



## Audited Financial Statements

June 30, 2020

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Chess-in-the-Schools, Inc.

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Chess-in-the-Schools, Inc. which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 organization'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 organization'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.

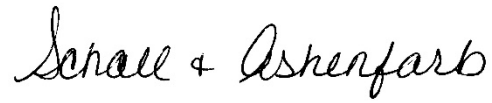
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chess-in-the-Schools, Inc. as of June 30, 2020, 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.

***Report on Summarized Comparative Information***

We have previously audited Chess-in-the-Schools, Inc.'s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 7, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Schall & Ashenfarb  
Certified Public Accountants, LLC

January 18, 2021

**CHES-IN-THE-SCHOOLS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2020**  
(With comparative totals at June 30, 2019)

	<u>6/30/20</u>	<u>6/30/19</u>
<b>Assets</b>		
Cash and cash equivalents	\$499,289	\$458,538
Investments (Note 3)	11,969,439	11,725,648
Program fees receivable	112,921	125,783
Government grants receivable	449,409	448,725
Pledges receivable	200,254	375,000
Inventory	20,143	20,019
Prepaid expenses	6,850	3,897
Investments held for endowment (Notes 3 and 7)	269,368	264,749
Fixed assets (net of accumulated depreciation) (Note 4)	<u>61,395</u>	<u>69,385</u>
 Total assets	 <u><u>\$13,589,068</u></u>	 <u><u>\$13,491,744</u></u>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$24,988	\$48,586
Deferred rent	65,978	48,703
Paycheck Protection Program loan (Note 5)	<u>252,105</u>	<u>0</u>
Total liabilities	<u><u>343,071</u></u>	<u><u>97,289</u></u>
Net assets:		
Without donor restrictions:		
Operations	7,881,629	7,926,657
Board designated	<u>5,000,000</u>	<u>5,000,000</u>
Total without donor restrictions	<u>12,881,629</u>	<u>12,926,657</u>
With donor restrictions (Notes 6 and 7)	<u>364,368</u>	<u>467,798</u>
Total net assets	<u><u>13,245,997</u></u>	<u><u>13,394,455</u></u>
 Total liabilities and net assets	 <u><u>\$13,589,068</u></u>	 <u><u>\$13,491,744</u></u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**CHES-IN-THE-SCHOOLS, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
(With comparative totals for the year ended June 30, 2019)

	With Donor Restrictions			Total 6/30/20	Total 6/30/19
	Without Donor Restrictions	Donor Restricted Support (Note 6)	Donor Restricted Endowment (Note 7)		
Public support and revenue:					
Contributions	\$1,216,030	\$20,000		\$20,000	\$1,236,030
Government grants	546,750			0	546,750
Program fee revenue	265,121			0	265,121
Miscellaneous income	1,260			0	1,260
Reserve funds appropriated by the governing board for operations	550,000			0	550,000
Net assets released from restriction	141,915	(128,049)	(\$13,866)	(141,915)	0
Total public support and revenue	<u>2,721,076</u>	<u>(108,049)</u>	<u>(13,866)</u>	<u>(121,915)</u>	<u>2,599,161</u>
Expenses:					
Program services	1,793,947			0	1,793,947
Management and general	262,664			0	262,664
Fundraising	132,433			0	132,433
Total expenses	<u>2,189,044</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,189,044</u>
Change in net assets from operations	<u>532,032</u>	<u>(108,049)</u>	<u>(13,866)</u>	<u>(121,915)</u>	<u>410,117</u>
Non-operating activities:					
Interest and dividend income	415,526		46,043	46,043	461,569
Net realized gain from investments	(226,608)			0	(226,608)
Net unrealized gain from investments	(215,978)		(27,558)	(27,558)	(243,536)
Reserve funds appropriated by the governing board for operations	(550,000)			0	(550,000)
Total non-operating activities	<u>(577,060)</u>	<u>0</u>	<u>18,485</u>	<u>18,485</u>	<u>(558,575)</u>
Total change in net assets	(45,028)	(108,049)	4,619	(103,430)	(148,458)
Net assets - beginning of year	<u>12,926,657</u>	<u>203,049</u>	<u>264,749</u>	<u>467,798</u>	<u>13,394,455</u>
Net assets - end of year	<u>\$12,881,629</u>	<u>\$95,000</u>	<u>\$269,368</u>	<u>\$364,368</u>	<u>\$13,245,997</u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**CHESS-IN-THE-SCHOOLS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
(With comparative totals for the year ended June 30, 2019)

