRA is also contending that there are unpaid withholding taxes relating to contracted "casual labour". The Chess Federation has considered part-time workers to be "casual". Technically speaking, the term "casual" refers to a situation where someone comes in very infrequently; for example, coming in for several hours, a few times each year to wash the windows. CRA's position is that withholding taxes should be deducted from the compensation paid to part-time workers. Depending on how far back CRA goes, we would estimate a liability to the Federation, including penalties and interest, of anywhere from \$1,000 to \$5,000. The personal tax returns of these employees would also be subject to re-assessment.

6. The following is some commentary on the financial statements:

a) Net income from operations decreased by \$22,015, from net revenue of \$5,738 in 2004 to net loss of \$16,277 in 2005. This was mainly due to a 22% decrease in the sale of books, equipment and software; (resulting in an impairment to product gross profit of \$16,014). Decreases to certain revenues (primarily shipping and handling charges as well as other revenue) were also a factor in creating the loss.

b) Sales of books and equipment are down from \$222,878 in 2003 to \$186,769 in 2004 to \$145,398 in 2005. This decrease is due a variety of factors, including increased competition from suppliers selling chess publications and other products via the internet and also due to competition from chess retail stores.

c) Looking at the balance sheet, cash increased by from \$32,380 to \$75,705. This was mainly due to a \$21K decrease in inventory, a \$19.5K increase in liabilities and a \$22K increase in deferred contributions which were offset by the operational loss of \$16K.

d) Membership fee revenues increased slightly by \$886. Although there was a slight drop in numbers of members from 2769 in 2004 to 2676 in 2005, this was more than offset by increased membership fee rates which were implemented in September, 2003.

e) Donations (excluding donations used for the Chess Olympics and WYCC programs) decreased from \$48,178 in 2004 to \$20,545 in 2005. These basically help to finance the cost of other competitions.

f) Salaries, benefits and staff travel increased slightly by \$907. Savings on wages to permanent staff were more than offset by use of "casual" (part-time) labour.

g) Expenditures on programs increased significantly, from \$149,093 to \$210,179, an increase of \$61,086. This was primarily due to the costs of the World Youth Chess Championships; (\$77,810 was spent on WYCC in 2004-05).

h) Other programs revenue of \$121,303 (re: the Chess Olympics, CYCC and Pugi Fund) are offset by corresponding expenses for the same amount. The increase of \$85,048 over the prior year is primarily due to activity related to the Chess Olympics and the CYCC programs.

i) The Executive and President of the Chess Federation paid for their own expenses in 2005 and so there was again a savings to the organization.

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7) Top consultants to the not-for-profit sector are of the opinion that the Nominations Committee is the most important committee in an organization. Due to the erosion in the Federation's revenues, there will be less funding available in future for paid staff. The role of the volunteer is expected to take on increasing importance. We recommend that increased focus and resources be placed on the Nominations Committee to identify volunteers who have the appropriate skills required for the board and the various committees. This process would also include preparation of detailed outlines of expected time commitments, competencies required, a description of the duties of each volunteer position and then the implementation of energetic recruitment strategies.

We have reviewed all of the issues and information in this report with Halldor Palsson and Peter Arseneau and received their comments thereon. We would also like to express our appreciation for the co-operation which we received during the course of our review from Halldor, Peter and Pat Hendrick. 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,  
WATSON FOLKINS COREY LLP

*Brian Watson*

Brian D. Watson CA

cc: Peter Arseneau

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THE CHESS FEDERATION OF CANADA  
LA FÉDÉRATION CANADIENNE DES ÉCHECS

UNAUDITED FINANCIAL STATEMENTS

APRIL 30, 2005

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## REVIEW ENGAGEMENT REPORT

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

We have reviewed the balance sheet of the Chess Federation of Canada/ La Fédération canadienne des échecs as at April 30, 2005 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.

*Watson Folkins Corey LLP*

**WATSON FOLKINS COREY LLP**  
Chartered Accountants

Ottawa, Ontario  
June 7, 2005

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

**BALANCE SHEET**  
**AS AT APRIL 30, 2005**  
**UNAUDITED**

	2005	2004
<b>CURRENT ASSETS</b>		
Cash	\$ 75,705	\$ 32,380
Accounts receivable	7,723	7,702
Inventory	70,399	91,252
Prepaid expenses	9,106	5,279
	162,933	136,613
<b>CAPITAL ASSETS (note 2)</b>	<b>96,498</b>	<b>97,137</b>
	\$ 259,431	\$ 233,750
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 17,816	\$ 7,489
Entry fees payable	17,815	9,097
Deferred membership revenue	38,956	38,448
	74,587	55,034
<b>DEFERRED CONTRIBUTIONS (note 3)</b>	<b>25,456</b>	<b>3,051</b>
<b>NET ASSETS</b>		
Invested in capital assets	96,022	97,137
Unrestricted	63,366	78,528
	159,388	175,665
	\$ 259,431	\$ 233,750

Approved on behalf of the Board:

