

UNITED STATES OF AMERICA CHESS FEDERATION
FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

MAY 31, 2019 AND 2018

UNITED STATES OF AMERICA CHESS FEDERATION

YEAR ENDED MAY 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
United States of America Chess Federation
Crossville, Tennessee

We have audited the accompanying financial statements of the United States of America Chess Federation (a nonprofit organization) which comprise the statements of financial position as of May 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States of America Chess Federation as of May 31, 2019 and 2018, and the changes in its

net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of unrestricted expenses on pages 19 - 20 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bible Harris Smith, P.C.

Bible Harris Smith, P.C.
Knoxville, Tennessee
August 2, 2019

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	May 31,	
	2019	2018
OPERATING ASSETS		
Cash	\$ 2,379,516	\$ 2,314,662
Accounts Receivable	31,862	46,894
Prepaid Expenses	8,514	6,867
Certificates of Deposit	105,884	104,836
Investments	487,400	-
Furniture and Equipment (net of accumulated depreciation of \$122,605 and \$117,128 in 2019 and 2018)	6,886	12,363
Total Operating Assets	3,020,062	2,485,622
LIFE MEMBERSHIP ASSETS		
Cash and Investments	549,249	525,415
Land	264,000	264,000
Building and Improvements (net of accumulated depreciation of \$241,159 and \$224,377 in 2019 and 2018)	400,263	417,044
Total Life Membership Assets	1,213,512	1,206,459
TOTAL ASSETS	\$ 4,233,574	\$ 3,692,081
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Accounts Payable	\$ 4,556	\$ 43,376
Accrued Expenses and Other Liabilities	414,913	68,974
Deferred Multi-Year Memberships	822,515	816,413
Deferred Sales and Tournament Income	18,932	35,691
Deferred Scholarships	49,953	61,567
Deferred Revenue - Life and Sustaining Memberships	406,623	412,391
TOTAL LIABILITIES	1,717,492	1,438,412
NET ASSETS		
Without Donor Restrictions		
With Board Designated Restrictions	1,328,984	1,050,996
Without Board Designated Restrictions	742,130	777,377
With Donor Restrictions	444,968	425,296
Total Net Assets	2,516,082	2,253,669
TOTAL LIABILITIES AND NET ASSETS	\$ 4,233,574	\$ 3,692,081

The accompanying notes are an integral part of these financial statements.

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED MAY 31, 2019 AND 2018

	2019	2018
REVENUES WITHOUT DONOR RESTRICTIONS		
Memberships	\$ 2,030,613	\$ 2,015,768
Tournaments	1,089,695	882,841
Magazine Revenues	197,526	187,375
Sales Revenues	120,000	120,000
Donations	147,819	113,331
Investment Return	117	2,242
Interest Income	16,330	4,580
Other Services	349,667	307,685
Other Revenues	71,432	45,731
Net Assets Released From Restrictions	-	-
Total Revenues	4,023,199	3,679,553
EXPENSES WITHOUT DONOR RESTRICTIONS		
Depreciation	22,259	24,314
General and Administrative Expenses	860,765	769,526
Governance	116,687	121,157
Magazine	829,136	764,098
Membership Development	300,798	290,517
Overhead Expenses	199,501	219,697
Tournament Expenses	1,451,312	953,636
Total Expenses	3,780,458	3,142,945
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	242,741	536,608
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Donations	18,550	15,000
Interest Income	1,122	428
INCREASE (DECREASE) - NET ASSETS WITH DONOR RESTRICTIONS	19,672	15,428
Increase (Decrease) in Net Assets	262,413	552,036
NET ASSETS - BEGINNING	2,253,669	1,701,633
NET ASSETS - ENDING	\$ 2,516,082	\$ 2,253,669

The accompanying notes are an integral part of these financial statements.

