

Chess-in-the-Schools, Inc.

Audited Financial Statements

June 30, 2023

Chess-in-the-Schools, Inc.

Audited Financial Statements

June 30, 2023

CONTENTS

	Page
Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Chess-in-the-Schools, Inc. ("CIS"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CIS as of June 30, 2023, and the changes in 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 ("GAAS"). 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 CIS 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 CIS' 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 GAAS 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 GAAS, 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 CIS' 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 CIS' 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.

Report on Summarized Comparative Information

The financial statements of CIS as of and for the year ended June 30, 2022, were audited by other auditors whose report dated January 11, 2023, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects with the audited financial statements from which it was derived.

Sax CPAs LLP

New York, NY
March 20, 2024

Chess-in-the-Schools, Inc.

Statement of Financial Position

As of June 30, 2023
(With comparative totals as of June 30, 2022)

	June 30,	
	2023	2022
ASSETS		
Cash and cash equivalents	\$ 242,256	\$ 416,850
Program fees receivable	134,562	160,806
Government grants receivable	1,027,809	268,469
Pledges receivable	221,370	-
Inventory	28,355	41,457
Prepaid expenses	4,594	6,662
Investments	14,496,587	14,194,400
Fixed assets (net of accumulated depreciation)	37,570	46,563
Operating lease right-of-use-asset	1,017,799	-
TOTAL ASSETS	<u>\$ 17,210,902</u>	<u>\$ 15,135,207</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 50,150	\$ 54,461
Deferred rent	-	84,857
Operating lease liability	1,030,959	-
Total liabilities	<u>1,081,109</u>	<u>139,318</u>
NET ASSETS		
Without donor restrictions:		
Operations	5,933,423	4,953,394
Board designated	10,000,000	10,000,000
Total without donor restrictions	<u>15,933,423</u>	<u>14,953,394</u>
With donor restrictions	196,370	42,495
Total net assets	<u>16,129,793</u>	<u>14,995,889</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,210,902</u>	<u>\$ 15,135,207</u>

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

Chess-in-the-Schools, Inc.

Statement of Activities

For the Year Ended June 30, 2023
(With comparative totals for the year ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 6/30/23	Total 6/30/22
PUBLIC SUPPORT AND REVENUE				
Contributions	\$ 843,746	\$ 342,370	\$ 1,186,116	\$ 1,011,635
Government grants				
Paycheck Protection Program	-	-	-	269,262
Employee Retention Tax Credit	-	-	-	349,111
Other government grants	875,500	-	875,500	496,048
Program fee revenue	210,580	-	210,580	291,010
Reserve funds appropriated by the governing board for operations	750,000	-	750,000	700,000
Net assets released from restriction	188,495	(188,495)	-	-
Total public support and revenue	2,868,321	153,875	3,022,196	3,117,066
EXPENSES				
Program services	2,186,909	-	2,186,909	2,003,226
Supporting services:				
Management and general	294,306	-	294,306	254,853
Fundraising	194,990	-	194,990	187,846
Total expenses	2,676,205	-	2,676,205	2,445,925
Change in net assets from operations	192,116	153,875	345,991	671,141
NON-OPERATING ACTIVITIES				
Interest and dividend income	352,040	-	352,040	307,017
Net realized gain from investments	200,970	-	200,970	175,351
Net unrealized gain/(loss) from investments	984,903	-	984,903	(1,998,147)
Reserve funds appropriated by the governing board for operations	(750,000)	-	(750,000)	(700,000)
Transfer of endowment funds	-	-	-	(381,004)
Total non-operating activities	787,913	-	787,913	(2,596,783)
Change in net assets	980,029	153,875	1,133,904	(1,925,642)
NET ASSETS, beginning of year	14,953,394	42,495	14,995,889	16,921,531
NET ASSETS, end of year	\$ 15,933,423	\$ 196,370	\$ 16,129,793	\$ 14,995,889

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, 2023
(With comparative totals for the year ended June 30, 2022)

