

# **United States Tennis Association Incorporated and Affiliates**

**Consolidated Financial Statements**  
Years Ended December 31, 2020 and 2019

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Consolidated Financial Statements  
Years Ended December 31, 2020 and 2019

# United States Tennis Association Incorporated and Affiliates

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## **Independent Auditor's Report**

The Board of Directors  
United States Tennis Association Incorporated and Affiliates  
White Plains, New York

### ***Opinion***

We have audited the consolidated financial statements of United States Tennis Association Incorporated and Affiliates (the Organization), which comprise of the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of changes in net assets, activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of United States Tennis Association Incorporated and Affiliates as of December 31, 2020 and 2019 and the changes in their net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits 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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 the Organization's 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 consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's 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.

*BDO USA, LLP*

March 30, 2021

# United States Tennis Association Incorporated and Affiliates

## Consolidated Statements of Financial Position (dollars in thousands)

<i>December 31,</i>	2020	2019
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 116,625	\$ 140,225
Investments (Note 7)	29,451	118,121
Accounts receivable	9,364	9,815
Other current assets	13,255	9,420
<b>Total Current Assets</b>	<b>168,695</b>	<b>277,581</b>
<b>Restricted Cash and Cash Equivalents</b>	<b>6,828</b>	<b>15,755</b>
<b>Debt Service Reserve Escrow</b>	<b>29,106</b>	<b>29,556</b>
<b>Long-Term Investments (Note 7)</b>	<b>28,346</b>	<b>22,576</b>
<b>Property, Building and Equipment, Net (Note 9)</b>	<b>787,110</b>	<b>826,142</b>
<b>Intangible Asset (Note 14)</b>	<b>12,658</b>	<b>12,658</b>
<b>Other Assets</b>	<b>5,052</b>	<b>5,289</b>
<b>Total Assets</b>	<b>\$ 1,037,795</b>	<b>\$ 1,189,557</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 52,921	\$ 66,675
Accrued interest payable	12,023	12,314
Deferred income	60,847	19,354
Current portion of debt payable (Note 11)	18,925	18,311
<b>Total Current Liabilities</b>	<b>144,716</b>	<b>116,654</b>
<b>Debt Payable, less current portion and deferred debt finance costs, net (Notes 11, 12 and 13)</b>	<b>685,863</b>	<b>680,025</b>
<b>Deferred Income, less current portion</b>	<b>19,288</b>	<b>22,750</b>
<b>Deferred Rent (Note 17)</b>	<b>3,151</b>	<b>3,441</b>
<b>Other Liabilities</b>	<b>2,059</b>	<b>2,060</b>
<b>Total Liabilities</b>	<b>855,077</b>	<b>824,930</b>
<b>Commitments and Contingencies</b> (Notes 4, 10, 11, 12, 13 and 17)		
<b>Net Assets (Without Donor Restrictions)</b>		
Net assets of controlling interest:		
General	61,597	242,413
Board-designated	120,000	120,000
Non-controlling interests in consolidated subsidiaries (Note 14)	1,121	2,214
<b>Total Net Assets</b>	<b>182,718</b>	<b>364,627</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,037,795</b>	<b>\$ 1,189,557</b>

*See accompanying notes to consolidated financial statements.*

# United States Tennis Association Incorporated and Affiliates

## Consolidated Statements of Changes in Net Assets (dollars in thousands)

	Without Donor Restrictions				
	Controlling Interest			Non- Controlling Interest	Total
	General	Board- Designated	Total Controlling Interest		
<b>Net Assets, December 31, 2018</b>	\$ 229,992	\$ 120,000	\$ 349,992	\$ 1,973	\$ 351,965
Gain attributable to controlling interest	12,421	-	12,421	-	12,421 <sup>(a)</sup>
Gain attributable to non-controlling interest	-	-	-	351	351 <sup>(a)</sup>
Distributions to non-controlling interest	-	-	-	(110)	(110)
<b>Net Assets, December 31, 2019</b>	242,413	120,000	362,413	2,214	364,627
Gain (loss) attributable to controlling interest	(180,816)	-	(180,816)	-	(180,816) <sup>(b)</sup>
Gain (loss) attributable to non-controlling interest	-	-	-	(970)	(970) <sup>(b)</sup>
Distributions to non-controlling interest	-	-	-	(123)	(123)
<b>Net Assets, December 31, 2020</b>	\$ 61,597	\$ 120,000	\$ 181,597	\$ 1,121	\$ 182,718

<sup>(a)</sup> Portion of \$12,772, representing consolidated net income.

<sup>(b)</sup> Portion of \$(181,786), representing consolidated net income.

