USTA SERVES INCORPORATED

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2011

TCBA WATSON RICE LLP
CERTIFIED PUBLIC ACCOUNTANTS

USTA SERVES INCORPORATED
DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USTA Serves Incorporated
White Plains, New York

We have audited the accompanying balance sheets of USTA Serves Incorporated as of December 31, 2011 and December 31, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the USTA Serves Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USTA Serves Incorporated as of December 31, 2011 and December 31, 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

TCBA Watson Rice LLP

New York, New York
May 10, 2012

USTA SERVES INCORPORATED
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 1,742	$ 1,477
Investments, at fair value	654	644
Accounts receivable, including grants and contributions, net of allowance for doubtful accounts	94	230
Due from affiliate	4	79
Total Current Assets	2,494	2,430
Investments held in perpetuity, at fair value	299	299
Total Assets	$ 2,793	$ 2,729
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 547	$ 437
Current portion of scholarships payable	300	271
Total Current Liabilities	847	708
Long-term scholarships payable, net of discount	317	301
Commitments (Notes 6 and 9)	-	-
Total Liabilities	1,164	1,009
Net Assets		
Unrestricted	908	1,142
Temporarily restricted	422	279
Permanently restricted	299	299
Total Net Assets	1,629	1,720
Total Liabilities and Net Assets	$ 2,793	$ 2,729

See notes to financial statements.

USTA SERVES INCORPORATED
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(IN THOUSANDS)

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues								
Contributions								
Special events revenue	$ 954	$ -	$ -	$ 954	$ 760	$ 1	$ -	$ 761
Less: Direct cost to donors	(113)	-	-	(113)	(78)	-	-	(78)
Total Special Events	841	-	-	841	682	1	-	683
Grants and contributions	377	365	-	742	288	250	-	538
Contributed services	654	-	-	654	678	-	-	678
Net assets released from restrictions (Note 7)	229	(229)	-	-	91	(91)	-	-
Total Operating Revenues	2,101	136	-	2,237	1,739	160	-	1,899
Expenses								
Program Services								
Scholarships	398	-	-	398	394	-	-	394
Grants	920	-	-	920	713	-	-	713
Other program services	189	-	-	189	10	-	-	10
Contributed program services	175	-	-	175	145	-	-	145
Total Program Expenses	1,682	-	-	1,682	1,262	-	-	1,262
Support Services								
Fundraising:								
Fundraising - other	103	-	-	103	84	-	-	84
Contributed fundraising services	273	-	-	273	228	-	-	228
Total Fundraising Services	376	-	-	376	312	-	-	312
General and Administrative:								
General and administrative	44	-	-	44	85	-	-	85
Contributed general and administrative services	206	-	-	206	305	-	-	305
Total General and Administrative Services	250	-	-	250	390	-	-	390
Total Support Services	626	-	-	626	702	-	-	702
Total Operating Expenses	2,308	-	-	2,308	1,964	-	-	1,964
Excess of operating expenses over operating revenues	(207)	136	-	(71)	(225)	160	-	(65)
Nonoperating Other Income (Loss)								
Investment income (loss), net (Note 4)	(27)	7	-	(20)	65	1	-	66
Changes in Net Assets	(234)	143	-	(91)	(160)	161	-	1
Net Assets, Beginning of Year	1,142	279	299	1,720	1,302	118	299	1,719
Net Assets, End of Year	$ 908	$ 422	$ 299	$ 1,629	$ 1,142	$ 279	$ 299	$ 1,720

See notes to financial statements.

