

UNITED STATES OF AMERICA CHESS FEDERATION
FINANCIAL STATEMENTS

MAY 31, 2023

UNITED STATES OF AMERICA CHESS FEDERATION

YEAR ENDED MAY 31, 2023

CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1-2
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Financial Statements	8 – 17

Bible Harris Smith, P.C.

Certified Public Accountants and Business Advisors Since 1949

507 West Clinch Avenue
Knoxville, TN 37902-2104
Phone 865-546-2300
Fax 865-525-7454
E-mail *lastname*@BHSpc.com

Member of the AICPA Peer Review
Program
Member of the Tennessee Society
of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of United States of America Chess Federation (a nonprofit organization), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United States of America Chess Federation as of May 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of United States of America Chess Federation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about United States of America Chess Federation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 United States of America Chess Federation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about United States of America Chess Federation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Bible Harris Smith, P.C.

Bible Harris Smith, P.C.
Knoxville, Tennessee
September 13, 2023

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF FINANCIAL POSITION
May 31, 2023

ASSETS

OPERATING ASSETS

Cash	\$ 1,110,192
Accounts Receivable	67,588
Prepaid Expenses	31,282
Investments	1,183,922
Furniture and Equipment (net of accumulated depreciation of \$188,875)	234,666
Operating Lease Right of Use Asset	151,228
Total Operating Assets	2,778,878

LIFE MEMBERSHIP ASSETS

Cash	29,356
Investments	1,512,714
Total Life Membership Assets	1,542,070

ENDOWMENT FUND

Cash	113,619
Investments	1,588,759
Total Endowment Cash and Investments	1,702,378

TOTAL ASSETS	\$ 6,023,326
--------------	--------------

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 233,568
Accrued Expenses and Other Liabilities	70,035
Current Portion - Operating Lease Obligation	34,812
Deferred Multi-Year Memberships	518,915
Deferred Sales and Tournament Income	20,572
Deferred Scholarships	157,863
Deferred Revenue - Life and Sustaining Memberships	493,823
Noncurrent Portion - Operating Lease Obligation	118,896
TOTAL LIABILITIES	1,648,484

NET ASSETS

Without Donor Restrictions	
With Board Designated Restrictions	1,602,571
Without Board Designated Restrictions	813,824
With Donor Restrictions	1,958,447
Total Net Assets	4,374,842

TOTAL LIABILITIES AND NET ASSETS	\$ 6,023,326
----------------------------------	--------------

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
YEAR ENDED MAY 31, 2023

REVENUES WITHOUT DONOR RESTRICTIONS	
Memberships	\$ 3,179,174
Tournaments	1,294,403
Magazine Revenues	409,782
Sales Revenues	145,000
Donations	121,094
Investment Return	(157,434)
Interest Income	151,322
Other Services	252,802
Royalties and Miscellaneous Revenues	43,202
Gain on Disposal of Property	134,913
Employee Retention Credit	256,423
Total Revenues	<u>5,830,681</u>
EXPENSES WITHOUT DONOR RESTRICTIONS	
Magazine	910,372
Tournament Expenses	1,662,555
Programming	695,154
Membership Development	28,768
Governance	92,203
General and Administrative Expenses	1,627,586
Fundraising Expenses	73,065
Depreciation	80,033
Total Expenses	<u>5,169,736</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>660,945</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	
Donations	<u>(9,144)</u>
INCREASE (DECREASE) - NET ASSETS WITH DONOR RESTRICTIONS	<u>(9,144)</u>
Increase (Decrease) in Net Assets	651,801
NET ASSETS - BEGINNING	<u>3,723,041</u>
NET ASSETS - ENDING	<u><u>\$ 4,374,842</u></u>

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, 2023

(CONTINUED ON PAGE 6)

	Program Activities			Total Program
	Magazine	Tournament	Programming	
Advertising and Promotions	\$ -	\$ -	\$ -	\$ -
Bank and Credit Card Charges	-	-	-	-
Commissions	-	-	44,628	44,628
Contract Labor	94,314	-	46,453	140,767
Development	-	-	-	-
Equipment Rental	-	-	-	-
Executive Board Meetings and Travel	-	-	-	-
FIDE International Representation	-	-	-	-
Insurance	-	-	-	-
IT Expenses	-	-	-	-
Office Rent	-	-	-	-
Office Supplies	-	-	-	-
Other	-	-	-	-
Personnel Expense	367,493	-	405,470	772,963
Printing, Mailing and Postage	448,565	-	-	448,565
Professional Fees	-	-	-	-
Programming	-	-	198,603	198,603
Property and Other Taxes	-	-	-	-
Repairs & Maintenance	-	-	-	-
Tournament Expense - International	-	356,943	-	356,943
Tournament Expense - Domestic	-	1,305,612	-	1,305,612
Travel	-	-	-	-
Utilities	-	-	-	-
Total Expenses before Depreciation	910,372	1,662,555	695,154	3,268,081
Depreciation				-
Total Expenses	<u>\$910,372</u>	<u>\$ 1,662,555</u>	<u>\$ 695,154</u>	<u>\$3,268,081</u>