	Program Services				Supporting Services			Total Expenses 6/30/20	Total Expenses 6/30/19
	School Programs	College Bound Program	Tournament Program	Teacher Training Institute	Total Program Services	Management and General	Fundraising		
Salaries	\$610,241	\$163,517	\$207,972	\$8,573	\$990,303	\$60,684	\$71,178	\$1,122,165	\$1,094,505
Payroll taxes and benefits	159,952	42,860	54,512	2,247	259,571	16,447	18,656	294,674	284,322
Scholarships and grants			1,000		1,000			1,000	23,000
Other program expenses	678	9,270	23,433	4	33,385	1,304	2,696	37,385	63,010
Office expenses	21,887	11,240	11,019	400	44,546	4,487	8,961	57,994	59,647
Telephone	834	2,978	1,191	59	5,062	595	298	5,955	7,325
Insurance	13,153	8,168	6,012	265	27,598	2,172	1,872	31,642	16,684
Consultants	100,672	36,773	37,535	1,585	176,565	11,834	12,456	200,855	261,579
Professional fees	3,453	925	1,177	49	5,604	43,929	403	49,936	48,814
Public relations and advertising					0			0	310
Travel and meals	3,448	14,039	3,288	48	20,823	428	401	21,652	43,698
Depreciation and amortization	2,188	7,815	3,126	156	13,285	1,563	781	15,629	14,674
Other expenses		362			362	4,801	2,036	7,199	9,337
Occupancy	31,640	112,997	45,199	2,260	192,096	22,600	11,299	225,995	222,222
Annuity and pension expense (Note 9)					0	62,554		62,554	62,554
Repairs and maintenance	2,944	10,514	4,205	210	17,873	2,102	1,051	21,026	26,469
Utilities	968	3,455	1,382	69	5,874	691	345	6,910	8,578
Bad debt					0	26,473		26,473	253
<b>Total</b>	<b>\$952,058</b>	<b>\$424,913</b>	<b>\$401,051</b>	<b>\$15,925</b>	<b>\$1,793,947</b>	<b>\$262,664</b>	<b>\$132,433</b>	<b>\$2,189,044</b>	<b>\$2,246,981</b>

*The attached notes and auditor's report are an integral part of these financial statements.*

**CHES-IN-THE-SCHOOLS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

(With comparative totals for the year ended June 30, 2019)

	<u>6/30/20</u>	<u>6/30/19</u>
Cash flows from operating activities:		
Change in net assets	(\$148,458)	\$608,702
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation and amortization	15,629	14,674
Realized loss/(gain) on sale of investments	226,608	(117,096)
Unrealized loss/(gain) on sale of investments	243,536	(421,830)
Donated stock	(289,800)	0
Changes in assets and liabilities:		
Program fees receivable	12,862	(11,058)
Government grants receivable	(684)	114,034
Pledges receivable	174,746	(105,000)
Inventory	(124)	1,868
Prepaid expenses	(2,953)	(3,897)
Accounts payable and accrued expenses	(23,598)	8,369
Deferred rent	17,275	22,222
Paycheck Protection Program loan	252,105	0
Total adjustments	<u>625,602</u>	<u>(497,714)</u>
Net cash flows provided by operating activities	<u>477,144</u>	<u>110,988</u>
Cash flows from investing activities:		
Sales of investments	265,248	180,574
Purchases of investments	(694,002)	(264,490)
Purchase of fixed assets	(7,639)	(5,430)
Net cash flows used for by investing activities	<u>(436,393)</u>	<u>(89,346)</u>
Net increase in cash and cash equivalents	40,751	21,642
Cash and cash equivalents - beginning of year	<u>458,538</u>	<u>436,896</u>
Cash and cash equivalents - end of year	<u>\$499,289</u>	<u>\$458,538</u>

No interest or income taxes were paid.