Director

Director

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

**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED APRIL 30, 2005**  
**UNAUDITED**

	2005	2004
<b>INVESTED IN CAPITAL ASSETS</b>		
Balance - beginning of year	\$ 97,137	\$ 101,624
Purchase of capital assets	3,874	-
Disposal of capital assets	(300)	-
Amortization of capital assets	(4,689)	(4,487)
<b>Balance - end of year</b>	<b>\$ 96,022</b>	<b>\$ 97,137</b>
 <b>UNRESTRICTED</b>		
Balance - beginning of year	78,528	68,303
Net revenue (expenditure) for the year	(16,277)	5,738
Purchase of capital assets	(3,874)	-
Disposal of capital assets	300	-
Amortization of capital assets	4,689	4,487
<b>Balance - end of year</b>	<b>\$ 63,366</b>	<b>\$ 78,528</b>

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

**STATEMENT OF REVENUE AND EXPENDITURE**  
**FOR THE YEAR ENDED APRIL 30, 2005**  
**UNAUDITED**

	2005	2004
<b>REVENUE</b>		
Sales of books, equipment and software	\$ 145,398	\$ 186,769
Shipping and handling charges	8,722	11,440
Membership fees	72,246	71,360
Contribution from related party (note 5)	3,963	5,394
Rating fees	27,968	28,333
Publication sales and advertising	4,530	4,820
Donations	20,545	48,178
Other programs (note 3)	121,303	36,255
Other revenue	248	2,995
	<hr/> 404,923	<hr/> 395,544
<b>EXPENDITURE</b>		
Cost of sales	99,521	124,878
General and administrative		
Salaries, benefits and staff travel	60,102	59,195
Building and equipment expenses	16,965	17,669
Bad debts	979	3,925
Office	32,241	32,248
Other executive and administration	1,213	2,798
	<hr/> 111,500	<hr/> 115,835
Programs		
Publications	47,744	49,883
International	21,467	43,737
Contributions to clubs, provincial affiliates and the Foundation	19,665	19,218
Other programs (note 3)	121,303	36,255
	<hr/> 210,179	<hr/> 149,093
	<hr/> 421,200	<hr/> 389,806
<b>NET REVENUE (EXPENDITURE) FOR THE YEAR</b>	<b>\$ (16,277)</b>	<b>\$ 5,738</b>

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

**NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2005  
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.

**(e) Statement of cash flows**

A statement of cash flows has not been prepared as it would not provide significant additional information.

**(f) Estimates and Assumptions**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results may differ from those estimates.

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

NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2005  
UNAUDITED

2. CAPITAL ASSETS

			2005	2004
	Cost	Accumulated Amortization	Net	Net
Land	\$ 20,000	\$ -	\$ 20,000	\$ 20,000
Building	145,502	73,823	71,679	71,961
Furniture and equipment	5,000	4,293	707	883
Computer equipment	9,224	7,666	1,558	801
National library	8,240	5,686	2,554	3,492
	<b>\$ 187,966</b>	<b>\$ 91,468</b>	<b>\$ 96,498</b>	<b>\$ 97,137</b>

3. DEFERRED CONTRIBUTIONS

	Olympic Donations	CYCC Program	Kalev Pugi Program	TOTAL
Balance - beginning of year	\$ 2,533	\$ (145)	\$ 663	\$ 3,051
Add: contributions	18,995	123,688	1,025	143,708
Less: amount recognized as revenue	(20,404)	(100,399)	(500)	(121,303)
Balance - end of year	<b>\$ 1,124</b>	<b>\$ 23,144</b>	<b>\$ 1,188</b>	<b>\$ 25,456</b>

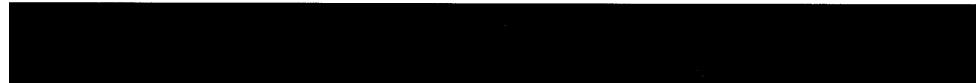
Olympic donations are designated to provide financial support for participation of Canadian representatives in the International Chess Olympiads. The Canadian Youth Chess Championships (CYCC) entry fees and donations cover the cost of sending players to the world championships. The Kalev Pugi Fund was 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. SUBSEQUENT EVENT

After the year end, Canada Revenue Agency (CRA) commenced an audit of the Federation's books and it is not yet completed. CRA is contesting the validity of certain tax receipts that have been issued for donations relating to international competitions. CRA has also indicated the possibility of additional liability relating to unremitted payroll deductions; because this amount is unknown, it has not been accrued for in the accounting records.

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

**NOTES TO FINANCIAL STATEMENTS**  
**APRIL 30, 2005**  
**UNAUDITED**

**5. 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 nil (2004 - \$25) and life membership fees of \$1,070 (2004 - \$6,488) have been paid into the Foundation from the Federation. The Foundation has contributed \$3,963 (2004 - \$5,394) in support of the Federation's general operations and \$1,025 (2004 - \$1,026) towards the Kalev Pugi junior program.

The Foundation has not been consolidated with the Federation's financial statements. Unaudited and unconsolidated Chess Foundation of Canada financial summaries as at April 30, 2005 and 2004 and the years then ended are based on data provided by another firm of accountants, as follows:

	2005	2004
<b>BALANCE SHEET</b>		
Assets (investments)	\$ 150,154	\$ 148,383
Liabilities	-	-
<b>Net assets</b>	<b>\$ 150,154</b>	<b>\$ 148,383</b>
<b>STATEMENT OF REVENUE AND EXPENDITURE</b>		
Revenue	\$ 7,134	\$ 9,718
Expenditure	5,363	5,620
<b>Net revenue for the year</b>	<b>\$ 1,771</b>	<b>\$ 4,098</b>

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