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, 2023

(CONTINUED FROM PAGE 5)

	Supporting Services				
	Membership	Governance	G&A	Fundraising	Grand Total
Advertising and Promotions	\$ -	\$ -	\$ -	\$ 73,065	\$ 73,065
Bank and Credit Card Charges	-	-	141,747	-	141,747
Commissions	-	-	-	-	44,628
Contract Labor	-	-	-	-	140,767
Development	28,768	-	-	-	28,768
Equipment Rental	-	-	4,264	-	4,264
Executive Board Meetings and Travel	-	39,399	-	-	39,399
FIDE International Representation	-	52,804	-	-	52,804
Insurance	-	-	20,263	-	20,263
IT Expenses	-	-	424,745	-	424,745
Office Rent	-	-	54,345	-	54,345
Office Supplies	-	-	27,871	-	27,871
Other	-	-	3,848	-	3,848
Personnel Expense	-	-	712,447	-	1,485,410
Printing, Mailing and Postage	-	-	-	-	448,565
Professional Fees	-	-	160,642	-	160,642
Programming	-	-	-	-	198,603
Property and Other Taxes	-	-	3,365	-	3,365
Repairs & Maintenance	-	-	3,377	-	3,377
Tournament Expense - International	-	-	-	-	356,943
Tournament Expense - Domestic	-	-	-	-	1,305,612
Travel	-	-	44,796	-	44,796
Utilities	-	-	25,876	-	25,876
Total Expenses before Depreciation	28,768	92,203	1,627,586	73,065	5,089,703
Depreciation			80,033		80,033
Total Expenses	\$ 28,768	\$ 92,203	\$1,707,619	\$ 73,065	\$5,169,736

The accompanying notes are an integral part of these financial statements

UNITED STATES OF AMERICA CHESS FEDERATION
STATEMENTS OF CASH FLOWS
YEAR ENDED MAY 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$ 651,801
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by (Used In) Operating Activities:	
Depreciation	80,033
(Gain) Loss on Disposal of Assets	(134,913)
Amortization of Right of Use Asset	33,949
Unrealized (Gain) Loss on Life Membership Investments	201,387
Unrealized (Gain) Loss on Investments	93,395
Reinvested earnings - Investments	(44,532)
Reinvested earnings - Life Membership Assets and Endowment	(105,238)
(Increase) Decrease in Assets:	
Accounts Receivable	(67,588)
Prepaid Expenses	117,889
Cash and Equivalents - Life Membership Assets and Endowment	150,196
Increase (Decrease) in Liabilities:	
Accounts Payable	(64,258)
Accrued Expenses and Other Liabilities	(31,472)
Deferred Multi-Year Memberships	(857,739)
Deferred Sales and Tournament Income	1,510
Deferred Revenue-Life and Sustaining Memberships	48,374
Deferred Scholarships	41,979
Principal Repayments of Operating Lease Obligations	(31,469)
Net Cash Provided By (Used In) Operating Activities	83,304

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investments	(2,819,157)
Sale of Property, Plant, and Equipment	753,765
Sale of Investments	315,000
Net Cash Provided By (Used In) Investing Activities	(1,750,392)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
EQUIVALENTS

CASH AND CASH EQUIVALENTS - BEGINNING	2,920,255
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,253,167

SUPPLEMENTAL DISCLOSURES

Cash paid during the year for interest	\$ -
Cash paid during the year for taxes	\$ -

NONCASH INVESTING AND FINANCING INFORMATION

Pursuant to Accounting Standards Update 2016-02, Right of Use Assets totaling \$185,177 were recorded in exchange for Lease Liabilities during the year ended May 31, 2023.

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

UNITED STATES OF AMERICA CHESS FEDERATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MAY 31, 2023

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. The following balance sheet captions correspond with total cash and cash equivalents per the statement of cash flows: operating assets \$1,110,192; life member assets \$29,356; endowment cash \$113,619.

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, 2023.

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 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.

Other Revenues – In addition to the deferred revenues discussed above, other revenues are a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer.

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 year ended May 31, 2023, 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 990-T). 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, 2023, 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 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 – Some net assets are 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 “with donor restrictions” or “without donor restrictions” 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 year ended May 31, 2023.

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.

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 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, 2023, 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.