*The attached notes and auditor's report are an integral part of these financial statements.*

**CHES-IN-THE-SCHOOLS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**Note 1 - Nature of Entity**

Chess-in-the-Schools, Inc. ("CIS") fosters the intellectual and social development of low-income youth through chess education.

CIS was incorporated in the State of New York and has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("Code") and similar statutes in New York. They are an organization which has not been designated as a private foundation.

**Note 2 - Summary of Significant Accounting Policies**

a. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

Effective July 1, 2019, CIS adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "Topic 606"). This provides the framework for recognizing revenue by highlighting the identification of performance obligations of a contract, determining the price, and then allocating the price to each of the performance obligations so that revenue is recognized as each of those performance obligations are satisfied.

Also, effective July 1, 2019, CIS adopted ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("Topic 605"). Key provisions of this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance for conditional versus unconditional contributions. In accordance with this new standard, CIS evaluates whether a transfer of assets is an exchange transaction in which a resource provider is receiving a commensurate value in return for the transfer of resources or whether it is non-reciprocal. If the transaction is determined to be an exchange transaction, CIS applies guidance under Topic 606. If the transaction is determined to be non-reciprocal, it is treated as a contribution under Topic 605.

Analysis of the various provisions of both of these standards resulted in no significant changes in the way CIS recognizes revenue.



b. Basis of Presentation

CIS reports information regarding its financial position and activities according to the following classes of net assets:

- *Net Assets Without Donor Restrictions* – accounts for activity without donor-imposed restrictions. The Board of Directors of CIS has established a board designated reserve fund to ensure long-term stability of the mission, programs, and ongoing operations of the organization. The reserve is intended to provide an internal source of funds for situations such as a sudden, unexpected increase in expenses, unanticipated loss in funding, or uninsured losses. The Board of Directors is required to approve any requests for the use of the funds. At June 30, 2020 and 2019, the balance of the board designated reserve fund was \$5,000,000.
- *Net Assets With Donor Restrictions* – represents those resources, the uses of which have been restricted by the donors to specific purposes or passage of time and/or must remain intact in perpetuity.

c. Revenue Recognition

CIS has adopted Topic 606 using the modified retrospective method applied to all contracts after July 1, 2019 and continues to use legacy GAAP for all contracts before July 1, 2019.

CIS receives program fee revenue that falls under Topic 606. Program fees are recognized as revenue as the performance obligations are met. Program fee revenue that has been earned but not paid at year end is recognized as income and a related receivable. Cash that has been received but not earned at year end is recognized as deferred revenue.

Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

Contributions may be subject to conditions which are defined under ASU No. 2018-08 as both a barrier to entitlement and a right of return of payments, or release from obligations, and are recognized as income once the conditions have been substantially met.

Government grants have been evaluated and are considered to be non-reciprocal; therefore, they are also treated as contributions under Topic 605. In addition, government grants meet the criteria of being conditional. Revenue from these transactions is recognized when qualifying expenditures are incurred, performance related outcomes are achieved, and other conditions under the agreements are met. Cash received in advance of the conditions being met are treated as liabilities.