*See accompanying notes to consolidated financial statements.*

# United States Tennis Association Incorporated and Affiliates

## Consolidated Statements of Activities (dollars in thousands)

<i>Year ended December 31,</i>	2020	2019
	(Without Donor Restrictions)	
<b>Operating Revenues</b>		
U.S. Open	\$ 181,210	\$ 399,601
USA team events	1,495	2,511
Tour events (Note 14)	10,273	35,674
Membership	17,182	18,964
NTC tennis facility programs, other than U.S. Open	2,305	6,615
Community tennis leagues and tournaments, including National Campus (inclusive of state incentives)	5,065	11,936
Investment return allocated to operations (Note 8)	7,400	7,400
Other	945	2,266
<b>Total Operating Revenues</b>	<b>225,875</b>	<b>484,967</b>
<b>Operating Expenses</b>		
Program services:		
U.S. Open:		
Direct expenses	123,109	165,754
Depreciation, pledge and debt interest expense	70,245	76,558
USA team events	3,248	4,203
Tour events, including depreciation (Note 14)	25,748	30,668
Membership	7,963	9,572
NTC tennis facility programs, including depreciation and debt interest	10,931	12,576
Community tennis including National Campus and depreciation:	96,772	110,808
Player development	15,093	22,136
Competitive Pathway and officials	5,819	9,666
Marketing, digital and other program services	23,714	25,458
<b>Total Program Services</b>	<b>382,642</b>	<b>467,399</b>
Administrative and supporting services, including depreciation and taxes	24,753	26,787
<b>Total Operating Expenses</b>	<b>407,395</b>	<b>494,186</b>
<b>Deficit of Operating Revenues Over Operating Expenses</b>	<b>(181,520)</b>	<b>(9,219)</b>
<b>Nonoperating Other Income and Deductions</b>		
Investment return, net of amounts allocated to operations (Note 8)	22	15,875
Net gain on sale of tennis investments (Note 14)	-	5,941
Equity in gain (loss) of unconsolidated investees (Note 14)	(288)	175
<b>Total Nonoperating Other Income and Deductions</b>	<b>(266)</b>	<b>21,991</b>
<b>Excess (Deficit) of Revenues Over Expenses</b>	<b>\$ (181,786)</b>	<b>\$ 12,772</b>

*See accompanying notes to consolidated financial statements.*



# United States Tennis Association Incorporated and Affiliates

## Consolidated Statements of Cash Flows (dollars in thousands)

<i>Year ended December 31,</i>	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities</b>		
(Deficit) Excess of revenues over expenses	\$ (181,786)	\$ 12,772
Adjustments to reconcile (deficit) excess of revenues over expenses to net cash (used in) provided by operating activities:		
Depreciation and amortization of leasehold improvements (Note 9)	62,345	68,492
Amortization of deferred issuance costs (Notes 11, 12, and 13)	748	516
Gain on sale of securities, net (Note 8)	(17,424)	(4,066)
Unrealized loss (gain) on investments, net (Note 8)	10,568	(14,442)
Net gain on sale of investment in tennis tournaments (Note 14)	-	(5,941)
Undistributed equity in loss (gain) of investees, net (Note 14)	288	(175)
Loss on disposal of property, building and equipment (Note 9)	62	66
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,548)	1,259
Increase in other assets	(3,886)	(1,975)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(12,410)	5,883
Increase (decrease) in deferred income	37,743	(883)
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(105,300)</b>	<b>61,506</b>
<b>Cash Flows from Investing Activities</b>		
Property, building and equipment, net	(25,013)	(53,223)
Decrease (increase) in debt service reserve escrow	449	(866)
Proceeds from sale of tennis investment (Note 14)	2,000	3,327
Purchase of investments	(7,019)	(18,965)
Proceeds from sales of investments	96,776	27,825
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>67,193</b>	<b>(41,902)</b>
<b>Cash Flows from Financing Activities</b>		
Borrowings on 2020 credit facility, net of issuance costs (Note 12)	24,014	-
Scheduled payment of debt payable	(16,678)	(16,086)
2017 term loan facility payment of debt payable	(1,633)	(1,633)
Distribution to non-controlling interest (Note 13)	(123)	(110)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>5,580</b>	<b>(17,829)</b>
<b>Net (Decrease) Increase in Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents</b>	<b>(32,527)</b>	<b>1,775</b>
<b>Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents, beginning of year</b>	<b>155,980</b>	<b>154,205</b>
<b>Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents, end of year</b>	<b>\$ 123,453</b>	<b>\$ 155,980</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the year for:		
Interest	\$ 27,116	\$ 27,242
Taxes	157	60
<b>Supplemental Disclosures of Noncash Financing and Investing Activities</b>		
Property, building and equipment purchased through accounts payable/accrued expenses and other liabilities	\$ 16,881	\$ 18,518

See accompanying notes to consolidated financial statements.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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### 1. Organization

#### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of United States Tennis Association Incorporated (USTA), USTA National Tennis Center Incorporated (NTC), USTA Player Development Incorporated (PD), Cincinnati Tennis, LLC (Cincy) and U.S. Open Series, LLC (USOS). Together, such companies are hereafter collectively referred to as the "Organization." All significant due to/due from accounts and transactions between such companies have been eliminated in consolidation.

#### *Basis of Presentation*

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP). Management of the Organization makes estimates and judgments in preparing the consolidated financial statements in accordance with such accounting principles. Those estimates and judgments affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The significant estimates used by management include the useful lives of depreciable fixed assets, allowances for doubtful accounts receivable, the valuation of both alternative investments and intangible asset and certain accrued liabilities, including deferred income. Actual results may vary from the reported results.