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2019

	Program Activities			Supporting Services	
	Magazine	Tournament	Total Program	Membership	Overhead
Advertising and Promotions	\$ 996	\$ -	\$ 996	\$ 26,615	\$ -
Bank and Credit Card Charges	-	14,598	14,598	82,720	-
Commissions	-	-	-	56,457	-
Contract Labor	54,700	-	54,700	-	-
Delegates Meeting	-	-	-	-	-
Election Expenses	-	-	-	-	-
Equipment Rental	-	-	-	-	8,823
Executive Board Meetings and Travel	-	-	-	-	-
FIDE International Representation	-	-	-	-	-
Insurance	-	-	-	-	19,265
IT Expenses	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Supplies	3,382	-	3,382	27,595	-
Other	-	-	-	2,110	-
Personnel Expense	361,096	146,695	507,791	203,116	-
Printing, Mailing and Postage	393,449	-	393,449	44,125	-
Professional Fees	-	-	-	-	-
Property and Other Taxes	-	-	-	-	5,348
Repairs & Maintenance	-	-	-	-	22,943
Telephone	-	-	-	-	17,664
Tournament Expense - International	-	761,336	761,336	-	-
Tournament Expense - Domestic	-	689,976	689,976	-	-
Travel	5,024	-	5,024	-	-
Utilities	-	-	-	-	9,891
	818,647	1,612,605	2,431,252	442,738	83,934
Total Expenses before Depreciation					
Depreciation			-		
Total Expenses	\$ 818,647	\$ 1,612,605	\$ 2,431,252	\$ 442,738	\$ 83,934

(CONTINUED ON PAGE 6)

The accompanying notes are an integral part of these financial statements.

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2019

(CONTINUED FROM PAGE 5)

	Supporting Services, continued			
	Governance	G&A	Fundraising	Grand Total
Advertising and Promotions	\$ -	\$ 3,711	\$ 1,784	\$ 33,106
Bank and Credit Card Charges	-	-	-	97,318
Commissions	-	-	-	56,457
Contract Labor	-	1,652	-	56,352
Delegates Meeting	13,465	-	-	13,465
Election Expenses	4,198	-	-	4,198
Equipment Rental	-	-	-	8,823
Executive Board Meetings and Travel	37,536	-	-	37,536
FIDE International Representation	61,487	-	-	61,487
Insurance	-	-	-	19,265
IT Expenses	-	138,499	-	138,499
Office Rent	-	-	-	-
Office Supplies	-	15,498	-	46,475
Other	-	21,262	-	23,372
Personnel Expense	78,990	236,969	101,558	1,128,424
Printing, Mailing and Postage	-	4,259	-	441,833
Professional Fees	-	35,287	-	35,287
Property and Other Taxes	-	-	-	5,348
Repairs & Maintenance	-	-	-	22,943
Telephone	-	-	-	17,664
Tournament Expense - International	-	-	-	761,336
Tournament Expense - Domestic	-	-	-	689,976
Travel	-	44,120	-	49,144
Utilities	-	-	-	9,891
	195,676	501,257	103,342	3,758,199
Depreciation	-	22,259	-	22,259
	\$ 195,676	\$523,516	\$ 103,342	\$3,780,458

The accompanying notes are an integral part of these financial statements.

