TENNESSEE TENNIS ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2017 and 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tennessee Tennis Association, Inc.

We have audited the accompanying financial statements of Tennessee Tennis Association, Inc. (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 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 entity'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 entity'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 Tennessee Tennis Association, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CARR, RIGGS & INGRAM, LLC

Caux Rigge & Ingram, L.L.C.

Nashville, Tennessee July 30, 2018

Tennessee Tennis Association, Inc. Statements of Financial Position

December 31,		2017		2016
ASSETS				
Current assets:				
Cash	\$	127,274	\$	67,534
Accounts receivable	•	25,774	•	6,855
Investments at fair value		640,857		533,021
Total current assets		793,905		607,410
Property and equipment, net		21,161		13,841
Other assets		3,870		18,031
TOTAL ASSETS	\$	818,936	\$	639,282
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	\$	38,863	\$	29,752
Deferred revenue	•	50,213	•	51,631
Total current liabilities		89,076		81,383
NET ASSETS				
Unrestricted net assets		729,860		557,899
TOTAL LIABILITIES AND NET ASSETS	\$	818,936	\$	639,282

Tennessee Tennis Association, Inc. Statements of Activities and Changes in Net Assets

For the Years Ended December 31,	2017	2016
SUPPORT AND REVENUES		
Program and leagues	\$ 600,723	\$ 566,108
Grants	409,411	410,083
Membership dues	86,968	85,336
Other	45,428	50,080
Unrealized gain on investments	72,686	26,323
Dividends	•	,
Dividends	17,714	8,338
TOTAL SUPPORT AND REVENUES	1,232,930	1,146,268
EXPENSES		
Leagues	334,134	358,831
Payroll	414,097	409,655
General and administrative	126,775	119,864
Programs	61,208	64,824
Grants	44,039	68,705
Meetings	48,382	53,265
Training	20,970	26,918
Depreciation	11,364	13,859
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TOTAL EXPENSES	1,060,969	1,115,921
CHANGE IN NET ASSETS	171,961	30,347
NET ASSETS - BEGINNING OF YEAR	557,899	527,552
NET ASSETS - END OF YEAR	\$ 729,860	\$ 557,899

Tennessee Tennis Association, Inc. Statements of Cash Flows

For the Years Ended December 31,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 171,961	\$ 30,347
Adjustments to reconcile change in net assets to		
net cash provided by operating activities		
Depreciation	11,364	13,859
Dividends	(17,714)	(8,338)
Unrealized gain on investments	(72,686)	(26,323)
Loss on disposal of property and equipment	904	-
Net changes in assets and liabilities:		
Accounts receivable	(18,919)	4,749
Other assets	14,161	(1,135)
Accounts payable and accrued expenses	9,111	6,487
Deferred revenue	(1,418)	6,178
NET CASH PROVIDED BY OPERATING ACTIVITIES	96,764	25,824
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, net	(17,435)	(19,020)
Purchase of equipment	(19,589)	(1,363)
NET CASH USED IN INVESTING ACTIVITIES	(37,024)	(20,383)
NET INCREASE IN CASH	59,740	5,441
CASH AT BEGINNING OF YEAR	67,534	62,093
CASH AT END OF YEAR	\$ 127,274	\$ 67,534

NOTE 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Tennessee Tennis Association, Inc. (the "Corporation") is a membership-based state organization of the United States Tennis Association (USTA). The Corporation is one of 9 states in the USTA's southern section. The Corporation is a non-profit 501(c)(4) that is organized under Tennessee law, governed by a Board of Directors and led by an Executive Director and staff. The mission is to promote and develop the growth of tennis in Tennessee. The Corporation's job is to support local community tennis groups and affiliated organizations by helping to start new tennis programs or expand existing ones (for any and all ages and abilities), offering suggestions, and training. The Corporation administers a variety of USTA programs which include adult leagues, junior competition tournaments, training centers, camps, Jr. team tennis leagues and tournaments, and community outreach programs which include special populations tennis, tennis for military families and underserved populations. The Corporation manages an extensive ranking, scheduling and sanction system for adults and junior players. The Corporation serves 13,000 members in Tennessee and Bristol, Virginia. The core staff is based in Nashville, Tennessee with more than 1,000 volunteers statewide.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Tennessee Tennis Association, Inc. have been prepared on the accrual basis of accounting.

Classification of Restricted and Unrestricted Net Assets

The Corporation has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 Financial Statements of Not-For-Profit Entities. FASB ASC 958 establishes standards for general purpose external financial statements provided by not-for-profit organizations. In addition, it requires that the amounts of three classes of assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position, and that the amounts of change in each of these classes of net assets be displayed in a statement of activities. FASB ASC 958 requires the Corporation to report 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. At December 31, 2017 and 2016, the Corporation had no restricted net assets.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For purposes of the statements of cash flows, the Corporation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists of amounts due for membership dues, player head taxes, league fees, and other miscellaneous income. Interest is not normally charged on receivables. Management establishes a reserve for losses on its accounts based on the historic loss experience and current economic conditions. Losses are charged off to the reserve when management deems further collection efforts will not produce additional recoveries. At December 31, 2017 and 2016, no allowance has been established as management believes all amounts are collectible.

Property and Equipment

The Corporation capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment is carried at cost. Donated property and equipment is recorded at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years for furniture and equipment, five years for vehicles and two years for leasehold improvements.