#### *Operations*

USTA is a New York State not-for-profit membership organization whose purpose is to:

- Promote the development and growth of tennis as a means of healthful recreation and physical fitness
- Sponsor and operate the United States Open Tennis Championship (U.S. Open), the pre-eminent international tennis competition in the United States, open to male and female professional and amateur tennis players
- Establish and maintain rules of play and high standards of conduct and good sportsmanship
- Foster national and international tennis tournaments and competitions
- Encourage, sanction and conduct tennis tournaments and competitions open to athletes without regard to gender, race, creed, color, or national origin and under the best conditions possible so as to effectively promote the game of tennis with the general public
- Generally encourage through tennis the development of health, character, and responsible citizenship

USTA is the recognized national governing body in the sport of tennis and is a member of the U.S. Olympic Committee.

USTA is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code (the Code).

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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USTA is the sole member of NTC, an organization exempt from federal income tax under Section 501(c)(3) of the Code. Both organizations have identical Boards of Directors. NTC is a New York State not-for-profit corporation organized by USTA, whose purpose is to:

- Operate the USTA Billie Jean King National Tennis Center (NTC Facility), which is a complex of four tennis stadia (Arthur Ashe, Louis Armstrong, Grandstand and Court 17) as well as indoor and outdoor courts. These facilities and the land on which they are situated are leased from the City of New York.
- Provide a venue for the holding of the U.S. Open.
- Foster national and international sports competitions.
- Establish, administer and promote programs devoted to the development of tennis as a means of healthful recreation and physical fitness.
- Conduct special events in accordance with the terms of the ground lease with the City of New York, such as arts, theatrical, community and live athletic events at the NTC Facility. The NTC Facility, therefore, not only houses the NTC's current year-round tennis programs, but also is available for additional tennis activities conducted by other organizations, as well as public recreational events, ethnic and community festivals, scholastic athletic events and other public spectator events.

USTA is also the sole member of PD, an organization exempt from federal income tax under Section 501(c)(3) of the Code. Both organizations have identical Boards of Directors. PD is a New York State not-for-profit corporation organized by USTA whose purpose is to:

- Educate and train young people in the sport of tennis through a clearly defined structure and competitive pathway, as well as through the implementation of a comprehensive coaching philosophy.
- Provide services to young tennis players, including assistance with evaluating college tennis; supporting and promoting junior tennis competition; evaluating and disseminating sports science and sports medicine information; and identifying and tracking young tennis talent through competitions and coaches and offering coaching and training support through invitations to player-development camps.
- Provide assistance to individuals through the making of grants to support the charitable programs that PD conducts.

USOS was organized by USTA to operate and manage television and marketing initiatives for a series of professional tennis tournaments known as the U.S. Open Series. USOS has contributed to increased viewership and visibility, helping grow the sport of tennis in the United States. USOS was organized in Delaware, pursuant to that state's Limited Liability Act. Taxable income and related taxes, if any, are the responsibility of its sole member, USTA.

Cincy was organized to operate the Western and Southern Financial Group Masters tournaments (Masters Tournament). In March 2009, Cincy acquired TCI Ventures, LLC to obtain the ATP Tour, Inc. (ATP) World Tour Sanction (Sanction) for the Masters Tournament. Cincy leases the women's sanction from Octagon, Inc. For 2020 and 2019, USTA's ownership interest was 93.8%. The remaining interest is owned by former members of TCI Ventures, LLC and by Octagon, Inc., and is reported as a non-controlling interest in the accompanying consolidated financial statements. Taxable income and related taxes of Cincy, if any, are the responsibility of each of its members.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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### 2. Impact of COVID-19

On June 17, 2020, the Organization announced both the U.S. Open and Masters Tournament will be held at the NTC Facility without fans as a result of the COVID-19 pandemic. As part of the decision, the Organization unveiled a comprehensive health and safety plan that was approved by New York State government officials. The comprehensive plan was created by USTA's U.S. Open team, with input from the ATP and Women's Tennis Association (WTA), and in conjunction with the USTA Medical Advisory Group, other medical experts and noted security officials to ensure the health and safety of all individuals involved with both tournaments. As a result of the Organization holding both tournaments without fans, there was materially less revenues across several areas including ticket, suite, hospitality, concession and other related tournament revenues.

To address the decline in operating cash flows caused by the COVID-19 pandemic, the Organization instituted the following measures:

- Effective July 17, 2020, the Organization entered a revolving credit facility with a large nationally recognized bank in the amount of \$150,000 (Note 12). During the calendar year ended December 31, 2020, the Organization has drawn down \$25,000 to meet operating cash needs.
- As a result of the COVID-19 pandemic, the lease with the City of New York (Note 17) was amended so NTC was only required to pay the base rent of \$440 as opposed to paying the base rent plus 1% of US Open revenues in excess of \$20,000.
- The Organization liquidated a portion of the Organization's investment portfolio, approximately \$85,000 of their investment portfolio, all of which remains in cash and cash equivalents.
- Other cost cutting measures occurred throughout the Organization including over a 20% staff reduction, temporary compensation reductions for senior management throughout the Organization, reduction in travel and discretionary expenses, and overall expense management that resulted in savings in 2020 and will result in savings for the foreseeable future.

