USTA SERVES INCORPORATED

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

BCA WATSON RICE LLP
CERTIFIED PUBLIC ACCOUNTANTS

USTA SERVES INCORPORATED
DECEMBER 31, 2012 AND 2011

TABLE OF CONTENTS

Page No.

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
USTA Serves Incorporated
White Plains, New York

Report on the Financial Statements

We have audited the accompanying financial statements of USTA Serves Incorporated which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, 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.

Auditor's 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 of 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.

INDEPENDENT AUDITOR'S REPORT – CONTINUED

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 USTA Serves Incorporated as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BCA Watson Rice LLP

New York, New York
April 10, 2013

USTA SERVES INCORPORATED
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 1,454	$ 1,742
Investments, at fair value	1,000	654
Accounts receivable, including grants and contributions, net of allowance for doubtful accounts	137	94
Due from affiliate	5	4
Total Current Assets	2,596	2,494
Investments held in perpetuity, at fair value	299	299
Total Assets	$ 2,895	$ 2,793
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 541	$ 547
Current portion of scholarships payable	329	300
Total Current Liabilities	870	847
Long-term scholarships payable, net of discount	345	317
Commitments (Notes 6 and 9)	-	-
Total Liabilities	1,215	1,164
Net Assets		
Unrestricted	772	908
Temporarily restricted	609	422
Permanently restricted	299	299
Total Net Assets	1,680	1,629
Total Liabilities and Net Assets	$ 2,895	$ 2,793

See notes to financial statements.

USTA SERVES INCORPORATED
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(IN THOUSANDS)

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues								
Contributions								
Special events revenue	$ 1,172	$ 30	$ -	$ 1,202	$ 954	$ -	$ -	$ 954
Less: Direct cost to donors	(124)	-	-	(124)	(113)	-	-	(113)
Total Special Events	1,048	30	-	1,078	841	-	-	841
Grants and contributions	559	271	-	830	377	365	-	742
Contributed services	775	-	-	775	654	-	-	654
Net assets released from restrictions (Note 7)	123	(123)	-	-	229	(229)	-	-
Total Operating Revenues	2,505	178	-	2,683	2,101	136	-	2,237
Expenses								
Program Services								
Scholarships	427	-	-	427	398	-	-	398
Grants	1,276	-	-	1,276	920	-	-	920
Other program services	129	-	-	129	189	-	-	189
Contributed program services	212	-	-	212	175	-	-	175
Total Program Expenses	2,044	-	-	2,044	1,682	-	-	1,682
Support Services								
Fundraising:								
Fundraising	66	-	-	66	103	-	-	103
Contributed fundraising services	332	-	-	332	273	-	-	273
Total Fundraising Services	398	-	-	398	376	-	-	376
General and Administrative:								
General and administrative	51	-	-	51	44	-	-	44
Contributed general and administrative services	231	-	-	231	206	-	-	206
Total General and Administrative Services	282	-	-	282	250	-	-	250
Total Support Services	680	-	-	680	626	-	-	626
Total Operating Expenses	2,724	-	-	2,724	2,308	-	-	2,308
Excess of operating expenses over operating revenues	(219)	178	-	(41)	(207)	136	-	(71)
Nonoperating Other Income (Loss)								
Investment income (loss), net (Note 4)	83	9	-	92	(27)	7	-	(20)
Changes in Net Assets	(136)	187	-	51	(234)	143	-	(91)
Net Assets, Beginning of Year	908	422	299	1,629	1,142	279	299	1,720
Net Assets, End of Year	$ 772	$ 609	$ 299	$ 1,680	$ 908	$ 422	$ 299	$ 1,629

See notes to financial statements.

USTA SERVES INCORPORATED
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(IN THOUSANDS)

	2012	2011
Cash Flows from Operating Activities		
Changes in net assets	$ 51	$ (91)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Adjustment of discount on scholarship payable	-	2
Net change in unrealized (gain) or loss	(44)	43
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(43)	136
(Increase) decrease in due from affiliate	(1)	75
(Decrease) increase in accounts payable and accrued liabilities	(6)	110
Increase in scholarships payable	57	43
Net cash provided by operating activities	14	318
Cash Flows from Investing Activities		
Purchase of investments	(786)	(996)
Proceeds from sale of investments	484	943
Net cash used in investing activities	(302)	(53)
(Decrease) increase in cash and cash equivalents	(288)	265
Cash and cash equivalents, beginning of year	1,742	1,477
Cash and cash equivalents, end of year	$ 1,454	$ 1,742

See notes to financial statements.