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2018

	Program Activities			Supporting Services	
	Magazine	Tournament	Total Program	Membership	Overhead
Advertising and Promotions	\$ 857	\$ -	\$ 857	\$ 13,943	\$ -
Bank and Credit Card Charges	-	13,235	13,235	74,991	-
Commissions	-	-	-	59,063	-
Contract Labor	58,919	5,590	64,509	-	-
Delegates Meeting	-	-	-	-	-
Election Expenses	-	-	-	-	-
Equipment Rental	-	-	-	-	8,116
Executive Board Meetings and Travel	-	-	-	-	-
FIDE International Representation	-	-	-	-	-
Insurance	-	-	-	-	25,279
IT Expenses	-	-	-	-	-
Office Rent	-	-	-	-	2,533
Office Supplies	5,030	-	5,030	27,914	-
Other	-	-	-	2,390	12,450
Personnel Expense	316,635	119,533	436,168	210,039	14,473
Printing, Mailing and Postage	368,264	-	368,264	43,747	-
Professional Fees	-	-	-	-	-
Property and Other Taxes	-	-	-	-	5,353
Repairs & Maintenance	-	-	-	-	24,883
Telephone	-	-	-	-	28,438
Tournament Expense - International	-	357,076	357,076	-	-
Tournament Expense - Domestic	-	596,559	596,559	-	-
Travel	2,056	-	2,056	-	-
Utilities	-	-	-	-	9,929
Total Expenses before Depreciation	751,761	1,091,993	1,843,754	432,087	131,454
Depreciation	-	-	-	-	-
Total Expenses	<u>\$751,761</u>	<u>\$ 1,091,993</u>	<u>\$1,843,754</u>	<u>\$ 432,087</u>	<u>\$ 131,454</u>

(CONTINUED ON PAGE 8)

The accompanying notes are an integral part of these financial statements.

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2018

(CONTINUED FROM PAGE 7)

	Governance	G&A	Fundraising	Grand Total
Advertising and Promotions	\$ -	\$ -	\$ 35,198	\$ 49,998
Bank and Credit Card Charges	-	-	-	88,226
Commissions	-	-	-	59,063
Contract Labor	-	10,000	-	74,509
Delegates Meeting	11,669	-	-	11,669
Election Expenses	9,312	-	-	9,312
Equipment Rental	-	-	-	8,116
Executive Board Meetings and Travel	28,045	-	-	28,045
FIDE International Representation	72,132	-	-	72,132
Insurance	-	-	-	25,279
IT Expenses	-	80,725	-	80,725
Office Rent	-	-	-	2,533
Office Supplies	-	18,425	-	51,369
Other	-	11,564	-	26,412
Personnel Expense	71,955	204,796	87,385	1,024,816
Printing, Mailing and Postage	-	1,849	-	413,860
Professional Fees	-	33,135	-	33,135
Property and Other Taxes	-	-	-	5,353
Repairs & Maintenance	-	-	-	24,883
Telephone	-	-	-	28,438
Tournament Expense - International	-	-	-	357,076
Tournament Expense - Domestic	-	-	-	596,559
Travel	-	35,138	-	37,194
Utilities	-	-	-	9,929
	<u>193,113</u>	<u>395,632</u>	<u>122,583</u>	<u>3,118,631</u>
Depreciation		<u>24,314</u>		<u>24,314</u>
	<u>\$ 193,113</u>	<u>\$ 419,946</u>	<u>\$ 122,583</u>	<u>\$3,142,945</u>

The accompanying notes are an integral part of these financial statements.

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 262,413	\$ 552,036
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by (Used In) Operating Activities:		
Depreciation	22,259	24,314
(Gain) Loss on Disposal of Equipment	-	921
Unrealized (Gain) Loss on Life Membership Investments	9,513	11,557
Unrealized (Gain) Loss on Investments	(8,483)	
Reinvested earnings - Certificates of Deposit	(1,048)	(366)
Reinvested earnings - Life Membership Assets	(25,170)	(13,799)
(Increase) Decrease in Assets:		
Accounts Receivable	15,032	25,621
Prepaid Expenses	(1,647)	(1,892)
Deposits	-	-
Cash and Equivalents - Life Membership Assets	(8,177)	178,020
Increase (Decrease) in Liabilities:		
Accounts Payable	(38,821)	34,638
Accrued Expenses and Other Liabilities	345,939	1,043
Deferred Multi-Year Memberships	6,102	(4,537)
Deferred Sales and Tournament Income	(16,759)	17,349
Deferred Revenue-Life and Sustaining Memberships	(5,768)	(33,180)
Deferred Scholarships	(11,614)	6,375
Net Cash Provided By (Used In) Operating Activities	543,771	798,100
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(478,917)	-
Net Cash Provided By (Used In) Investing Activities	(478,917)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS EQUIVALENTS	64,854	798,100
CASH AND CASH EQUIVALENTS - BEGINNING	2,314,662	1,516,562
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,379,516	\$ 2,314,662

The accompanying notes are an integral part of these financial statements.

