

October 2022

Dear Executive Board Colleagues,

The first quarter is the weakest of the US Chess business cycle. The 2022-23 year is no exception as operational cash draw downs and unrealized portfolio losses were in the mix of financial results. Core to the results is the continued strength in year to year membership revenue. On the Statement of Activities, the membership revenue numbers are overstated owing to the change in the treatment of deferred amounts. The Executive Director monitors the actual membership revenue numbers net of the accounting transitions.

First quarter financial activity was a once in a decade or many decades event. The financial numbers are in the attachment with bullet point highlights below from the Executive Director and investment teams.

Revenue:

Slow summer membership sales were steady and consistent with last year's post COVID resurgence. Changes in membership revenue accounting practices continue the multi-year accrual for memberships over one year in length. Single year memberships are now recognized when received.

Member magazine revenue decreased 27% over last year. Meanwhile, rating fees increased 30%, a sign of increased event activities.

US Chess sold the Crossville Headquarters building and property for a gain of approximately \$134K. The Life Membership Asset Trust received an approximate \$725K net transfer in the sale. All of the \$725K remains in cash or cash equivalents during the Federal Reserve's rapid increase of interest rates.

Market volatility and a 300%+ increase in short term interest rates are headwinds to investment portfolios. Unrealized losses are (\$130K) during the quarter but ballooned to (\$314K) or 7% by mid September. Distributions of dividend and interest increased by 38% when compared to the first quarter of last year. The portfolios are interest sensitive and unrealized losses occur with each Federal Reserve rate hike.

The investment portfolios purchased approximately \$500K of FDIC Cash Deposits with one year term or less. Cash Deposits total \$750K with an average yield of 2.75%. At least 10% of the Cash Deposits reach term and payout in the second quarter. US Chess has two Cash Deposit one-year ladders and each month the average yield has increased. Recent purchases command a 4.15% one-year yield. Each month, the ladders purchase \$75K of new Cash Deposits.

Cost averaging into equity and bond substitutes continued in the quarter. The combined portfolios purchased approximately \$175K of diversified investments with yields above 8%. Core holdings are healthcare, utilities, and preferred stocks. At the end of September, the portfolios show a combined unrealized loss of approximately 7% from their peak values. The decreased values have little if any impact on distributions for endowed events, life membership expense reimbursement and other sponsor/donor activities.

Combined portfolios are over 50% in US Dollar equivalents. The US Dollar is up 18% year to date. The strength of the dollar in turn purchases more goods and services from our trading partners and more investment shares in a market with yields sometimes over 10%.

Expenses:

Losses from the US Open posted more than \$50K. Staff is reviewing the possibility of invoices posting to incorrect accounts.

Tournament Expenses were high at \$266K owing to International Team Expenses (Olympiad, World Youth, World Cadet.)

Magazine costs are up slightly and continue to rise, given paper price volatility and two expected increases in postage costs for 2023.

Expenses associated with moving to St. Louis were well within budget.

Guidance:

The financial statement transactions do not post first quarter transfers of Life Member Sales and Life Member Expense Reimbursements. The amounts post in the second quarter along with transfers of endowed funds for various invitational events. The net transfer should boost operational bank accounts.

The balance sheet reflects a decrease in total assets of approximately \$10K. Net Assets increased by \$250K but after adjustment for a forgiven \$188K of PPP loan liability, the increase is a more modest \$62K.

There was a time when USCF borrowed all the funds available on the credit line in the first quarter just a decade ago. Today, US Chess is financially solid and stable even as market headwinds ravage pension funds across the globe. US Chess is fortunate and has a future where the current portfolio values distribute over \$300K of dividends and interest per year.

Thank you for reading this lengthy email. All of the Zoom/regular meetings and leadership participation has made the expanded mission a successful reality even in turbulent times.