Financial Assets at Year End:	
Cash and Cash Equivalents	\$ 1,253,167
Accounts Receivable	67,588
Investments	4,285,395
Total Financial Assets	<u>5,606,150</u>
Less amounts not available to be used within one year:	
Life Member Assets - Trust Financial Assets	1,542,070
Endowment Fund	1,702,378
Reserve Fund	1,454,363
Less net assets with purpose restrictions to be met in less than a year	<u>-</u>
	<u>4,698,811</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 907,339</u>

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.

Note 3 – Prepaid Expenses

Prepaid expenses consist of the following at May 31, 2023:

Prepaid Insurance	\$	19,490
Prepaid Postage		444
Prepaid Tournament Expenses		11,348
Total	\$	<u>31,282</u>

Note 4 – Furniture and Equipment

Furniture and equipment consists of the following at May 31, 2023:

Furniture and Office Equipment	\$	26,409
Vehicles		46,710
Custom Member Software		340,508
Capital Lease- Computer Equipment		9,914
		<u>423,541</u>
Less: Accumulated Depreciation		(188,875)
Total	\$	<u>234,666</u>

Note 5 – Life Membership Assets (LMA)

Cash and investments consisted of the following at May 31, 2023:

Cash- Money Market	\$	29,356
Securities		1,512,714
Total	\$	<u>1,542,070</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, 2023	<u>\$ 1,512,714</u>	<u>\$ 1,512,714</u>	<u>\$ -</u>	<u>\$ -</u>

LMA investment return is as follows for the year ended May 31, 2023:

Interest/Dividends	\$ 47,331
Unrealized Gain/(Loss)	<u>(87,261)</u>
	<u>\$ (39,930)</u>

Note 6 – Investments

Investments consist of the following at May 31, 2023.

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)
Equity Securities	\$ 536,469	\$ 536,469	\$ -	\$ -
Fixed Income Securities	647,453	647,453	-	-
Total	<u>\$1,183,922</u>	<u>\$ 1,183,922</u>	<u>\$ -</u>	<u>\$ -</u>

Note 7 – Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following at May 31, 2023:

Accrued Vacation	\$ 68,635
Other Accrued Expenses	<u>1,400</u>
	<u>\$ 70,035</u>

Note 8 – Deferred Revenue – Life Memberships

The Federation's policy is to defer dues that it receives from life members over 20 years from the time they become life members. The following is a summary of deferred life membership income activity for the year ended May 31, 2023.

Deferred Revenue Life Membership - May 31, 2022	\$ 445,449
Membership Dues Received	93,750
Amount Recorded as Income	<u>(45,376)</u>
Deferred Revenue Life Membership - May 31, 2023	<u>\$ 493,823</u>

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

Year Ending May 31,	
2024	\$ 45,450
2025	49,025
2026	40,750
2027	35,850
2028	31,850
2029-2033	133,420
2034-2038	101,475
Thereafter	<u>56,003</u>
	<u>\$ 493,823</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:

2024	\$ 74,400
2025	48,500
2026	12,000
2027	9,000
2028	9,000
Thereafter	<u>13,000</u>
Total	165,900
Less: unamortized discount	<u>(8,037)</u>
Present value of Deferred Scholarships at May 31, 2023	<u>\$ 157,863</u>

Note 10 – 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 11 – Concentration of Credit Risk

The Federation has cash deposits with various financial institutions located within Tennessee and the United States at May 31, 2023. 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 \$439,000 at May 31, 2023.

The Federation's trade receivables potentially subject the Federation to credit risk. At May 31, 2023 there were no credit risks.

Note 12 – Net Assets with Donor Restrictions

Net assets with donor restrictions are comprised of contributions received to fund prizes, primarily in the form of scholarships, for invitational chess tournaments 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, 2023 are summarized as follows:

Endowment	\$ 1,327,632
Scholarships	43,250
Professional Players Health and Benefits Fund	171,975
Crenshaw Endowment	11,312
At Risk Youth	63,947
Women	298,422
Other	41,909
Total Net Assets with Donor Restrictions	<u>\$ 1,958,447</u>

Note 13 – 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. At May 31, 2023, this Fund had assets of \$133,011 of which \$43,250 is donor-restricted and \$89,761 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, 2023, the endowment balance totaled \$1,702,378, of which \$1,510,919 is donor restricted and \$191,459 is Board restricted.

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, followed by two additional deposits of \$200,000 each. The balance in the reserve fund was \$1,454,363 at May 31, 2023.