UNITED STATES OF AMERICA CHESS FEDERATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018

Note 1 - Nature of Organization and Significant Accounting Policies

The Organization – The United States of America Chess Federation (Federation) was organized in 1939. The purpose of the Federation is educational and instructional. The Federation seeks to broaden and develop chess as art and recreation. The Federation accomplishes this objective by cooperating with schools, colleges, hospitals, military bases, community centers, recreation departments, and other groups and institutions in teaching chess, conducting tournaments, and other activities. In addition, the Federation disseminates information through its publications and representatives.

Basis of Accounting – The financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recognized in the period in which they are earned, and expenses are recognized when incurred.

Estimates- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Federation considers cash equivalents to include all highly liquid investments available for current use with an initial maturity of three months or less, and cash funds.

Provision for Doubtful Accounts – The Federation provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. Accounts are charged off as uncollectible if over 365 days old and less than \$1,000, or if the collection efforts are exhausted. No allowance is considered necessary at May 31, 2019 and 2018.

Life Membership Assets (LMA) – The Federation offers lifetime and sustaining memberships to its members. The membership fees received are designated as LMA assets, which include land, building, cash, and investments. Life and sustaining membership fees are deferred and recognized in income over a twenty-year period from the date an individual becomes a life member.

Investments – Investments are stated at fair value. Fair value for all investments is determined by reference to quoted market prices in active markets for identical assets (Level 1). Net realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations or by law.

Deferred Multi-Year Memberships and Deferred Sales and Tournament Income – These deferred income categories include multi-year membership income and deferred tournament income for tournaments which have not yet taken place. Income is recognized when earned based on management's estimate of: the amount considered a contribution, and recognized upon receipt; the amount considered an exchange transactions, and recognized ratably during the duration of the membership; and adoption of a mid-year cost flow assumption.

Compensated Absences – Employees’ vacation benefits are recognized in the period earned.

Financial Instruments and Fair Value Measurements – The Federation believes the carrying amount of cash, accounts receivable (net of allowances), other current assets, accounts payable, line of credit, accrued expenses and other liabilities approximates fair value due to their short maturity. FASB ASC 820-10, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Federation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Federation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Tax Exempt Status – The Federation operates under 501(c)(3) status. If applicable, the Federation accounts for unrelated business income taxes under the provisions of FASB ASC 740-10. During the years ended May 31, 2019 and 2018, the Federation did not have net income derived from unrelated business activities, and it was determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax exempt status. In years where the Federation has net income derived from unrelated business activities, it would be subject to examinations by taxing authorities generally for three years after filing the federal Exempt Organization Business Income Tax Returns (Form 990T). It is the Federation’s policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of May 31, 2019 and 2018, the Federation had no accruals for interest and/or penalties.

Financial Statement Presentation – Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Federation and changes therein are classified and reported as follows.

Net assets without donor restrictions – Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of the Federation. These net assets may be used at the discretion of the Federation’s management and board of directors.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Federation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. Contributions of donated noncash assets are recorded at their fair values in the period received.

Donated Services – The Federation receives donated services from unpaid volunteers who perform a variety of tasks to assist the Federation in its activities. Donated services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

If the criteria for recognition are satisfied, donated services are recorded at their fair values in the period received. No donated services met these criteria and none were recorded for the fiscal years ended May 31, 2019 and 2018.

Functional Allocation of Expenses – The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Property and Equipment – Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Items with a useful life of greater than one year and a cost of greater than \$500 are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of depreciable assets.

New Accounting Pronouncement – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Federation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The new standards change the following aspects of the Federation's financial statements.

Unrestricted Net Assets have been renamed Net Assets Without Donor Restrictions.