	Program Services				Supporting Services			Total Expenses 6/30/23	Total Expenses 6/30/22
	School Programs	College Bound Program	Tournament Program	Teacher Training Institute	Total Program Services	Management and General	Fundraising		
Salaries	\$ 724,724	\$ 186,677	\$ 256,890	\$ 9,870	\$ 1,178,161	\$ 67,233	\$ 104,352	\$ 1,349,746	\$ 1,234,101
Payroll taxes and employee benefits	214,282	55,195	75,955	2,918	348,350	19,880	30,854	399,084	341,600
Awards and trophies	20,283	17,501	28,333	-	66,117	-	-	66,117	22,784
Program materials	11,271	22,106	8,679	9	42,065	65	95	42,225	24,515
Office expenses	45,775	11,791	16,226	623	74,415	4,247	6,591	85,253	92,673
Telephone	1,020	3,644	1,458	73	6,195	729	364	7,288	6,930
Insurance	10,475	8,346	5,544	241	24,606	2,030	1,872	28,508	34,192
Consultants	124,421	23,593	17,023	697	165,734	62,358	20,947	249,039	178,422
Professional fees	-	-	-	-	-	52,560	-	52,560	63,627
Travel and meals	774	50,793	23,652	-	75,219	770	16,634	92,623	61,544
Depreciation	1,889	6,748	2,699	135	11,471	1,349	675	13,495	14,528
Other expenses	24,001	6,182	8,508	327	39,018	2,230	3,456	44,704	46,523
Occupancy	21,390	76,393	30,557	1,528	129,868	15,279	7,639	152,786	225,883
Annuity and pension expense	-	-	-	-	-	62,554	-	62,554	62,554
Repairs and maintenance	3,288	11,743	4,697	235	19,963	2,348	1,174	23,485	29,069
Utilities	943	3,369	1,348	67	5,727	674	337	6,738	6,895
Bad debt	-	-	-	-	-	-	-	-	85
Total expenses	<u>\$ 1,204,536</u>	<u>\$ 484,081</u>	<u>\$ 481,569</u>	<u>\$ 16,723</u>	<u>\$ 2,186,909</u>	<u>\$ 294,306</u>	<u>\$ 194,990</u>	<u>\$ 2,676,205</u>	<u>\$ 2,445,925</u>

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

Chess-in-the-Schools, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2023
(With comparative totals for the year ended June 30, 2022)

	June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,133,904	\$ (1,925,642)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	13,495	14,528
Change in operating lease right-of-use asset and liability	13,160	-
Realized gain on sale of investments	(200,970)	(175,351)
Unrealized (gain)/loss on sale of investments	(984,903)	1,998,147
Changes in assets and liabilities:		
Program fees receivable	26,244	(20,171)
Government grants receivable	(759,340)	(143,469)
Pledges receivable	(221,370)	131,000
Inventory	13,102	1,104
Prepaid expenses	2,068	13,700
Accounts payable and accrued expenses	(4,311)	28,136
Paycheck Protection Program loan	-	(269,262)
Deferred rent	(84,857)	6,785
Net cash used for operating activities	(1,053,778)	(340,495)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	1,214,369	1,132,542
Purchases of investments	(330,683)	(580,453)
Purchase of fixed assets	(4,502)	(9,152)
Net cash provided by investing activities	879,184	542,937
Net (decrease)/increase in cash and cash equivalents	(174,594)	202,442
CASH and CASH EQUIVALENTS, <i>beginning of year</i>	416,850	214,408
CASH and CASH EQUIVALENTS, <i>end of year</i>	\$ 242,256	\$ 416,850
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid	\$ 30,000	\$ 24,000
Interest paid	\$ -	\$ -

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

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 1 - Organization

Chess-in-the-Schools, Inc. ("CIS") fosters the intellectual and social development of low-income youth through chess education. CIS's primary sources of revenue are contributions and program income. CIS accomplishes its mission through the following programs:

- School Programs - CIS teaches chess in approximately 50 elementary and middle schools annually in New York City public schools. The schools participating in the program are primarily schools that receive Title I Funding. Each school participating in the School Program is assigned a CIS trained instructor. In each participating school, the School Program generally has two components: classroom instruction and an after-school chess club.
- College Bound Program - For low-income high school students, College Bound provides college readiness, career exploration, and advanced chess learning. Students also have the opportunity to participate in community service projects, go on cultural excursions, and work at CIS' tournaments as Assistant Tournament Directors. CIS provides test prep, college application advising, college and career fairs, as well as college visits.
- Tournament Program - The Scholastic Tournament Program offers free competitive chess tournaments in New York City. Tournaments normally are hosted primarily in public schools, and many are open to all New York City students. Tournament participation ranges from approximately 400-700 students.
- Teacher Training Institute - The Teacher Training Institute ("TTI") is a program to teach New York City public school educators to implement a chess program at their school. Teachers receive a free, one-day workshop including training, and additional digital resources.

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 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.

b. Recently Adopted Accounting Standards

Effective July 1, 2022, CIS adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. CIS elected transition relief that allows entities, in the period of adoption, to present the current period under the FASB's Accounting Standards Codification ("ASC") 842 and the comparative period under FASB ASC 840. It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing FASB ASU No. 2016-02, CIS recognized right-of-use ("ROU") assets of \$1,202,394 and lease liabilities totaling \$1,287,251 in its statement of financial position as of the July 1, 2022 commencement date of their lease for space. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023.

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

c. 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 held in CIS's investments and 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.