Contributions and grants expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. Receivables are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2020. Write-offs will be made in the period the receivable is deemed to be uncollectable. At June 30, 2020, all receivables are due within one year.

d. Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to CIS's ongoing services, which includes the transfer from the board designated fund to support current operating activities. Non-operating activities are limited to resources that generate return from investments, as well as the transfer of board designated funds to use for operations.

e. Cash and Cash Equivalents

CIS considers liquid investments that have an initial maturity of three months or less to be cash and cash equivalents. However, amounts held by the investment custodian for long-term purposes are included with investments.

f. Concentration of Credit Risk

Financial instruments that potentially subject CIS to concentration of credit risk consist of cash, money market accounts, and investment securities, which are placed with financial institutions that management deems to be creditworthy. Investments are subject to market fluctuations and principal is not guaranteed. At year end and at various times during the year, CIS had material uninsured balances. CIS has not experienced any losses due to the failure of any of these institutions.

g. Investments

Investments with readily available market prices are reflected at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are included in income on the statement of activities as non-operating activities.

h. Fixed Assets

Equipment and furniture that exceed pre-determined amounts and that have a useful life of greater than one year are recorded at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Computers and equipment – *5 to 10 years*

Furniture and fixtures – *7 years*

i. Deferred Rent

Rent expense is recorded evenly over the life of the lease using the straight-line method. Rent expense recognized in excess of cash payments, primarily due to free rent received at the beginning of the lease, is reflected as deferred rent.

As future payments exceed the annual expense recognized, deferred rent will be reduced to zero by the end of the lease term.

j. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Salaries are allocated based on time and effort. Payroll taxes and benefits are allocated based on salary allocations.

The following costs are allocated based on square footage usage of the rented office space:

- Office expenses
- Telephone
- Insurance
- Depreciation and amortization
- Occupancy
- Repairs and maintenance
- Utilities

All other expenses have been charged directly to the applicable program or supporting services.

l. Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CIS's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

m. Accounting for Uncertainty of Income Taxes

CIS does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2017 and later are subject to examination by applicable taxing authorities.

n. New Accounting Pronouncements

FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the June 30, 2023 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the June 30, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures.

CIS is in the process of evaluating the impact these standards will have on future financial statements.

### Note 3 - Investments

Investments are stated at fair value. Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that CIS has the ability to access.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investments are designated as follows:

	<u>6/30/20</u>	<u>6/30/19</u>
Without Donor Restrictions	\$11,969,439	\$11,725,648
Donor Restricted Endowment (Note 7)	<u>269,368</u>	<u>264,749</u>
Total	<u>\$12,238,807</u>	<u>\$11,990,397</u>

The following summarizes the composition of investments:

	<u>June 30, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money funds	\$1,337,576	\$0	\$0	\$1,337,576
Mutual funds:				
Diversified emerging markets	1,312,683	0	0	1,312,683
Large blend	2,853,292	0	0	2,853,292
Real estate	114,631	0	0	114,631
Foreign large blend	1,339,027	0	0	1,339,027
Large value	2,701,929	0	0	2,701,929
Health	596,097	0	0	596,097
Technology	689,884	0	0	689,884
Private investments	0	0	699,893	699,893
Real estate	<u>593,795</u>	<u>0</u>	<u>0</u>	<u>593,795</u>
Total	<u>\$11,538,914</u>	<u>\$0</u>	<u>\$699,893</u>	<u>\$12,238,807</u>

June 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money funds	\$921,129	\$0	\$0	\$921,129
Exchange-traded fund:				
Single currency	18,500	0	0	18,500
Mutual funds:				
Diversified emerging markets	1,352,224	0	0	1,352,224
Large blend	3,219,465	0	0	3,219,465
Real estate	123,168	0	0	123,168
Foreign large blend	2,047,785	0	0	2,047,785
Large value	2,892,124	0	0	2,892,124
Single currency	17,395	0	0	17,395
Private investments	0	0	822,068	822,068
Real estate	<u>576,539</u>	<u>0</u>	<u>0</u>	<u>576,539</u>
Total	<u>\$11,168,329</u>	<u>\$0</u>	<u>\$822,068</u>	<u>\$11,990,397</u>

Level 1 securities are valued at the closing price reported on the active market that they are traded on.

Level 2 securities are valued using observable market inputs for securities that are similar to those owned.

The valuation of certain private investments and hedge funds as of June 30, 2020 and 2019, are reported at fair value utilizing the net asset values provided by fund managers as a practical expedient. While the net asset values utilize significant unobservable inputs (level 3), management reviews and evaluates the values provided by the fund managers and agrees with the valuation methods and assumptions used in determining the fair value. Other private investments are valued using outside appraisals conducted by third party appraisers.