Temporarily Restricted Net Assets have been renamed Net Assets With Donor Restrictions.

Statements of Functional Expenses are presented for the years ended May 31, 2019 and May 31, 2018.

The financial statements include a new disclosure about liquidity and availability of resources (Note 2).

Accordingly, certain reclassifications have been made to the prior year financial statements in order to conform with the current year presentation.

Note 2 – Information Regarding Availability and Liquidity

The Federation strives to maintain liquid financial assets sufficient to cover 120 days of general expenditures. Financial assets in excess of daily cash requirements are may be invested in certificates of deposit, money market funds and other short-term investments.

The following table reflects the Federation's financial assets as of May 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include the Life Member Asset Trust which is intended to provide income to support services for life members throughout the term of their membership, a Scholarship Fund to pay for scholarships awarded to students in chess competitions, an Endowment Fund to hold restricted and unrestricted donations for long term investment (the proceeds of which will be used for future programming), and the Reserve Fund which is intended to provide operating liquidity in the event of an emergency or to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also includes net assets with donor restrictions.

The following represents the Federation's financial assets at May 31, 2019 and 2018.

	May 31,	
	2019	2018
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 2,592,538	\$ 2,641,284
Accounts Receivable	31,862	46,894
Investments	929,510	303,629
	<hr/>	<hr/>
Total Financial Assets	3,553,910	2,991,807
Less amounts not available to be used within one year:		
Net assets with donor restrictions	444,968	425,296
Life Member Assets - Trust Financial Assets	549,249	525,415
Scholarship Fund	71,228	62,633
Endowment Fund	66,000	-
Reserve Fund	1,221,756	1,003,363
Less net assets with purpose restrictions to be met in less than a year	-	(5,000)
	<hr/>	<hr/>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,200,709</u>	<u>\$ 980,100</u>

Note 3 – Prepaid Expenses - Prepaid expenses consist of the following:

	May 31,	
	2019	2018
Prepaid Insurance	\$ 847	\$ 1,700
Prepaid Postage	5,167	5,167
Prepaid Tournament Expenses	2,500	-
Total	<u>\$ 8,514</u>	<u>\$ 6,867</u>

Note 4 – Furniture and Equipment - Furniture and equipment is summarized as follows:

	May 31,	
	2019	2018
Furniture and Office Equipment	\$ 57,628	\$ 57,628
Computer Equipment Software	61,949	61,949
Capital Lease- Computer Equipment	9,914	9,914
	<hr/>	<hr/>
	129,491	129,491
Less: Accumulated Depreciation	(122,605)	(117,128)
Total	<u>\$ 6,886</u>	<u>\$ 12,363</u>

Note 5 – Life Membership Assets (LMA)

Cash and investments consisted of the following:

	May 31,	
	2019	2018
Cash- Money Market	\$ 107,139	\$ 221,786
Securities	442,110	303,629
Total	<u>\$ 549,249</u>	<u>\$ 525,415</u>

The Federation’s securities are reported at fair value in the accompanying statement of financial position.

Fair Value Measurement Using:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Assets				
Equity Securities May 31, 2019	<u>\$ 442,110</u>	<u>\$ 442,110</u>	<u>\$ -</u>	<u>\$ -</u>
Equity Securities May 31, 2018	<u>\$ 303,629</u>	<u>\$ 303,629</u>	<u>\$ -</u>	<u>\$ -</u>

LMA investment return is as follows:

	May 31,	
	2019	2018
Interest/Dividends	\$ 25,297	\$ 13,799
Unrealized Gain/(Loss)	(9,513)	(11,557)
	<u>\$ 15,784</u>	<u>\$ 2,242</u>

LMA land, building and improvements consisted of the following:

	May 31,	
	2019	2018
Land	\$ 264,000	\$ 264,000
Building	601,704	601,704
Building Improvements	39,717	39,717
Total	<u>905,421</u>	<u>905,421</u>
Less: Accumulated Depreciation	(241,159)	(224,377)
Total	<u>\$ 664,262</u>	<u>\$ 681,044</u>

Note 6 – Investments

Investments consist of the following at May 31, 2019.