The Organization believes that it has sufficient liquidity, including \$116,625 in cash and cash equivalents as of December 31, 2020, along with available borrowing capacity under its existing revolving credit facility, to fund its operations and satisfy any obligations with respect to the return or application of deferred revenue over the next 12 months. At this time management is unable to predict when the Organization will be able to resume normal business operations and if both the US Open and Masters Tournament will be held in 2021 with fans. The Organization's business is also particularly sensitive to discretionary business and consumer spending. COVID-19 could impede economic activity in impacted regions or globally over the long-term, causing a global recession and leading to a further decline in discretionary spending on sporting events and other leisure activities, including declines in domestic and international tourism, which could result in long-term effects on the Organization's business.

On March 27, 2020, Congress enacted into law the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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tax depreciation methods for qualified improvement property. The CARES Act also apportioned funds for the Small Business Administration (SBA) Payroll Protection Program (PPP) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by the COVID-19 pandemic. Management continues to examine the impact the CARES Act may have on its business. To date the CARES Act has not had a material impact on the financial condition, results of operations and liquidity.

On December 27, 2020, Congress enacted the Consolidated Appropriations Act, 2021 (the Act), which includes \$900 billion in stimulus relief as a result of COVID-19. The Organization is currently evaluating the impact of the Act.

### 3. Summary of Significant Accounting Policies

#### *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 classes of net assets—with donor restrictions and without donor restrictions—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

*With Donor Restrictions* - This class consists of net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization, pursuant to those stipulations. When such stipulations end or are fulfilled, such donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities. Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or removed by actions of the Organization are classified as net assets with donor restrictions-perpetual in nature.

*Without Donor Restrictions* - This class consists of the part of net assets that is not restricted by donor-imposed stipulations.

The Board of Directors designates a portion of general net assets without donor restrictions for specific purposes. Funds designated by the Board of Directors for ongoing operations of \$120,000 were to fund a portion of the Organization's following year's operating expenses, fund the following year's debt service, allow for market fluctuations in the long-term investment portfolio, and provide grants to independent regional associations for one year in the event that the U.S. Open fails to provide adequate funds to meet those needs in any given year.

#### *Cash and Cash Equivalents*

The Organization considers investments with financial institutions and securities brokers, with maturities of less than 90 days when purchased, to be cash equivalents. At various times during the year, the Organization may have deposits at financial institutions that exceed federally insured

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## Notes to Consolidated Financial Statements (dollars in thousands)

limits. These financial institutions have strong credit ratings and management believes credit risks related to these deposits are minimal.

NTC has restricted cash and cash equivalents on deposit with two major financial institutions. As of December 31, 2020 and 2019, the amounts on deposit with such institutions included temporarily invested Private Placement Financing proceeds discussed in Note 11 of \$6,828 and \$15,755, respectively, dedicated to financing the NTC Improvements discussed in Note 9.

<i>December 31,</i>		2020		2019
Cash and cash equivalents	\$	116,625	\$	140,225
Restricted cash and cash equivalents		6,828		15,755
<b>Total</b>	<b>\$</b>	<b>123,453</b>	<b>\$</b>	<b>155,980</b>

### ***Debt Service Reserve Escrow***

As of December 31, 2020 and 2019, NTC had restricted cash and securities on deposit with a major financial institution, one of which acts as a trustee for the noteholders as identified in Note 11. As of December 31, 2020 and 2019, the amounts on deposit with the institution included a six-month debt service reserve of \$29,106 and \$29,556, respectively.

### ***Fair Value Measurements***

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, 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 those that market participants operating within the same marketplace as the Organization would use in pricing the Organization'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 Organization are traded. The Organization estimates the price of any assets for which there are only unobservable inputs by using assumptions that other market participants that have investments in the same or similar assets would use, as determined by the money managers administering each investment based on the 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 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.

*Level 2* - Valuation is 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. The fair value of such investments 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 is based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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### ***Contract Assets***

Amounts related to services provided to customers that have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances typically consist of services provided to customers who are still receiving services at the end of the year.

### ***Property, Building and Equipment***

Property, building and equipment are reported at historical cost. The Organization depreciates property, building and equipment using the straight-line method (half-year convention in the year of acquisition or placement into service) over the estimated useful lives of the assets. USTA follows a policy of capitalizing all fixed-asset acquisitions in excess of \$2,000 and with an estimated useful life of one year or more.

The estimated useful lives of the assets are as follows:

	Life (Years)
Building and improvements	10-30
Furniture and fixtures	5-10
Machinery and equipment	5-15
Computer hardware and software	3-5

Leasehold improvements are amortized over the term of the lease or the life of the improvement, whichever is less. Additions and betterments are capitalized, and repairs and maintenance are charged to operations in the period incurred.