Those methods produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

Changes in Level 3 investments are as follows:

	<u>6/30/20</u>	<u>6/30/19</u>
Beginning balance	\$822,068	\$931,411
Unrealized loss	<u>(122,175)</u>	<u>(109,343)</u>
Total	<u>\$699,893</u>	<u>\$822,068</u>

**Note 4 - Fixed Assets**

Fixed assets consist of:

	<u>6/30/20</u>	<u>6/30/19</u>
Computers and equipment	\$315,398	\$307,759
Furniture and fixtures	<u>164,012</u>	<u>164,012</u>
	479,410	471,771
Less: accumulated depreciation and amortization	<u>(418,015)</u>	<u>(402,386)</u>
Total fixed assets, net	<u>\$61,395</u>	<u>\$69,385</u>

**Note 5 - Paycheck Protection Program**

During the year ended June 30, 2020, CIS obtained a loan from the SBA through the Paycheck Protection Program. Terms of the loan indicate that if certain conditions are met, which include maintaining average work forces during periods subsequent to receipt of the loan funds that are greater than pre-determined historical periods, that the loan, or a portion thereof, will be forgiven. Portions that are not forgiven will be payable over a five-year period, with a six-month deferral of payments and interest will accrue at 1%. Subsequent to year end, CIS applied for and received forgiveness from the SBA for the full amount of the loan.

CIS expects to recognize revenue from this loan consistent with ASU 2018-08, as it is considered to have traits similar to a conditional contribution; however, will continue to review whether any new accounting pronouncements may be issued that will provide more definitive guidance.

**Note 6 - Net Assets with Donor Restrictions**

Net assets were released from donor restrictions for the following purposes:

	<u>6/30/20</u>	<u>6/30/19</u>
Programs:		
Equipment & software	\$5,549	\$5,430
Time restrictions	122,500	100,000
Endowment	<u>13,866</u>	<u>11,567</u>
Total restrictions	<u>\$141,915</u>	<u>\$116,997</u>

At year end, net assets were restricted for the following purposes:

	<u>6/30/20</u>	<u>6/30/19</u>
Programs:		
Equipment & software	\$5,000	\$5,549
Summer program	15,000	0
Time restrictions	75,000	197,500
Endowment	<u>269,368</u>	<u>264,749</u>
Total restrictions	<u>\$364,368</u>	<u>\$467,798</u>

## Note 7 - Donor Restricted Endowment Fund

The endowment consists of an individual donor-restricted fund, the Karff Fund, which was established in November 1998 for the purpose of funding the Edward Lasker Memorial Prizes to be awarded by the Marshall Chess Club. The endowment includes earnings from investment gains that have not yet been appropriated by the Board of Trustees.

### *Interpretation of Relevant Law*

CIS follows the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). The Board of Trustees of CIS has interpreted NYPMIFA as requiring certain amounts to be retained permanently. Absent explicit donor stipulations to the contrary, CIS will preserve the fair value of the original gift as of the gift date of all donor-restricted endowment funds. However, under certain circumstances, CIS has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by NYPMIFA.

As a result of this interpretation, CIS classifies as donor restricted net assets (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The endowment agreement specifies that the amount to be paid out from the fund each year is the lesser of the prior year’s net income or 5% of the total value of the fund at the beginning of the year, if requested.

### *Spending Policies*

In accordance with NYPMIFA, CIS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of CIS and the donor-restricted endowment fund;
- (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 CIS;
- (7) The investment policies of CIS;
- (8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on CIS.