	Fair Value	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>May 31, 2019</u>				
Equity Securities	\$ 217,283	\$ 217,283	\$ -	\$ -
Fixed Income Securities	270,117	270,117	-	-
Total	<u>\$ 487,400</u>	<u>\$ 487,400</u>	<u>\$ -</u>	<u>\$ -</u>

Note 7 – Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	May 31,	
	2019	2018
Accrued Payroll and Taxes	\$ 11,107	\$ 6,204
Accrued Vacation	51,437	45,965
Tournament Deposits	268,441	6,591
Other Accrued Expenses	73,715	1
Grand Prix Fund	10,213	10,213
	<u>\$ 414,913</u>	<u>\$ 68,974</u>

Note 8 – Deferred Revenue – Life and Sustaining Memberships

The Federation's policy is to defer dues that it receives from life and sustaining members over 20 years from the time they become life members. The following is a summary of deferred life and sustaining membership income activity for the years ended May 31, 2019 and 2018.

Deferred Revenue Life and Sustaining Membership- May 31, 2017	445,571
Membership Dues Received	29,250
Amount Recorded as Income	<u>(62,430)</u>
Deferred Revenue Life and Sustaining Membership- May 31, 2018	412,391
Membership Dues Received	51,750
Amount Recorded as Income	<u>(57,518)</u>
Deferred Revenue Life and Sustaining Membership- May 31, 2019	<u>\$ 406,623</u>

The following is a schedule of life and sustaining memberships to be recognized in income in future years.

Year Ending May 31,	<u>Lifetime</u>	<u>Sustaining</u>	<u>Total</u>
2020	\$ 50,873	\$ 2,730	\$ 53,603
2021	44,540	2,730	47,270
2022	37,995	-	37,995
2023	36,900	-	36,900
2024	31,350	-	31,350
2025-2029	116,202	-	116,202
2030-2034	56,419	-	56,419
Thereafter	26,884	-	26,884
	<u>\$ 401,163</u>	<u>\$ 5,460</u>	<u>\$ 406,623</u>

Note 9 – Deferred Scholarships

The Federation awarded scholarships as prizes at certain scholastic tournaments. These awards are to be paid to the winners upon proof of enrollment in a post-secondary institution. The liability for the scholarship awards is at the estimated present value of the payments, taking into account a discount rate of 3% and the expected date of payment. It is at least reasonably possible that a change in this liability could occur in the near term.

Future payments are anticipated as follows:

2020	\$ 27,300
2021	6,000
2022	3,250
2023	1,750
2024	2,000
Thereafter	<u>10,000</u>
Total	50,300
Less: unamortized discount	<u>(347)</u>
Present value of Deferred Scholarships at 05/31/19	<u>\$ 49,953</u>

Note 10 – Line of Credit and Short-Term Notes Payable

At May 31, 2019 and 2018 the Federation had a \$200,000 bank line of credit at 3.43%. The line is collateralized by a certificate of deposit. There were no balances outstanding at May 31, 2019, and 2018. The line of credit was not renewed for next fiscal year.

Note 11 – Commitments and Contingencies

The Federation is insured for professional liability under an occurrence-basis policy with an independent insurance carrier. An occurrence-basis policy covers claims resulting from incidents that occur during the policy term, regardless of when the claims are reported to the insurance carrier.

Note 12 – Concentration of Credit Risk

The Federation has cash deposits with various financial institutions located within Tennessee and the United States at May 31, 2019. The Federation does not require collateral or other support for cash deposits in excess of the federally insured limit of \$250,000 for each financial institution. The Federation's bank balances exceeded the federally insured limit by approximately \$1,290,000 and \$1,435,000 at May 31, 2019 and 2018, respectively. The Federation's money market accounts are covered by SIPC insurance which offers limited protection but does not protect against loss in value.