Note 14 – Endowments

The Organization's endowment includes assets held by the Federation, the income from which is available to support the Federation. Its endowment includes both donor-restricted funds and funds designated by the Executive Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Executive Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Executive Board of the Federation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies. The Organization has adopted investment and spending policies, approved by the Executive Board, for endowment assets as follows:

- Objective – To have investment and spending policies designed to balance the current goals of US Chess with its future need, in order to achieve parity in supporting both current and future generations of US Chess member and other beneficiaries of US Chess programs.
- Risk Philosophy – Moderate risk level to preserve principal and produce a total return sufficient to protect the purchasing power of the assets from inflation after meeting annual spending requirements.
- Asset Mix –
 - Cash: 5%-10%
 - Bonds, Fixed Income ETF: 45%-50%
 - US Equity, Indexes ETF: 25%-35%
 - Global Equity, Indexes: ETF: 25%-35%
 - Hedge Fund Strategies, Buy-Writes: 0%-10%
 - Private Equity/Venture Capital: 0%-5%
 - Natural Resources: 0%-5%
 - Real Estate: 0%-5%
- Performance Standard – Total return is expected to outperform a benchmark composite return for a similar asset mix.
- Withdrawal and Liquidity – The Executive Board will determine how and when to distribute the Endowment Fund. The Endowment Fund threshold base is \$100,000 before distributions are considered by the Executive Board.

Endowment net asset composition by type of fund as of May 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Donor Restricted Endowment Funds	\$ -	\$ 1,327,632	\$ 1,327,632
Board Designated Endowment Funds	374,746	-	374,746
Total Funds	<u>\$ 374,746</u>	<u>\$ 1,327,632</u>	<u>\$ 1,702,378</u>

Changes in Endowment Net Assets as of May 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment Net Assets, Beginning	\$ 286,644	\$ 1,327,632	\$ 1,614,276
Balance adjustment	-	181,326	181,326
Designated for Endowment	-	5,498	5,498
Investment Income	56,107	-	56,107
Unrealized Gains (Losses)	(17,977)	(325)	(18,302)
Fiduciary Fees	-	-	-
Appropriated for Expenditure	<u>(133,315)</u>	<u>(3,212)</u>	<u>(136,527)</u>
Endowment Net Assets, Ending	<u>\$ 191,459</u>	<u>\$ 1,510,919</u>	<u>\$ 1,702,378</u>

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 \$4,950 were paid during the year ended May 31, 2023. The Federation has a safe harbor plan that requires a 3% contribution to all employees and a 50% matching contribution on the first 5% for employees voluntarily participating in the plan. For the year ended May 31, 2023, contributions totaled \$50,494.

Note 16 – Leasing Activities

In February 2016, the Financial Accounting Standards Board (“FASB”) issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of operating lease right-of-use (“ROU”) assets and lease liabilities on the balance sheet (“ASC 842”) with amendments issued in 2018. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Federation is also required to recognize and measure new leases at the adoption date and recognize a cumulative-effect adjustment in the period of adoption using a modified retrospective approach, with certain practical expedients available.

The Federation adopted ASC 842 effective June 1, 2022 and elected to apply the available practical expedients. The standard had an impact on the Federation’s balance sheets but did not have a material impact on the Federation’s statements of operations or cash flows upon adoption. The most significant impact was the

recognition of ROU assets and lease liabilities for operating leases. The Federation has an operating lease for its corporate offices in St. Louis, Missouri. The lease has a remaining term of 4 years.

The following summarizes the line items in the balance sheet as of May 31:

Operating Leases	
Operating Lease Right-of-use Assets	<u>\$ 151,228</u>
Operating Lease Obligation-Current	\$ 34,812
Operating Lease Obligation-Long Term	<u>118,896</u>
Total Operating Lease Obligation	<u>\$ 153,708</u>

The following summarizes the weighted average remaining lease term and discount rate at May 31:

Weighted Average Remaining Lease Term	<u>2023</u>
Operating Lease	4
Weighted Average Discount Rate	
Operating Lease	3%

The maturities of Operating Lease Obligations as of May 31, 2023 were as follows:

2024	\$ 38,947
2025	39,997
2026	40,092
2027	41,143
2028	<u>3,437</u>
Total Lease Payments	\$ 163,616
Less: Interest	<u>9,908</u>
Present value of Operating Lease Obligations	<u>\$ 153,708</u>

Note 17 – Sale of Building

In December 2021, the Federation’s Executive Board voted unanimously to move its physical location from Crossville, Tennessee to St. Louis, Missouri. In March 2022, the Federation listed the property in Crossville for sale and it sold on August 12, 2022. The proceeds, net of selling expenses, will remain in the Life Member asset trust and will not add to liquidity.

Note 18 – Subsequent Events

Management has evaluated subsequent events through September 13, 2023, the date the Financial Statements were available to be issued.