Changes in endowment net assets are as follows:

	<u>June 30, 2020</u>		
	<u>Endowment Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
Endowment net assets, beginning of year	\$164,749	\$100,000	\$264,749
Reinvested income	46,043	0	46,043
Awards	(13,866)	0	(13,866)
Unrealized loss	<u>(27,558)</u>	<u>0</u>	<u>(27,558)</u>
Endowment net assets, end of year	<u>\$169,368</u>	<u>\$100,000</u>	<u>\$269,368</u>

	<u>June 30, 2019</u>		
	<u>Endowment Earnings</u>	<u>Endowment Corpus</u>	<u>Total</u>
Endowment net assets, beginning of year	\$152,096	\$100,000	\$252,096
Reinvested income	7,808	0	7,808
Awards	(11,567)	0	(11,567)
Realized gain	40,501	0	40,501
Unrealized loss	<u>(24,089)</u>	<u>0</u>	<u>(24,089)</u>
Endowment net assets, end of year	<u>\$164,749</u>	<u>\$100,000</u>	<u>\$264,749</u>

*Endowment Investment Policies*

CIS has adopted an investment policy for endowment assets that relies on the accumulation of interest, dividends, and other market value gains for future appropriation.

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires CIS to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2020 or June 30, 2019.

**Note 8 - Commitments and Contingencies**

On January 18, 2018, CIS amended its original lease and moved to new space within the same building. The lease now expires March 31, 2028. Future minimum payments, excluding utilities and other escalations, under the lease are as follows:

Year ending:	June 30, 2021	\$210,181
	June 30, 2022	215,436
	June 30, 2023	220,821
	June 30, 2024	226,342
	June 30, 2025	232,001
	Thereafter	<u>646,729</u>
Total		<u>\$1,751,510</u>



**Note 9 - Employee Benefits**

CIS sponsors a tax-deferred annuity plan that is qualified under Section 403(b) of the Internal Revenue Code. The plan covers all full-time employees, who can make contributions up to the maximum statutory amount. CIS contributed approximately \$18,000 and \$16,000 to the plan during the years ended June 30, 2020 and June 30, 2019, respectively.

Additionally, in 1991, CIS entered into a deferred compensation agreement with a former Executive Director. Under the terms of that agreement, CIS pays that individual approximately \$63,000 annually, representing 50% of their average salary during the 36 months prior to their retirement. As per the terms of the agreement, the deferred compensation is not funded and is paid out of operating funds.

**Note 10 - Significant Concentrations**

CIS receives funding from the New York City Department of Education and the New York City Department of Youth and Community Development to operate its major programs. Total funding from these two government agencies amount to 27% and 26% of total revenue for the years ended June 30, 2020 and June 30, 2019, respectively.

Approximately 56% and 53% of outstanding receivables are from one government agency at June 30, 2020 and June 30, 2019, respectively.

**Note 11 - Liquidity and Availability of Financial Resources**

CIS maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for ongoing operations. As part of its liquidity management, CIS operates its programs within a board approved budget and relies on contributions and earned income to fund its operations and program activities.

Financial assets available within one year of the date of the statement of financial position for general expenditures are as follows:

Financial assets at year end:		
Cash and cash equivalents	\$499,289	
Investments	11,969,439	
Program fees, grants, and pledges receivables	<u>762,584</u>	
Total financial assets		\$13,231,312
Less amounts not available for general expenditures:		
Program restricted contributions		<u>(20,000)</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$13,211,312</u>

Board designated funds of \$5,000,000, which are included in the total financial assets available to meet cash needs for general expenditures within one year of \$13,211,312, are considered available for general expenditures as board action can be taken to use these funds. Annually, the board appropriates a portion of the expected net assets without donor restrictions to the operating budget to supplement public support and revenue to fund current operations, taking into consideration investment market conditions and expectations.

**Note 12 - Subsequent Events**

Management has evaluated the impact of all subsequent events through January 18, 2021, which is the date that the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date, through our evaluation date, that would require adjustment to or disclosure in the financial statements.

**Note 13 - Other Matters**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which CIS operates. It is unknown how long these conditions will last and what the complete financial effect will be. Management continues to monitor the outbreak, however, as of the date of these financial statements, the potential impact cannot be quantified.

Despite the COVID pandemic and school closure, all CIS programs are being continued remotely.