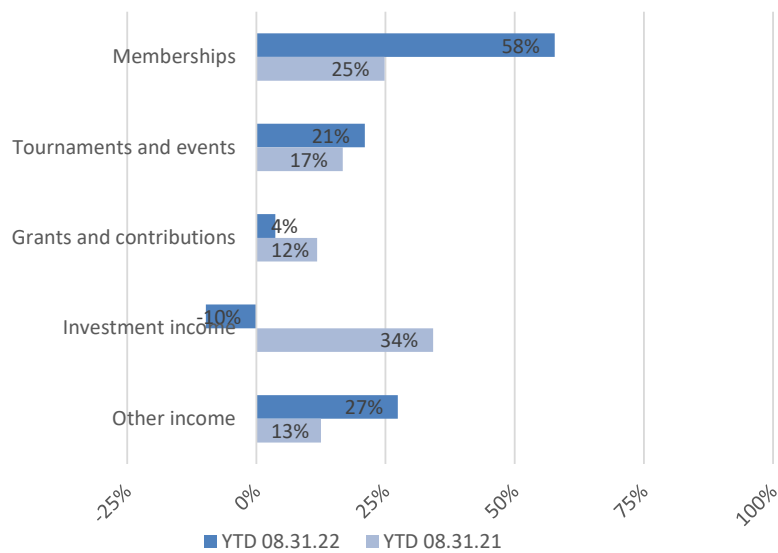
Your questions, comments and recommendations are most welcome.

Respectfully,
Chuck Unruh, VP of Finance

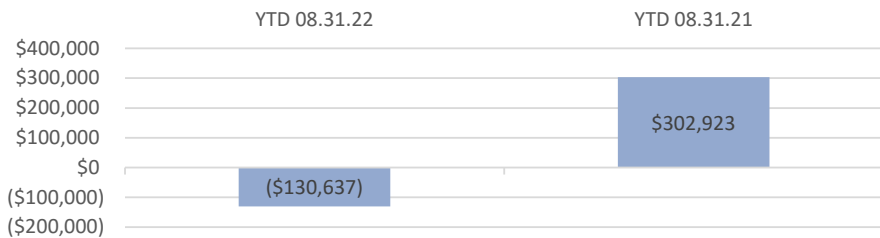
US Chess Federation

1st Quarter 2023 Dashboard

Revenues By Source - Accrual Basis

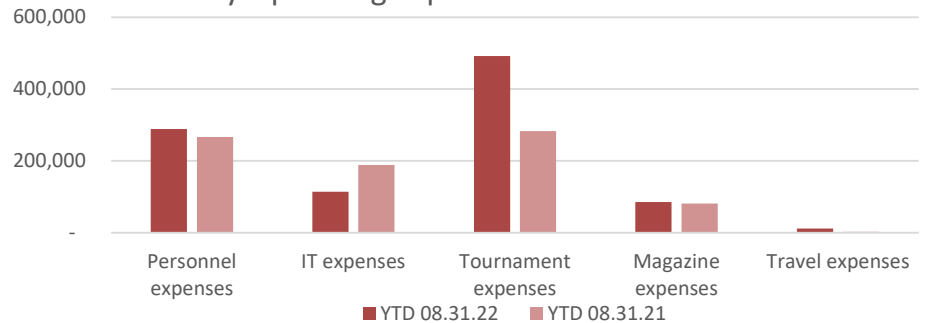


Investment Performance



Highlighted Financial Data	As of Aug 31, 2022	As of Aug 31, 2021
Cash and cash equivalents	\$ 640,244	\$ 1,164,760
Investments	1,343,281	1,424,256
Accounts receivable, net	35,440	135
Prepaid expenses	69,852	1,500
Total Current Assets	2,088,817	2,590,651
Total Current Liabilities	83,459	328,443
Current Ratio	25.03	7.89
For the Period Ended	Aug 31, 2022	Aug 31, 2021
Cash Burn Amt (prior 90 days)	1,408,592	901,517
Budgeted Cash Exp - Future 90 Days	847,753	749,354
# of months exp in cash - future 90 days	2.27	4.66
# of months exp in cash - annualized	1.97	4.65
Total Revenue YTD	1,335,434	885,408
Total Expenses YTD	1,175,988	965,734
Net Income (accrual basis)	159,446	(80,326)

Key Operating Expenses: YTD 08.31



Revenue Forecast	YTD Actual	Full Year Budget	Variance to Full Year Budget	Prior Year Actual (entire year)
REVENUE - ACCRUAL BASIS				
Memberships	\$ 771,201	\$ 2,047,000	\$ (1,275,799)	\$ 1,492,773
Tournaments and events	279,968	972,426	(692,458)	750,375
Grants and contributions	48,990	503,000	(454,010)	364,214
Investment income	(130,637)	90,000	(220,637)	380,032
Other income	365,910	606,641	(240,731)	751,301
Total Revenue	\$ 1,335,432	\$ 4,219,067	\$ (2,883,635)	\$ 3,738,695

No assurance is provided on these financial statements. See Statement of Financial Position for accountants' full disclosure.