Costs incurred during the preliminary project stage of computer software developed for internal use are expensed as incurred and computer software costs incurred during the application development stage are capitalized. Amortization commences once the software is ready for its intended use and is placed in service. The capitalized costs are amortized over their estimated useful life, generally three to five years.

### ***Deferred Debt Finance Costs***

Deferred debt finance costs are primarily amortized over the life of each respective financing using the effective interest rate method and presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts.

### ***Contract Liabilities***

Contract liabilities consist of payments made by customers for goods and services not yet performed or delivered and are expected to be performed or delivered within the next fiscal year.

### ***Concentrations***

The Organization generated slightly more than 79% and 82% of its operating revenues in 2020 and 2019, respectively, excluding barter received, from the US Open. These revenues arise from various sources, including broadcast rights, ticket sales, sponsorships and licensing.

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## Notes to Consolidated Financial Statements (dollars in thousands)

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### ***Contribution Revenue***

Contributions are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified within other revenues as with or without donor restrictions.

### ***Rental Income***

Rental income is recognized based on the lease agreements. Leases are reflected on the straight-line basis. Accrued rental income is accrued when material.

### ***Gross Versus Net Revenue Recognition***

In the normal course of business, the Organization acts as an intermediary or agent in executing certain transactions with third parties. Such transactions are recorded on a “gross” or “net” basis depending on whether the Organization is acting as the “principal” in a transaction or acting as an “agent” in the transaction. The Organization serves as the principal in transactions in which it has substantial risks and rewards of ownership and, accordingly, records revenue on a gross basis. For those transactions in which the Organization does not have substantial risks and rewards of ownership, the Organization is considered an agent in the transaction and, accordingly, records revenue on a net basis. To the extent that revenues are reported on a gross basis, any commissions or other payments to third parties are reported separately as expenses so that the net amount (gross revenues less expenses) is reflected in changes in net assets.

Accordingly, the impact on changes in net assets is the same whether the Organization records revenue on a gross or net basis.

### ***Methods Used for Allocation of Expenses***

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, facility expenses, telephone expenses, health and benefit and general third-party processing expenses, and the information technology department. Depreciation and amortization, facility expenses, and telephone expenses are allocated based on square footage, health and benefits and general third-party service providers are allocated based on headcount, and the information technology department is allocated based on estimates of time and costs to support specific areas.

### ***Investment Return***

Income from investment gains and losses, including unrealized gains and losses, dividends and interest, are reported as increases (or decreases) in net assets without donor restrictions, unless the use of the income received is limited by donor-imposed restrictions.

### ***Income Taxes***

USTA, NTC and PD are not-for-profit organizations that are exempt from income taxes under the Code, except for immaterial amounts of income considered by the Internal Revenue Service (IRS) to be unrelated business taxable income, for which income taxes have been provided. USOS is a single-member LLC for which USTA is the single member. USOS is considered to be a disregarded entity



# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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and is not recognized for tax purposes as a separate entity separate from USTA. As such, its income and expenses are reported as part of USTA's annual filings. The Organization has filed all applicable returns when required. USTA's share of income taxes for Cincy has been provided, pursuant to the operating agreement with the other members of these organizations. For the years ended December 31, 2020 and 2019, there were no interest or penalties required to be recorded or disclosed in the consolidated financial statements. In addition, the Organization has not taken an unsubstantiated tax position that would require provision of a liability. The Organization is subject to routine audits by taxing authorities. As of December 31, 2020, there were no examinations in progress.

### ***Advertising Costs***

The Organization expenses advertising costs as they are incurred. The Organization recognized advertising expense of \$5,284 and \$11,304 for the years ended December 31, 2020 and 2019, respectively, in the accompanying consolidated statements of activities. These are advertising expenses for the U.S. Open, U.S. Open Series, Western and Southern Financial Group Masters tournaments and community tennis programs.

In addition to the above, the Organization received barter advertising with an estimated fair market value to USTA of \$5,425 and \$7,030 for the years ended December 31, 2020 and 2019, respectively. Such amounts are included in various operating revenue and operating expense lines in the consolidated statements of activities.

### ***Contributed Services***

The Board of Directors and many other volunteers have contributed services involving significant amounts of time to the Organization. These contributed services are not reflected in the consolidated financial statements, as such services do not meet the requirements for recognition.

### ***Indefinite Lived Intangible Assets***

The indefinite lived intangible assets of the Organization are tested annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the indefinite lived intangible asset with its carrying amount. If the carrying amount of the indefinite lived intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. There were no impairment losses recognized in 2020 and 2019.

### ***Non-Controlling Interest***

The Organization reports non-controlling interests, sometimes referred to as minority interests, as part of total net assets in the consolidated statements of financial position. Furthermore, the Organization reports the changes in net assets of both the controlling and non-controlling interests, for all periods presented, in the consolidated statements of changes in net assets.

### ***Reclassifications***

Certain prior-year amounts have been reclassified to conform to the current-year presentation. The impact of these reclassifications was not material to the Organization's consolidated financial statements.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

### *Recently Issued Accounting Pronouncements*

#### *Accounting for Leases*

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2020-05 deferred the effective date for this new standard for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. Management is currently evaluating the impact of the adoption of the new standard on the consolidated financial statements.