USTA SERVES INCORPORATED
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Cash Flows from Operating Activities		
Changes in net assets	$ (91)	$ 1
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Adjustment of discount on scholarship payable	2	3
Net change in unrealized gain or loss	43	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	136	(55)
Decrease (increase) in due from affiliate	75	(73)
Increase (decrease) in accounts payable and accrued liabilities	110	(23)
Increase in scholarships payable	43	65
Net cash provided by (used in) operating activities	318	(82)
Cash Flows from Investing Activities		
Purchase of investments	(996)	(1,682)
Proceeds from sale of investments	943	1,388
Net cash used in investing activities	(53)	(294)
Increase (decrease) in cash and cash equivalents	265	(376)
Cash and cash equivalents, beginning of year	1,477	1,853
Cash and cash equivalents, end of year	$ 1,742	$ 1,477

See notes to financial statements.

USTA SERVES INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011
(IN THOUSANDS)

1. ORGANIZATION

USTA Serves Incorporated (the "Foundation") is a New York not-for-profit corporation organized by the United States Tennis Association Incorporated ("USTA") whose purpose is to:

a) Provide and support educational activities for socially and economically disadvantaged youngsters who participate in tennis programs;

b) Provide academic and athletic scholarships to socially and economically disadvantaged youth who participate in tennis programs; and,

c) Support the growth of tennis programs for youth, the disabled and the elderly in community programs, educational facilities and public facilities to improve the quality of life, promote good character, responsible citizenship and good health.

The USTA is the sole voting member of the Foundation. However, the Foundation Board of Directors is an independent body whose majority is comprised of non-USTA Board members. It is the responsibility of the Foundation Board of Directors to help set policy and oversee day-to-day operations of the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. In the balance sheets, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

(b) Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in the balance sheets and that the amounts of change in each of those classes of net assets be displayed in the statements of revenues, expenses, and changes in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(b) Financial Statement Presentation – Continued

The three classes of net assets are defined as follows:

i. *Permanently Restricted* – Net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

ii. *Temporarily Restricted* - Net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of revenues, expenses, and changes in net assets.

iii. *Unrestricted* - The part of net asset that is neither permanently nor temporarily restricted by donor-imposed stipulations. The unrestricted net assets are used to account for all resources over which the Board of Directors has discretionary control.

(c) Use of Estimates

Management of the Foundation uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts and disclosures of assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. The significant estimates made by management include certain accrued liabilities. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

The Foundation considers all highly liquid investments with maturities of three months or less to be cash equivalents. Cash and cash equivalents are intended to be used to fulfill existing scholarship liabilities, fund future scholarship awards and fund tennis and education program grants. Cash and cash equivalents may, at times, exceed federally-insured limits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(e) Investments

Investments in equity and debt securities are measured at fair value based on quoted market prices. Investments in time certificates of deposit typically range from six months to two years and are stated at the investments' initial cost plus interest.

(f) Allowance for Doubtful Accounts

The Foundation fully provides an allowance for doubtful accounts for accounts receivable specifically identified by management for which collectability is uncertain. For 2011 and 2010, the allowance was $0.

(g) Fair Value Measurements

Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements" establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Foundation would use in pricing the Foundation's asset or liability based on independently derived and objectively determinable market data. Unobservable inputs are inputs that cannot be sourced from a broad active market in which assets or liabilities identical or similar to those of the Foundation are traded. If the Foundation had such assets, it would estimate the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers administering each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include equity securities and publicly-traded mutual funds that are actively traded on a major exchange or over-the-counter market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(g) Fair Value Measurements – Continued

Level 2 – Valuation based on quoted market prices of investments that are not actively traded or for which certain significant inputs are not observable, either directly or indirectly, such as municipal bonds. The fair value of municipal bonds is estimated using recently executed transactions, bid/asked prices and pricing models that factor in, where applicable, interest rates, bond spreads and volatility.

Level 3 – Valuation based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments.

(h) Permanently Restricted Donor Funds

The Foundation has permanently restricted donor funds. As required by accounting principles generally accepted in the United States, net assets associated with permanently restricted donor funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the permanently restricted donor funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts designated as permanently restricted, (b) the original value of subsequent gifts designated as permanently restricted, and (c) accumulations to the permanently restricted funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the permanently restricted donor funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NYPMIFA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(h) Permanently Restricted Donor Funds – Continued

In accordance with NYPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate permanently restricted donor funds: (1) the duration and preservation of the various funds, (2) the purposes of the permanently restricted donor 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 Foundation, (7) 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 the institution, and (8) the Foundation's investment policies.