United States Chess Federation

Statement of Financial Position

August 31	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 640,244	\$ 1,164,760
Investments	1,343,281	1,424,256
Accounts receivable, net	35,440	135
Prepaid expenses	69,852	1,500
Total current assets	<u>2,088,817</u>	<u>2,590,651</u>
Property and Equipment		
Furniture and fixtures	26,409	57,628
Vehicles	46,709	-
Computers	350,422	367,339
Building improvements	-	39,717
Less: accumulated depreciation	(130,792)	(95,225)
Net property and equipment	<u>292,748</u>	<u>369,459</u>
Other Assets		
LMA investments	\$ 1,508,233	\$ 702,706
LMA land	-	264,000
LMA buildings, net accumulated depreciation	-	324,709
Endowment Fund	1,567,424	1,216,325
Total other assets	<u>3,075,657</u>	<u>2,507,740</u>
Total assets	<u>\$ 5,457,222</u>	<u>\$ 5,467,850</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 35,211	\$ 42,696
Grand Prix fund payable	-	10,213
Accrued expenses	41,382	70,750
FIDE fees pass-through	6,866	16,741
PPP loan payable	-	188,043
Total current liabilities	<u>83,459</u>	<u>328,443</u>
Long-term Liabilities		
Scholarship liability	126,165	140,042
Deferred revenue	1,364,827	1,367,333
Total long-term liabilities	<u>1,490,992</u>	<u>1,507,375</u>
Total liabilities	<u>1,574,451</u>	<u>1,835,818</u>
Net Assets		
Without donor restrictions	475,612	686,423
Without donor restrictions, board designated	1,468,912	1,572,731
With donor restrictions	1,938,247	1,372,878
Total net assets	<u>3,882,771</u>	<u>3,632,032</u>
Total liabilities and net assets	<u>\$ 5,457,222</u>	<u>\$ 5,467,850</u>

No assurance is provided

These financial stmts do not include a stmt of cash flows and functional expenses
Substantially all disclosures required by accounting principles generally accepted
in the United States of America are not included

United States Chess Federation

Statement of Activities

Quarter ended August 31

	QTD	
	Jun-Aug 2022	Jun-Aug 2021
Operating Revenue and Support		
Operating Revenue		
Memberships	\$ 771,201	\$ 219,457
Book and equipment licenses	50,164	25,167
Royalties	4,043	3,071
Publications	96,448	19,637
Rating fees	45,161	34,669
Tournaments and events	290,273	149,874
Mailing list	18,876	20,295
Other income	6,001	6,017
Total operating revenue	<u>1,282,167</u>	<u>478,187</u>
Support		
Program grants	-	74,855
Contributions	48,990	29,443
Total support	<u>48,990</u>	<u>104,298</u>
Total operating revenue and support	<u>1,331,157</u>	<u>582,485</u>
Expenses (non-functional presentation)		
Magazine	85,419	81,532
Online and social media	6,960	1,360
Marketing and public relations	4,324	3,495
Miscellaneous communications	-	145
Personnel costs communications	75,407	80,044
Gift certificates	635	240
Office/General administration	238,974	310,088
Affiliate commissions paid	7,860	6,352
Administrative and development payroll	111,876	93,996
Corporate payroll	17,420	19,264
Governance costs	11,265	30,314
Financing and investment costs	-	63
Development	2,134	3,312
Programming	43,589	8,104
Programs payroll expenses	84,296	73,333
Cash prizes - US Chess tournament	56,415	87,109
Tournament expenses	429,414	166,983
Total expenses	<u>1,175,988</u>	<u>965,734</u>
Other Revenue		
Dividends and interest	31,887	23,074
Investment income	-	250,000
Gain on sale of property and equipment	134,913	-
Realized and unrealized gain (loss)	(162,523)	29,849
Total other revenue	<u>4,277</u>	<u>302,923</u>
Change in Net Assets	<u>\$ 159,446</u>	<u>\$ (80,326)</u>

No assurance is provided on these financial stmts
See Stmt of Financial Position for accountants' full disclosure