Activity of the board designated fund was as follows:

	June 30,	
	2023	2022
Balance, beginning of year	\$ 10,000,000	5,000,000
Appropriations	(750,000)	(700,000)
Transfer in	750,000	5,700,000
Balance, end of year	<u>\$ 10,000,000</u>	<u>\$ 10,000,000</u>

- *Net Assets with Donor Restrictions* - represents those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

d. Revenue Recognition

CIS follows the requirements of FASB ASC 958-605 for recording contributions, which are recorded when a contribution becomes unconditional in nature. Contributions are recorded in one of the classes of net assets described 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 are received, they are classified as without donor restrictions.

CIS evaluates whether contributions are conditional or unconditional. Contributions are considered to be conditional when both a barrier must be overcome for CIS to be entitled to the revenue and a right of return of the asset or right of release from the obligation exists.

Government grants have been evaluated and are considered to be conditional non-reciprocal transactions that fall under the scope of FASB ASC 958-605. 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 is treated as a liability.

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

d. Revenue Recognition - Continued

Contributions are recognized at net realizable value if expected to be received within one year, or at fair value using risk-adjusted present value techniques if expected to be received in more than one year.

CIS follows FASB ASC 606 for recognizing revenue from contracts with customers. CIS receives program income for providing its chess education program in schools which falls under FASB ASC 606 and is included in the statement of activities. Revenue from the chess education program is recognized at the point in time that the service is provided. Fees that have not been collected at year end are reflected as accounts receivable. Amounts collected in advance are treated as deferred revenue.

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, 2023. All receivables at June 30, 2023 are expected to be collected within one year.

e. 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.

f. 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.

g. Concentration of Credit Risk

Financial instruments that potentially subject CIS to a 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.

h. 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.

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

i. Fixed Assets

Equipment and furniture that exceed \$5,000 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

j. Leases

CIS determines if an arrangement is or contains a lease at inception. Leases are included in ROU assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. The change in operating lease right-of-use asset and liability on the statement of cash flows includes the amortization of the ROU asset and cash payments for leases offset by the accretion of the discounted lease liability. Operating lease expense is recognized on a straight-line basis over the lease term. CIS does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that CIS will exercise that option.

k. Advertising

The cost of advertising is expensed as incurred.

l. 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. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of CIS.

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

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

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

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

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

m. 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.

n. 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, 2022, from which the summarized information was derived.

o. 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, 2020 and later are subject to examination by applicable taxing authorities.

Note 3 - Investments and Fair Value Measurements

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.

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 3 - Investments and Fair Value Measurements - Continued

The following summarizes the composition of investments:

	June 30, 2023		
	Level 1	Other (a)	Total
Money funds	\$ 662,030	\$ -	\$ 662,030
Mutual funds			
Diversified emerging markets	1,160,931	-	1,160,931
Large blend	2,951,770	-	2,951,770
Small blend	1,532,025	-	1,532,025
Real estate	136,055	-	136,055
Foreign large blend	295,062	-	295,062
Large value	3,779,860	-	3,779,860
Health	1,484,626	-	1,484,626
Technology	1,210,177	-	1,210,177
Commodities	280,296	-	280,296
Core Aggressive	8,093	-	8,093
Private investments	-	995,662	995,662
Total	<u>\$ 13,500,925</u>	<u>\$ 995,662</u>	<u>\$ 14,496,587</u>

	June 30, 2022		
	Level 1	Other (a)	Total
Money funds	\$ 1,054,344	\$ -	\$ 1,054,344
Mutual funds			
Diversified emerging markets	1,435,953	-	1,435,953
Large blend	2,469,254	-	2,469,254
Small blend	1,782,377	-	1,782,377
Real estate	141,637	-	141,637
Foreign large blend	1,030,441	-	1,030,441
Large value	2,972,208	-	2,972,208
Health	838,446	-	838,446
Technology	885,497	-	885,497
Commodities	309,724	-	309,724
Private investments	-	1,274,519	1,274,519
Total	<u>\$ 12,919,881</u>	<u>\$ 1,274,519</u>	<u>\$ 14,194,400</u>

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 3 - Investments and Fair Value Measurements - Continued

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

- (a) The valuation of certain private investments and hedge funds as of June 30, 2023 and 2022, are reported at fair value utilizing the net asset values provided by fund managers. Other private investments are valued using outside appraisals conducted by third party appraisers. Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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.

Note 4 - Fixed Assets

Fixed assets consist of:

	June 30,	
	2023	2022
Computers and equipment	\$ 336,900	\$ 332,398
Furniture and fixtures	164,012	164,012
	<u>500,912</u>	<u>496,410</u>
Less: accumulated depreciation	(463,342)	(449,847)
Total fixed assets, net	<u>\$ 37,570</u>	<u>\$ 46,563</u>

Note 5 - Operating Lease Right-of-Use Asset and Operating Lease Liability

CIS leases office space in New York, NY under a non-cancelable lease, which expires on March 31, 2028 and has been determined to be an operating lease. The lease term does not include any extension options.