The Federation's trade receivables potentially subject the Federation to credit risk. At May 31, 2019 there were no credit risks.

Note 13 – Net Assets with Donor Restrictions

Net assets with donor restrictions are comprised of contributions received to fund prizes awarded for the U.S. Chess Championship and to provide certain medical and pension benefits to America's top chess players, and land. Net assets with donor restrictions as of May 31, 2019 and 2018 are summarized as follows:

	May 31,	
	2019	2018
Professional Players Health and Benefits Fund	\$ 136,186	\$ 135,084
Contributions for U.S. Chess Championship prizes	11,232	11,212
Other	33,550	15,000
Land	264,000	264,000
Total Net Assets with Donor Restrictions	<u>\$ 444,968</u>	<u>\$ 425,296</u>

On July 15, 2003, the Federation received three acres of land located in Crossville, Tennessee. As a restriction on the use of the donated land, the Federation must not sell any undeveloped portion of the land without first offering it to the City of Crossville for the same per acre price as the original price of \$1, plus improvements and other items, if the land is sold as an undeveloped piece of the original acreage.

Note 14 – Board Restricted Funds

The following board restricted funds are included in Net Assets without Donor Restrictions:

The Scholarship Fund was established to segregate the amount required to pay scholarships awarded as prizes at chess competitions. The Board approved a policy that any scholarships awarded through a Federation sponsored chess competition must be funded at the time of the event. The scholarship money is held in a separate bank account until claimed by the winner upon entering a post-secondary educational institution. The account may also hold donor-restricted funds that have been donated to provide scholarships for specific events. Donor-restricted amounts are reported separately. At May 31, 2018, this Fund had assets of \$71,228 of which \$30,000 is donor-restricted and \$41,228 is Board restricted. At May 31, 2017, this Fund had assets of \$62,633 of which \$15,000 is donor-restricted and \$47,633 is Board restricted.

The Endowment Fund was established in 2019 to create a long-term source of investment income from donations received from benefactor members and from donations from estates. Benefactor members donate \$1,500 beyond the cost of a life membership to benefit the future efforts of the Federation. The endowment was started with the transfer of \$66,000 representing the contributions of the 44 benefactor members at that time. The Board established a policy that the donation component of future benefactor members will be added to the endowment along with the proceeds from any estate gifts. Any earnings of the endowment will be reinvested into the endowment until the fund reaches \$100,000. When the fund exceeds that amount, earnings may be used to fund Federation programs and activities at the discretion of the Board. At May 31, 2019, the endowment had just been established and had no accumulated earnings.

The Reserve Fund was established in May 2017 to set aside money for use in the case of extreme emergency. The Board set a goal for the reserve to be between six and twelve months of Federation operating expenses. Any distribution from the reserve requires an affirmative vote of the Executive Board which outlines the emergency and establishes that the emergency cannot be met in other ways. Earnings of the reserve are being reinvested until the reserve meets the funding target which is presently \$2,000,000. The fund was initially established with \$800,000. The Board added and additional \$200,000 to the reserve soon after it was created, and another \$200,000 in November 2018. The balance in the reserve fund was \$1,221,756 and \$1,003,363 at May 31, 2019 and 2018 respectively.

Note 15 – Retirement Plan

Effective January 1, 2016, the Federation established a 401(k) plan covering employees with six months of service who have attained the age of 21. Retirement plan administration expenses of approximately \$5,800 and \$5,500 were paid during the years ended May 31, 2019, and May 31, 2018, respectively. The 401(k) plan allows for an annual determination of the Federation's matching contributions. For the years ended May 31, 2019 and 2018, voluntary contributions totaled \$13,964 and \$8,844, respectively.