### **4. Liquidity and Availability of Resources**

The Organization's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

<i>December 31,</i>		2020		2019
Cash and cash equivalents	\$	116,625	\$	140,225
Investments		29,451		118,121
Accounts receivable, net		9,364		9,815
<b>Resources Available for General Expenditures</b>	<b>\$</b>	<b>155,440</b>	<b>\$</b>	<b>268,161</b>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments. Investments, further discussed in Note 7, include foreign and domestic common stock, publicly traded mutual funds, common collective trusts and alternative investments, all of which can be liquidated within 12 months. To help manage unanticipated liquidity needs, the Organization has issued a \$150,000 credit facility (Note 12), which it could draw upon. As of December 31, 2020, \$125,000 of the revolving credit facility remained unused and could be drawn down.

### **5. Revenue Recognition**

The Organization adopted ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606), on January 1, 2019. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

The Organization recognizes revenue when control of the promised goods or services are transferred to outside parties in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those goods or services. ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Organization has identified tickets, broadcasting rights, corporate sponsorships, corporate hospitality and service revenues, USTA membership, tennis programs, and other contracted revenues as revenue categories subject to the adoption of ASC 606.

The results of ASC 606 did not have a material impact on the consolidated financial position, changes in net assets, cash flows, business processes, controls or systems of the Organization.

### *Transactions with Multiple Elements*

The Organization has entered into certain revenue transactions, such as the licensing of broadcasting rights, corporate sponsorship transactions, corporate hospitality and services and the sale of memberships that involve the delivery of multiple elements to the buyer. In accounting for these transactions, the Organization must evaluate whether there is objective evidence of fair value for each individual element delivered and, if so, account for each element of the transaction separately, based on relevant revenue recognition accounting policies. An allocation of revenue is made to all elements for which fair value is determinable. The balance of consideration received for which the fair value is not determinable is allocated to the remaining elements.

Revenues with customers is comprised of:

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
Ticket revenues	\$ 755	\$ 161,255
Broadcast revenues	138,392	140,021
Sponsorship revenues	53,078	98,604
Corporate hospitality and service revenues	1,387	42,435
Membership revenues	17,182	18,964
Tennis programs	3,968	7,899
Other contracted	1,439	6,354
<b>Total Revenue from Contracts Subject to ASC 606</b>	<b>216,201</b>	<b>475,532</b>
<b>Total Other Revenues Not Subject to ASC 606<sup>(1)</sup></b>	<b>9,674</b>	<b>9,435</b>
<b>Total Operating Revenues</b>	<b>\$ 225,875</b>	<b>\$ 484,967</b>

<sup>(1)</sup> Other revenues not subject to ASC606 include Investment Return Allocated to Operations, rental income, contributions and state incentives related to a relocation to Florida.

### *Ticket Revenues*

2020 Ticket revenues are principally from other events (e.g. Davis Cup, Billie Jean King Cup, etc.) that occurred prior to the COVID-19 outbreak. 2019 Ticket revenues are principally sourced from the U.S. Open and the Masters Tournament. Ticket revenues, net of admissions taxes, amounted to \$755 and \$161,255 for the years ended December 31, 2020 and 2019, respectively. Sales of tickets to attend both the U.S. Open and Masters Tournament are derived from a wide range of individuals

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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and corporations prior to and at the events. Ticket revenues are deferred until the point in time in which the tournaments occur.

### ***Broadcasting Revenues***

Broadcasting revenues are predominately earned through more than ten exclusive television rights agreements with domestic and international broadcasters who provide consideration predominately in the form of cash and, in certain cases, value in kind in exchange for which the material contracts extend through December 2025. The aggregate gross revenues derived from cash consideration for such agreements for the years ended December 31, 2020 and 2019 were \$132,967 and \$134,537, respectively. In addition, the estimated value of broadcasting barter revenue received for the years ended December 31, 2020 and 2019 were \$5,425 and \$7,030, respectively. Such agreements are subject to termination and renewal clauses. Pursuant to the Organization's policy of accounting for transactions with multiple elements described elsewhere herein, a portion of the aggregate gross revenues derived from television rights agreements specified above has been allocated to ticket revenue. Accordingly, for financial reporting and disclosure purposes \$1,546 in 2019 of the aggregate broadcasting revenues specified above have, instead, been included in the amounts reported under the caption "Ticket Revenues" elsewhere in this Note 5. In total for the years ended December 31, 2020 and 2019, cash consideration and barter offset by amounts reported under ticket revenues result in net broadcasting revenues of \$138,392 and \$140,021, respectively.

The Organization's performance obligations consist of the conduct of the U.S. Open and Masters Tournament to enable the production of a broadcast. The terms of broadcasting arrangements are such that rights are assigned to individual events that occur annually and are satisfied at the point in time when the respective event to which they pertain occurs. Accordingly, the Organization does not have any unsatisfied performance obligations as of year-end. The Organization characterizes the intellectual property (IP) associated with the tournaments as functional IP and recognizes the revenue associated with the licensing of these rights at the point in time the tournaments occur.