The permanently restricted donor assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Triple A rated short-term money market instruments while assuming a minimum level of investment risk. The Foundation appropriates the actual interest income return from the restricted asset and may supplement non-restricted funds for specific scholarship grants. There are no unrestricted net assets associated with the permanently restricted donor funds.

(i) Revenue Recognition

The Foundation records as revenue the following types of contributions, when they are received unconditionally, at their fair value: cash, promises to give, certain contributed services and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of revenues, expenses, and changes in net assets as net assets released from restrictions. Temporarily restricted contributions received and expended in the same accounting period are recorded in the unrestricted net asset category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Contributed Services

USTA provides program, fundraising, administrative and other services to the Foundation, as well as the use of certain facilities, without charge. For the years ended December 31, 2011 and 2010, the value of these services and facilities, totaling $654 and $678, respectively, included, but were not limited to, salaries, rent/occupancy costs, health and life benefits and other shared services (accounting, legal, etc.). These contributed services and facilities are reported in the statements of revenues, expenses, and changes in net assets as contributed services revenue and offsetting contributed program services, contributed fundraising services and contributed general and administrative services. This disclosure is based on the requirements for recognition of contributed services as stated in FASB ASC 958. For the years ended December 31, 2011 and 2010, there is no cash cost to the Foundation for any contributed services.

All the officers who are not compensated, as well as a number of other volunteers, have contributed significant amounts of time to the Foundation. These financial statements do not reflect a value for these contributed services, as they do not meet the requirements for recognition as stated in FASB ASC 958. There is no objective basis to determine the value of contributed services not recorded.

(k) Functional Expenses

The majority of expenses can be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable.

(l) Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for income taxes in the accompanying financial statements. The Foundation has filed all applicable returns when required. For the years ended December 31, 2011 and 2010, there were no interest or penalties required to be recorded or disclosed in the financial statements. In addition, the Foundation has not taken an unsubstantiated tax position that would require provision of a liability under FASB ASC 740, "Income Taxes."

(m) Reclassifications

Prior year information has been reclassified where necessary to make it comparable with current year information.

(IN THOUSANDS)

3. FINANCIAL INSTRUMENTS AND FAIR VALUE

The Foundation's holdings in certificate of deposits and publicly-traded mutual funds consist principally of equity securities and guaranteed income carried at their aggregate market value as determined by quoted market prices. Each of the above investments can be liquidated daily. The valuation of the above is based on Level 1 inputs within the hierarchy used in measuring fair value.

Below sets forth tables of assets measured at fair value on a recurring basis as of December 31, 2011 and 2010:

	Fair Value Mesurement at Reporting Date Using				
Description	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Fair Value as of December 31, 2011	Cost as of December 31, 2011
Cash and cash equivalents	$ 1,742	$ -	$ -	$ 1,742	$ 1,742
Certificate of deposits	484	-	-	484	484
Investment held in perpetuity carried in publicly-traded mutual funds	299	-	-	299	299
Publicly-traded mutual funds	170	-	-	170	213
Total	$ 2,695	$ -	$ -	$ 2,695	$ 2,738
	100%	0%	0%	100%	

	Fair Value Mesurement at Reporting Date Using				
Description	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Fair Value as of December 31, 2010	Cost as of December 31, 2010
Cash and cash equivalents	$ 1,477	$ -	$ -	$ 1,477	$ 1,477
Certificate of deposits	644	-	-	644	644
Investment held in perpetuity carried in cash and cash equivalents	299	-	-	299	299
Publicly-traded mutual funds	-	-	-	-	-
Total	$ 2,420	$ -	$ -	$ 2,420	$ 2,420
	100%	0%	0%	100%	

(IN THOUSANDS)