Note 16 – Subsequent Events

In July 2019 the Executive Board approved a contract for phase 1 of a multi-phase project to completely rewrite the underlying databases of the Federation, implement an open source content management system, and complete the renovation of the Federation website. Management anticipates this project will take around 24 months. The total project cost has not been determined. Costs of approximately \$40,000 were incurred in the year ended May 31, 2019 to document current systems and determine project requirements. Those costs have been expensed. The contract for phase 1 is expected to require around \$515,000, of which the cash is in hand. Phase 2 may be that much again, although the costs have not been determined. Management has been accumulating funds for several years to pay for this project and expects to pay for phase 1 from unrestricted cash on hand. The budget proposed by the Executive Board for the year ending May 31, 2020 does not indicate the Federation will generate enough additional cash in that year to pay for phase 2. As this project is considered critical to maintaining the operations of the Federation, the Executive Board expects to use a portion of the reserve fund to assure the timely completion of the project. If a portion of the reserve fund is required for this project the Executive Board anticipates rebuilding that fund before undertaking any additional such projects or expanding the programs and activities of the Federation.

Management has evaluated subsequent events through August 2, 2019, the date the Financial Statements were available to be issued.

SUPPLEMENTARY INFORMATION

UNITED STATES OF AMERICA CHESS FEDERATION
SUPPLEMENTARY INFORMATION
SCHEDULES OF UNRESTRICTED EXPENSES
YEARS ENDED MAY 31, 2019 AND 2018

	2019	2018
MAGAZINE		
Chess Life Printing and Contributor Fees	\$ 256,220	\$ 224,878
Chess Life Mailing	137,229	143,321
Professional Fees	54,700	58,919
Personnel Expense	372,526	329,828
Other	8,462	7,152
	<u>829,137</u>	<u>764,098</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Travel	44,120	35,137
Postage	4,203	1,849
Office Supplies	15,498	18,426
Professional Fees	35,287	33,135
Interest Expense	-	-
Other Administrative Expenses	129,995	127,478
Personnel Expense	631,662	553,501
	<u>860,765</u>	<u>769,526</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES		
	<u>860,765</u>	<u>769,526</u>
TOURNAMENT EXPENSES		
	<u>1,451,312</u>	<u>953,636</u>
MEMBERSHIP DEVELOPMENT		
Membership Forms and Supplies	1,062	1,001
Renewals and Promotional Mailers	26,615	13,943
Other	89,665	89,223
Personnel Expense	106,006	127,014
Professional Fees	5,363	15,590
Mailing and Postage	44,126	43,747
Website Development	27,960	-
	<u>300,797</u>	<u>290,518</u>
TOTAL MEMBERSHIP DEVELOPMENT		
	<u>300,797</u>	<u>290,518</u>
Subtotal current page	\$ 3,442,011	\$ 2,777,778

(CONTINUED ON PAGE 20)

The accompanying notes are an integral part of these financial statements

UNITED STATES OF AMERICA CHESS FEDERATION
SUPPLEMENTARY INFORMATION
SCHEDULES OF UNRESTRICTED EXPENSES
YEARS ENDED MAY 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Subtotal from previous page	\$ 3,442,011	\$ 2,777,778
OVERHEAD EXPENSES		
Utilities	9,891	9,929
Telephone	17,664	28,438
Insurance	19,265	25,279
Repairs and Maintenance	22,943	24,883
Property and Other Taxes	5,348	5,353
Computer Software and Maintenance	-	-
Equipment Rental	8,823	8,116
Bank Charges	711	439
Credit Card Charge Expense	96,607	87,787
Miscellaneous	<u>18,249</u>	<u>29,472</u>
TOTAL OVERHEAD EXPENSES	<u>199,501</u>	<u>219,696</u>
DEPRECIATION	<u>22,259</u>	<u>24,314</u>
GOVERNANCE	<u>116,687</u>	<u>121,157</u>
TOTAL UNRESTRICTED EXPENSES AND LOSSES	<u><u>\$ 3,780,458</u></u>	<u><u>\$ 3,142,945</u></u>

The accompanying notes are an integral part of these financial statements.