### ***Sponsorship Revenues***

Sponsorship revenues involve various forms of sponsorship for the U.S. Open, Masters Tournament, US Open Series, Davis/Fed Cups and USTA National Campus. Sponsorship revenues are derived from over 35 sponsorship agreements with counterparties who provide consideration predominately in the form of cash and, in certain cases, value in kind in exchange for acknowledgement, marketing rights, customer activations and advertising. Most of these sponsorships are multi-year contracts extending through December 31, 2021. The gross aggregate revenues derived from cash consideration from such agreements for the years ended December 31, 2020 and 2019 were \$50,383 and \$110,849, respectively. In addition, the estimated value of sponsorship barter revenue received for the years ended December 31, 2020 and 2019 were \$2,695 and \$5,546 respectively. Such agreements are subject to termination and renewal clauses. Pursuant to the Organization's policy of accounting for transactions with multiple elements described elsewhere herein, a portion of the aggregate gross revenues derived from sponsorship agreements specified above has been allocated to ticket revenue. Accordingly, for financial reporting and disclosure purposes \$17,791 in 2019 of the aggregate sponsorship revenues specified above have, instead, been included in the amounts reported under the caption "Ticket Revenues" and "Corporate Hospitality and Services Revenues" elsewhere in this Note 5. Revenues are recognized when the event is conducted. In total for the years ended December 31, 2020 and 2019, cash consideration and barter offset by amounts reported under ticket revenues and corporate hospitality and service revenues result in net sponsorship revenues of \$53,078 and \$98,604, respectively.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

Contracts with corporate sponsors cover multi-year periods with the amount of consideration attributable to each period indicated in the contract. Each year's performance obligations relate to the unique events and activation plan for a given year. The Organization's performance obligations are satisfied at a point in time and the contractual consideration for a given year is recognized once those performance obligations are fulfilled.

### *Corporate Hospitality and Services Revenues*

The Organization generates certain revenues predominately associated with the conduct of tournaments. These revenues consist of sales for corporate hospitality, licensing agreements for food and beverage and merchandising sold on-site at the tournaments, royalties associated with the manufacture and sales of merchandise bearing tournaments marks and other miscellaneous revenues.

Disaggregated corporate hospitality and service revenues are as follows:

<i>December 31,</i>		<b>2020</b>		<b>2019</b>
Hospitality sales	\$	-	\$	19,002
Licensing food and beverage		26		14,599
Licensing merchandise		335		7,609
Royalties		1,026		1,225
<b>Total Corporate Hospitality and Service Revenues</b>	<b>\$</b>	<b>1,387</b>	<b>\$</b>	<b>42,435</b>

2020 hospitality revenues are principally from other events (e.g. Davis Cup, Billie Jean King Cup, etc.) that occurred prior to the COVID-19 outbreak. 2019 Sales of corporate hospitality are sold predominately in fiscal periods prior to the tournaments. All such revenues are deferred until the point in time the tournaments occur. Licensing for food and beverage and merchandise sales includes minimum guarantees and is recognized at a point in time when the tournaments occur. Royalties are recognized in the period the manufacture or sale of the item giving rise to the royalty occurs.

### *USTA Memberships' Revenue*

USTA's membership revenue is considered refundable exchange transactions from clubs and individuals signing up for a membership. Each year, performance obligations include allowing members access to participate in USTA Leagues Tennis Programs and USTA Tournaments, providing USTA tennis publications and enabling USTA members to take advantage of various discount promotions. The gross aggregate revenues from membership for the years ended December 31, 2020 and 2019 were \$17,182 and \$18,964, respectively. The Organization accounts for the performance obligations of the multiple elements under membership revenue in the consolidated statements of activities and recognizes the sale of memberships over time based on the duration of the membership. USTA memberships are refundable on a pro-rata basis based on the duration remaining on the membership. At December 31, 2020 and 2019, USTA has determined the estimate of refunds are not material to financial statements.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

### *Tennis Program Revenue*

Tennis program revenue includes on court tennis programs, tennis court rentals and registration fees. The performance obligation for tennis program revenues is recognized when the service or deliverable is provided to the customer.

Service revenues by type is as follows:

<i>December 31,</i>	<b>2020</b>		<b>2019</b>	
Tennis programs	\$	2,472	\$	4,331
Tennis court rentals		638		912
Registration fees		858		2,656
<b>Total Tennis Program Revenues</b>	<b>\$</b>	<b>3,968</b>	<b>\$</b>	<b>7,899</b>

### *Other Contracted Revenues*

Other revenues are predominately from NTC facility license fee for hosting special events, revenue in Team Events for USTA's participation in the Davis and Fed Cup, parking revenue from tournaments and various other contracted revenues. These revenues are recognized in the period the respective transaction occurs. There are no performance obligations beyond those satisfied at the point in time the event occurs. All of these revenues relate to the current fiscal period and there are no deferred revenues associated with the transactions classified as other revenues.