Investments and Income Recognition

Investments at December 31, 2017 and 2016 are recorded at fair value based on quoted market prices in active markets in accordance with FASB ASC 820 and FASB ASC 958. The Corporation's investments represent funds held for future operational or capital needs. Changes in the basis of investments held at the end of the year are reflected in the statement of activities as unrealized gains or losses in the fair value of investments. Realized gains and losses on the sale of investments are recorded based upon the difference between the proceeds and the basis on the investments and are reflected net of unrealized gains and losses in the statement of activities. The basis of the investment is determined by the specific-identification method. Interest income and dividends are recognized when earned.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Corporation recognizes revenues as earned on grants, membership dues, tournament fees and sanction fees. Revenues received for future grants, membership dues, sanction fees and sponsorships are deferred until the applicable year or service period.

Expense Allocation

Expenses that are directly identifiable are charged to program and leagues. Personnel expenses are allocated on the basis of direct salaries. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Corporation.

Tax Status

The Corporation is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. There was no unrelated business taxable income during the years ended December 31, 2017 and 2016.

The Corporation accounts for income taxes under FASB ASC 740, *Income Taxes*. Accounting principles generally accepted in the United States of America require the Corporation to evaluate the tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Corporation has analyzed the tax positions taken, and has concluded that as of December 31, 2017 and 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. The Corporation believes it is no longer subject to income tax examinations for years prior to 2014.

Concentration of Credit Risk

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, are principally investments and accounts receivable. The Corporation places its investments in high credit quality mutual funds. Concentrations of credit risk with respect to accounts receivable is limited due to the number of agencies the Corporation deals with and the credit worthiness of the agencies themselves. To reduce risk, the Corporation routinely assesses the financial strength of the agencies it deals with and, as a consequence, believes that its credit risk in the grant area is limited.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration

The Corporation received approximately 33 and 36 percent of its revenues through grants from the Southern Tennis Association, Inc. in 2017 and 2016, respectively. The future receipt of such funding, however, is indeterminate due to the uncertainty of grant resources in future years. Should this support be discontinued, the Corporation may have to discontinue certain programs.

Subsequent Events

Subsequent events have been evaluated through July 30, 2018, the date the financial statements were available to be issued. No subsequent events were noted that meet the criteria to be recognized or disclosed.

New accounting pronouncement

On February 25, 2016, FASB issued ASU 2016-02, Leases (Topic 842). Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases and is consistent with the lessee accounting model under existing accounting principles generally accepted in the United States of America. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for in the income statement and statement of cash flows in a manner consistent with today's operating leases, but will also recognize a leased asset and liability. Lessor accounting under the new standard is fundamentally consistent with existing accounting principles generally accepted in the United States of America.

Lessees and lessors will be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

For non-public entities, the final lease standard will be effective for fiscal years beginning after December 15, 2019, and interim periods thereafter. Early application is permitted, but the Corporation has not elected for the year ended December 31, 2017.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

December 31,	2017	2016
Furniture and equipment	\$ 38,655	\$ 31,677
Leasehold improvements	-	2,693
Vehicles	48,901	48,901
	87,556	83,271
Less: Accumulated depreciation	66,395	69,430
Net property and equipment	\$ 21,161	\$ 13,841

NOTE 4: INVESTMENTS

Investments consist of the following:

December 31, 2017	Cost	 Fair Value
Mutual funds	\$ 399,728	\$ 640,857
December 31, 2016		
Mutual funds	\$ 382,293	\$ 533,021

Investment income was as follows:

December 31,	2017	2016
Dividends Unrealized gain on investments	\$ 17,714 72,686	\$ 8,338 26,323
	\$ 90,400	\$ 34,661

NOTE 5: FAIR VALUE MEASUREMENTS

The Corporation accounts for financial assets and liabilities and any other assets and liabilities carried at fair value under FASB ASC 820, Fair Value Measurements and Disclosures. FASB ASC 820 which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access at the measurement date.

Level 2 – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2017 or 2016.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are deemed to be actively traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 5: FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth by level, within the fair value hierarchy, the Corporation's investments at fair value as of December 31, 2017 and 2016:

Assets at Fair Value as of December 31, 2017

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 640,857	\$ -	\$ -	\$ 640,857
Investments at fair value	\$ 640,857	\$ -	\$ -	\$ 640,857

Assets at Fair Value as of December 31, 2016

	Level 1	Le	vel 2	Lev	vel 3	Total
Mutual Funds	\$ 533,021	\$	-	\$	-	\$ 533,021
Investments at fair value	\$ 533,021	\$	-	\$	-	\$ 533,021

NOTE 6: OPERATING LEASES

The Corporation leases office space in Nashville, Tennessee, which expires October 2022 with monthly payments ranging from \$3,255 to approximately \$3,593 over the term of the lease. The Corporation also leases various items of office equipment. As of December 31, 2017, the monthly lease expense for this equipment totals \$847.

Future aggregate minimum rental commitments are as follows:

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December 31,	
2018	\$ 46,923
2019	47,903
2020	48,908
2021	46,858
2022	38,752
	\$ 229,344

Total rent expense for office and equipment was approximately \$42,800 and \$36,000 for December 31, 2017 and 2016, respectively.

NOTE 7: RETIREMENT PLAN

The Corporation has a retirement plan for employees who receive a minimum of \$5,000 in compensation. Employees are eligible to participate in the plan after one year of eligible service. Participants are allowed to contribute to the Plan. The Corporation makes up to a 4% contribution, and may also make discretionary contributions. Employer contributions totaled \$7,680 and \$9,661 for December 31, 2017 and 2016, respectively.

NOTE 8: FUNCTIONAL EXPENSES

Generally accepted accounting principles, for not-for-profit organizations, require organizations to report expenses on a functional basis. Functional expenses are allocated as discussed in Note 2. Expenses on a functional basis for the years ended December 31, 2017 and 2016 are as follows:

For the Years Ended December 31,	2017	2016
Programs	\$ 894,377	\$ 946,158
Support services - general and administrative	166,592	169,763
	\$ 1,060,969	\$ 1,115,921