

Watson Folkins Corey LLP

Chartered Accountants
70 Gloucester Street, Suite 106
Ottawa, Ontario K2P 0A2

Phone: (613) 244-6090
Fax: (613) 562-4666
www.wfc-ottawa.ca

July 2, 2004

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, 2004 Financial Statements**

During the course of our review of the financial statements of the Federation for the period ended April 30, 2004, 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) Again the quality of the accounting records was good this year. This is mainly because the bookkeeper, Pat Hendrick, continues to verify the accounting records each month and to reconcile the bank, check payroll, etc. This arrangement is also prudent practice from an internal control perspective in that it provides for a greater segregation of duties. With the changes recently made to the national office staff we recommend that Pat makes a thorough review of the transactions for the beginning of the new fiscal period to ensure that they are being properly recorded.

2) One of the major assets of the Federation is inventory. Our analysis showed 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. 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 approximately \$750 more per year in GST 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.

The following is some commentary on the financial statements:

i) Net income from operations decreased this year to \$5,738 from \$12,579 last year. The decrease of \$6,841 was mainly due to a decrease in the sale of books, equipment and software as well as increased costs of salaries, benefits and staff travel and a bad debt although this was offset to a degree by increased membership fee and rating fee revenue and lower office expenses and lower costs of publications.

ii) Sales of books and equipment are down from \$222,878 to \$186,769, a decrease of 16.2%. This decrease is due a variety of factors, including increased competition from suppliers selling chess publications and other products via the internet. The gross margin on sales dropped a bit, to 33.1 % from 34.0%.

iii) There were no significant changes to the balance sheet. Cash increased by \$6,583 primarily due to net revenue of \$5,738 and amortization of capital assets of \$4,487.

iv) Membership revenues increased by \$1,439 from \$69,921 to \$71,360. Although there was an increase of 206 members from 2,563 last year to 2,769 this year, this was mainly caused by an increase of 212 new participating junior members from Northern Ontario. Effective September 1, 2003 there were price increases (averaging about 10%) to all categories of membership fees. It should be noted that the increased revenue arising from more participating junior members (paying lower fees) was offset by decreased revenue from fewer regular members (paying higher fees).

v) Rating fees increased by \$8,827, from \$19,506 in 2003 to \$28,333 in 2004. This increase is primarily due to a price increase of 50% on September 1, 2003.

vi) Salaries, benefits and staff travel increased by \$11,519, from \$47,476 in 2003 to \$59,195 in 2004 (it totaled \$81,497 in 2002). This increase in 2004 was due to the fact that much of the work was handled by one staff person in 2003 whereas there were 1 1/2 staff for 2004.

vii) The bad debt of \$3,925 arose from an advance payment to a clock manufacturing supplier who went bankrupt.

viii) Office expenses decreased by \$4,188, from \$36,436 to \$32,248. This decrease was mainly due to a decrease in professional fees of \$4,142 (due to additional bookkeeping assistance and consulting fees for the database required in 2003).

ix) Publications expenses decreased by \$7,278, from \$57,161 to \$49,883. The decrease was due to the use of less expensive paper stock and negotiation of a new contract which has lower editorial costs.

x) Note that contributions to clubs, provincial affiliates and the Foundation of \$19,218 (2003 - \$20,518) and a significant portion of the international expenses of \$43,737 (2003 - \$10,597) were primarily financed by donation revenues of \$48,178 (2003 - \$16,310). There was a substantial increase in international competition activity in 2004.

xi) Other programs revenue of \$36,255 (re: the Chess Olympics, CYCC and Pugi Fund) are offset by corresponding expenses for the same amount. The decrease of \$45,112 over the prior year is primarily due to the fact that there was no activity re: the Chess Olympics in 2004.

We have reviewed all of the issues and information in this report with Peter Arseneau and Gerry Litchfield 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 Peter, Gerry and from 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

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

UNAUDITED FINANCIAL STATEMENTS

APRIL 30, 2004

Watson Folkins Corey LLP

Chartered Accountants
70 Gloucester Street, Suite 106
Ottawa, Ontario K2P 0A2

Phone: (613) 244-6090
Fax: (613) 562-4666
www.wfc-ottawa.ca

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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, 2004 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 11, 2004

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

BALANCE SHEET
AS AT APRIL 30, 2004
UNAUDITED

	2004	2003
CURRENT ASSETS		
Cash	\$ 32,380	\$ 25,797
Accounts receivable	7,702	7,471
Inventory	91,252	95,723
Prepaid expenses	5,279	2,391
	136,613	131,382
CAPITAL ASSETS (note 2)	97,137	101,624
	\$ 233,750	\$ 233,006
CURRENT LIABILITIES		
Accounts payable	\$ 7,489	\$ 17,474
Entry fees payable	9,097	3,905
Due to the Chess Foundation of Canada (note 4)	-	1,175
Deferred membership revenue	38,448	35,716
	55,034	58,270
DEFERRED CONTRIBUTIONS (note 3)	3,051	4,809
NET ASSETS		
Invested in capital assets	97,137	101,624
Unrestricted	78,528	68,303
	175,665	169,927
	\$ 233,750	\$ 233,006