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) <u>Financial Statement Presentation</u> – 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 assets 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) <u>Use of Estimates</u>

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) <u>Cash and Cash Equivalents</u>

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 one year 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 2012 and 2011, 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.

The Foundation only has Level 1 inputs for which the valuation is 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(i) <u>Permanently Restricted Donor Funds</u> – Continued

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) 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 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.

(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, 2012 and 2011, the value of these services and facilities, totaling $775 and $654, 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, 2012 and 2011, 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.

(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(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, 2012 and 2011, 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."

3. FINANCIAL INSTRUMENTS AND FAIR VALUE

The Foundation's holdings in certificates of deposit and publicly-traded mutual funds consist principally of equity securities and guaranteed income securities carried at their aggregate market value as determined by quoted market prices. Each of the above investments are considered Level 1 inputs given there are quoted active markets with quoted prices and the investments can be liquidated daily.

Below sets forth tables of assets measured at fair value on a recurring basis as of December 31, 2012 and 2011:

Description	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Market for Identical Assets (Level 1)	Fair Value as of December 31, 2012	Cost as of December 31, 2012
Cash and cash equivalents	$ 1,454	$ 1,454	$ 1,454
Certificate of deposit	243	243	243
Investment held in perpetuity carried in publicly-traded mutual funds	299	299	299
Publicly-traded mutual funds	757	757	756
Total	$ 2,753	$ 2,753	$ 2,752
	100%	100%	

(IN THOUSANDS)

3. FINANCIAL INSTRUMENTS AND FAIR VALUE – CONTINUED

Description	Fair Value Measurement at Reporting Date Using Quoted Prices in Active Market for Identical Assets (Level 1)	Fair Value as of December 31, 2011	Cost as of December 31, 2011
Cash and cash equivalents	$ 1,742	$ 1,742	$ 1,742
Certificates of deposit	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%	100%	

4. INVESTMENTS RETURN PRESENTATION

The following schedule summarizes the investment portfolio for the years ended December 31, 2012 and 2011:

Years Ended December 31,	2012	2011
Dividend income	$ 42	$ 12
Interest income	6	11
Change in unrealized loss	44	(43)
	$ 92	$ (20)

(IN THOUSANDS)

4. INVESTMENTS RETURN PRESENTATION – CONTINUED

At December 31, 2012 two mutual funds were in an unrealized loss position of $10 and at December 31, 2011 four mutual funds were in an unrealized loss position of $43. For each year respectively 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.

5. ACCOUNTS RECEIVABLE

At December 31, 2012 and 2011, the Foundation had receivables totaling $142 and $98, respectively, of which $5 and $4, are from USTA. Receivables are expected to be collected within the next year.

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:

2013	$	329
2014		223
2015		124
Total		676
Net present value discount		(2)
Net present value	$	674

(IN THOUSANDS)

7. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2012 and 2011, temporarily restricted net assets are available for the following purposes:

	2012	2011
Scholarships	$ 74	$ 31
Aces for Kids	3	5
Military Initiative	80	48
Judy Levering Leadership Initiative	297	261
NJTL/First Serve	17	8
ICON grants	64	54
Excellence program	35	7
Local Market Grants	30	-
Other	9	8
Total	$ 609	$ 422

At December 31, 2012 and 2011, temporarily restricted net assets were released for the following purposes:

	2012	2011
Scholarships	$ 26	$ 71
Aces for Kids	2	7
Military Initiative	42	113
Judy Levering Leadership Initiative	3	-
NJTL/First Serve	8	37
ICON grants	42	-
Other	-	1
Total	$ 123	$ 229

(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, 2012 and 2011		
	Temporarily Restricted	Permanently Restricted	Total
Permanently restricted donor funds at January 1, 2011	$ 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
Income	9	-	9
Appropriation of temporarily restricted donor assets for expenditures	(7)	-	(7)
Permanently restricted donor funds at December 31, 2012	$ 9	$ 299	$ 308

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 2012 and 2011 to several organizations whereby the funding is contingent upon the recipient raising matching funding. At December 31, 2012 and 2011, the Foundation had unfunded commitments related to these grants of $82 and $221, respectively.

10. SUBSEQUENT EVENTS

Pursuant to FASB ASC 855, as amended, "Subsequent Events," the Foundation has evaluated subsequent events through April 10, 2013, 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.