4. INVESTMENTS RETURN PRESENTATION

The following schedule summarizes the investment portfolio for the years ended December 31, 2011 and 2010:

Years Ended December 31,	2011	2010
Dividend income	$ 12	$ -
Interest income	11	66
Change in unrealized loss	(43)	-
	$ (20)	$ 66

At December 31, 2011, the Foundation accounted for all investments which were in an unrealized loss position as temporarily impaired. Such determination was based on the ability and intent of the Foundation to retain the investment for sufficient time to allow an anticipated recovery in value given the absence of specific adverse events related to the issuer of the investments.

For each investment category, the table below summarizes the nature and extent of investments that were in an unrealized loss position as of December 31, 2011:

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Market Value	Unrealized Loss	Fair Market Value	Unrealized Loss	Fair Market Value	Unrealized Loss
Mutual fund	$ 469	$ (43)	$ -	$ -	$ 469	$ (43)
Total	$ 469	$ (43)	$ -	$ -	$ 469	$ (43)

5. ACCOUNTS RECEIVABLE

At December 31, 2011 and 2010, the Foundation had receivables totaling $98 and $309, respectively, of which $4 and $79, are from USTA. Receivables are expected to be collected within the next year.

(IN THOUSANDS)

6. SCHOLARSHIPS PAYABLE

The net present value of the scholarships payable was calculated using a discount rate equal to the risk-free interest rate, which is the U.S. Treasury note interest rate in effect at the time the scholarships payable amounts are paid, equal in duration to the length of time that the scholarships are expected to be paid over.

The following represents future payments due:

2012	$	300
2013		207
2014		112
Total		619
Net present value discount		(2)
Net present value	$	617

7. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2011 and 2010, temporarily restricted net assets are available for the following purposes:

	2011		2010	
Scholarships	$	31	$	78
Aces for Kids		5		12
Military Adopt-A-Unit		48		113
Judy Levering Leadership Initiative		261		33
NJTL/First Serve		8		37
Aetna ICON grants		54		-
Excellence program		7		-
Other		8		6
Total	$	422	$	279

Temporarily restricted net assets of $229 and $91 were released from restrictions during the years ended December 31, 2011 and 2010, respectively, of which $71 and $69 were released from restrictions for scholarships, $113 and $0 were released from Military Adopt-A-Unit, $37 and $0 were released from NJTL/First Serve Chapter Grants, $7 and $1 were released from restrictions for Aces for Kids and $1 and $21 were released from Other.

(IN THOUSANDS)

8. PERMANENTLY RESTRICTED NET ASSETS

Below are the changes in permanently restricted donor net assets by type of investment:

	Years Ended December 31, 2011 and 2010		
	Temporarily Restricted	Permanently Restricted	Total
Permanently restricted donor funds at January 1, 2010	$ 3	$ 299	$ 302
Income	3	-	3
Appropriation of temporarily restricted donor assets for expenditures	(5)	-	(5)
Permanently restricted donor funds at December 31, 2010	1	299	300
Income	8	-	8
Appropriation of temporarily restricted donor assets for expenditures	(2)	-	(2)
Permanently restricted donor funds at December 31, 2011	$ 7	$ 299	$ 306

Permanently restricted net assets are restricted in perpetuity. The income is designated for scholarships. In 2005, the Foundation received a pledge of approximately $299, which was fully funded as of December 31, 2007.

9. UNFUNDED COMMITMENTS

The Foundation issued grant letters in 2011 and 2010 to several organizations whereby the funding is contingent upon the recipient raising matching funding. At December 31, 2011 and 2010, the Foundation had unfunded commitments related to these grants of $221 and $176, respectively.

10. SUBSEQUENT EVENTS

Pursuant to FASB ASC 855, as amended, "Subsequent Events," the Foundation has evaluated subsequent events through May 10, 2012, the date these financial statements were available to be issued. No changes to the financial statements were necessary as a result of the subsequent events evaluation.