The ROU asset represents CIS' right to use the underlying asset for the lease term, and the lease liabilities represent CIS' obligation to make lease payments arising from this lease. The ROU asset and lease liability were calculated based on the present value of future lease payments over the lease terms. As of June 30, 2023, the weighted-average remaining lease term for CIS' operating leases was 4.67 years. CIS has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2023 was 2.9%.

For the year ended June 30, 2023, total operating lease cost was \$233,985. Cash paid for operating leases for the year ended June 30, 2023 was \$220,825. There were no noncash investing and financing transactions related to leasing other than the ROU asset obtained in exchange for the lease liability recorded at the date of commencement.

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 5 - Operating Lease Right-of-Use Asset and Operating Lease Liability - Continued

Future required minimum lease payments under this lease are as follows:

Year ending:

June 30, 2024	\$	226,342
June 30, 2025		232,001
June 30, 2026		237,801
June 30, 2027		243,746
June 30, 2028		165,183
Total lease payments		1,105,073
Less: present value discount		(74,114)
Total lease liability at June 30, 2023	\$	<u>1,030,959</u>

Note 6 - Net Assets with Donor Restrictions

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

	June 30,	
	2023	2022
Programs		
Equipment and software	\$ -	\$ 5,000
College bound/College success program	67,495	190,399
Total program	67,495	195,399
Time restrictions	121,000	121,000
Total restrictions	<u>\$ 188,495</u>	<u>\$ 316,399</u>

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

	June 30,	
	2023	2022
Programs		
College bound/College success program	\$ 370	\$ 42,495
Total program	370	42,495
Time restrictions	196,000	-
Total restrictions	<u>\$ 196,370</u>	<u>\$ 42,495</u>

Note 7 - Donor Restricted Endowment Fund

CIS had an endowment that consisted 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. CIS petitioned the Supreme Court of the State of New York to authorize the transfer of this endowment to the Marshall Chess Club Foundation, a separate, unrelated nonprofit organization. This petition was granted on June 7, 2022, and the total amount transferred of \$381,004 is reported on the statement of activities during the year ended June 30, 2022.

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 8 - Paycheck Protection Program

During the year ended June 30, 2021, CIS obtained a loan of \$269,262 from the Small Business Administration (“SBA”) through the Paycheck Protection Program (“PPP”). Terms of the loan indicated that if certain conditions were met, which included maintaining average work forces during periods subsequent to receipt of the loan funds that were greater than pre-determined historical periods, that the loan, or a portion thereof, would be forgiven. CIS accounted for the PPP loan as a contribution in accordance with FASB ASC 958-605. The conditions for forgiveness on this loan were met during the year ended June 30, 2022 and the full amount was recognized as revenue in 2022.

Note 9 - Employee Retention Credit

During the year ended June 30, 2022, CIS claimed the Employee Retention Credit (“ERTC”) in the amount of \$349,111. The ERTC was established by the Coronavirus Relief Act issued by Congress during 2020 and allows an employer to obtain fully refundable tax credits through their payroll tax filing for qualified wages paid after March 13, 2020 through September 30, 2021. To be eligible, an employer must have incurred payroll costs to retain employees and had been adversely affected by the COVID-19 pandemic due to having operations suspended by a government order or demonstrating that they had a significant decline in gross receipts.

CIS accounted for the ERTC as a conditional contribution in accordance with FASB ASC 958-605. The conditions for eligibility outlined above were met during the year ended June 30, 2022, and the full amount was recognized as revenue in 2022.

Note 10 - Employee Benefits

CIS sponsors a tax-deferred annuity plan that is qualified under Section 403(b) of the Code. The plan covers all full-time employees, who can make contributions up to the maximum statutory amount. CIS contributed approximately \$22,000 and \$20,000 to the plan during the years ended June 30, 2023 and June 30, 2022, 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 \$62,554 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 approved each year as part of the annual budget.

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.

Chess-in-the-Schools, Inc.

Notes to Financial Statements

June 30, 2023

Note 11 - Liquidity and Availability of Financial Resources - Continued

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	\$ 242,256
Program fees receivable	134,562
Government grants receivable	1,027,809
Pledges receivable	221,370
Investments	14,496,587
Total financial assets	<u>16,122,584</u>
Less amounts not available for general expenditures	
Donor contributions restricted to specific purpose	(196,370)
Board designated fund	<u>(10,000,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 5,926,214</u></u>

Board designated funds are considered available for general expenditures when board action is 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

Subsequent events have been evaluated through March 20, 2024, the date the financial statements were available to be issued. There were no material events that have occurred that require adjustment to or disclosure to the financial statements.