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, 2004
 UNAUDITED

	2004	2003
INVESTED IN CAPITAL ASSETS		
Balance - beginning of year	\$ 101,624	\$ 105,297
Purchase of capital assets	-	1,250
Amortization of capital assets	(4,487)	(4,923)
Balance - end of year	\$ 97,137	\$ 101,624
 UNRESTRICTED		
Balance - beginning of year, as previously reported	\$ 63,008	\$ 46,756
Correction of prior year's revenue (note 7)	5,295	5,295
Balance - beginning of year, as restated	68,303	52,051
Net revenue for the year	5,738	12,579
Purchase of capital assets	-	(1,250)
Amortization of capital assets	4,487	4,923
Balance - end of year	\$ 78,528	\$ 68,303

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

STATEMENT OF REVENUE AND EXPENDITURE
 FOR THE YEAR ENDED APRIL 30, 2004
 UNAUDITED

	2004	2003
REVENUE		
Sales of books, equipment and software	\$ 186,769	\$ 222,878
Shipping and handling charges	11,440	12,775
Membership fees	71,360	69,921
Contribution from related party (note 4)	5,394	3,619
Rating fees	28,333	19,506
Publication sales and advertising	4,820	5,816
Donations	48,178	16,310
Other programs (note 3)	36,255	81,367
Other revenue	2,995	1,247
	395,544	433,439
EXPENDITURE		
Cost of sales	124,878	147,048
General and administrative		
Salaries, benefits and staff travel	59,195	47,676
Building and equipment expenses	17,669	17,059
Bad debt	3,925	-
Office	32,248	36,436
Other executive and administration	2,798	2,998
	115,835	104,169
Programs		
Publications	49,883	57,161
International	43,737	10,597
Contributions to clubs, provincial affiliates and the Foundation	19,218	20,518
Other programs (note 3)	36,255	81,367
	149,093	169,643
	389,806	420,860
NET REVENUE FOR THE YEAR	\$ 5,738	\$ 12,579

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

NOTES TO FINANCIAL STATEMENTS
 APRIL 30, 2004
 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

			2004		2003	
	Cost	Accumulated Amortization	Net		Net	
Land	\$ 20,000	\$ -	\$ 20,000	\$	20,000	
Building	142,852	70,891	71,961		74,959	
Furniture and equipment	5,000	4,117	883		1,104	
Computer equipment	8,000	7,199	801		1,195	
National library	8,540	5,048	3,492		4,366	
	\$ 184,392	\$ 87,255	\$ 97,137	\$	101,624	

THE CHESS FEDERATION OF CANADA
LA FÉDÉRATION CANADIENNE DES ÉCHECS

NOTES TO FINANCIAL STATEMENTS
 APRIL 30, 2004
 UNAUDITED

3. DEFERRED CONTRIBUTIONS

	Olympic Donations	CYCC Program	Kalev Pugi Program	TOTAL
Balance - beginning of year	\$ 1,169	\$ 2,474	\$ 1,166	\$ 4,809
Add: contributions	1,364	32,036	1,097	34,497
Less: amount recognized as revenue	-	(34,655)	(1,600)	(36,255)
Balance - end of year	\$ 2,533	\$ (145)	\$ 663	\$ 3,051

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 \$25 (2003 - \$500) and life membership fees of \$6,488 (2003 - \$2,975) have been paid into the Foundation from the Federation. The Foundation has contributed \$5,394 (2003 - \$3,619) in support of the Federation's general operations and \$1,026 (2003 - \$1,025) 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, 2004 and 2003 and the years then ended are based on data provided by another firm of accountants, as follows:

	2004	2003
BALANCE SHEET		
Assets (investments)	\$ 148,383	\$ 144,285
Liabilities	-	-
Net assets	\$ 148,383	\$ 144,285
STATEMENT OF REVENUE AND EXPENDITURE		
Revenue	\$ 9,718	\$ 10,388
Expenditure	5,620	5,000
Net revenue for the year	\$ 4,098	\$ 5,388

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

NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2004
UNAUDITED

5. STATEMENT OF CASH FLOWS

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

6. COMPARATIVE FIGURES

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

7. CORRECTION OF PRIOR YEARS' REVENUE

A correction of \$5,295 has been made to unearned membership revenue of prior years.