Receivables and contract balances from contracts with customers are as follows:

	Receivables		Contract Assets		Contract Liabilities	
	2020	2019	2020	2019	2020	2019
Beginning of year	\$ 7,136	\$ 7,848	\$ -	\$ -	\$ 33,495	\$ 33,834
End of year	8,719	7,136	-	-	71,851	33,495

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# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

### 6. Analysis of Expenses by Function and Nature

Below is an analysis of expenses by function and nature:

#### *December 31, 2020*

	Program Services	Administration and Other Costs	Total
Player compensation	\$ 61,799	\$ -	\$ 61,799
Grants	56,456	51	56,507
Depreciation, amortization and related write-off of property, building and equipment	59,371	3,784	63,155
Payment of bond interest	26,559	-	26,559
Compensation	49,888	12,398	62,286
Compensation seasonal	2,476	-	2,476
401k Match and discretionary contribution	1,070	249	1,319
Payroll taxes	3,726	729	4,455
Other employee benefits	6,315	1,425	7,740
Professional services	26,026	2,233	28,259
Occupancy and office expense	9,799	1,141	10,940
Advertising/printing and publications	8,551	54	8,605
Insurance	3,055	1,844	4,899
Barter	7,622	58	7,680
Event production and all other expenses	59,929	787	60,716
<b>Total Functional Expenses</b>	<b>\$ 382,642</b>	<b>\$ 24,753</b>	<b>\$ 407,395</b>

#### *December 31, 2019*

	Program Services	Administration and Other Costs	Total
Player compensation	\$ 68,126	\$ -	\$ 68,126
Grants	57,658	-	57,658
Depreciation, amortization and related write-off of property, building and equipment	66,101	2,973	69,074
Payment of bond interest	26,730	-	26,730
Compensation	52,701	13,052	65,753
Compensation seasonal	6,002	-	6,002
401k Match and discretionary contribution	2,262	488	2,750
Payroll taxes	4,256	688	4,944
Other employee benefits	5,765	1,254	7,019
Professional services	30,067	2,182	32,249
Occupancy and office expense	18,857	1,155	20,012
Advertising/printing and publications	14,834	61	14,895
Insurance	3,512	2,218	5,730
Barter	12,138	-	12,138
Event production and all other expenses	98,390	2,716	101,106
<b>Total Functional Expenses</b>	<b>\$ 467,399</b>	<b>\$ 26,787</b>	<b>\$ 494,186</b>

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

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### 7. Financial Instruments and Fair Value

The Organization's holdings in publicly traded stocks and publicly traded mutual funds consist principally of debt and equity securities carried at their aggregate market value, as determined by quoted market prices. The valuation of such investments is based on Level 1 inputs within the hierarchy used in measuring fair value.

Interests in common/collective trusts and private mutual funds are carried at the stated unit values provided by the investment managers of the funds. Each of these investment managers provides observable detailed information about the underlying securities, all of which are publicly traded securities (equities, treasuries and bonds) and can be liquidated daily or monthly, depending on the investment. Given the fact that these common/collective trusts and private mutual funds do not have quoted market prices and/or are not actively traded, they are valued at net asset value (NAV) and are not classified within the fair value hierarchy.

Alternative investments are those made in limited partnerships, offshore limited liability companies and private equity concerns, and are reported at fair value as estimated by the general partners. These investments, which are valued at NAV, have not been classified in the fair value hierarchy. Given the absence of market quotations, their fair value is estimated using information provided to the Organization by the investment managers or general partners. The values are based on estimates that require varying degrees of judgment and, for fund of funds investments, are primarily based on financial data supplied by the investment managers of the underlying funds. Individual investment holdings within the alternative investments may include investments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly traded securities, and other investment vehicles. The investments may indirectly expose the Organization to the effects of securities lending, short sales of securities, and trading in futures and forward contracts, options, swap contracts, and other derivative products. While these financial instruments entail varying degrees of risk, the Organization's exposure with respect to each such investment is limited to its carrying amount (fair value, as described above) in each investment plus the Organization's commitment to provide additional funding, as described in the following paragraph. The financial statements of the investees are audited annually by nationally recognized firms of independent auditors. USTA does not directly invest in the underlying securities of the investment funds and, due to restrictions on transferability and timing of withdrawals from the limited partnerships, the amounts ultimately realized upon liquidation could differ from reported values that are based on current conditions.

Certain alternative investments, which include private equity investments, have rolling lockups ranging from one to three years. In addition, for the period ending December 31, 2020 and 2019, the carrying values of private equity investments do not include future funding commitments of \$11,836 and \$16,526, respectively, to be paid by USTA as future investment opportunities become available. Each of these private equity investments is reported within "long-term investments" in the noncurrent assets section of the consolidated statements of financial position.



# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

The following table identifies assets measured at fair value and NAV on a recurring basis:

<i>December 31,</i>	2020	2019
Level 1:		
Cash and cash equivalents	\$ 116,625	\$ 140,225
Foreign and domestic common stock	-	15,967
Publicly traded mutual funds:		
Natural resources	-	1,749
International equities	355	6,085
Fixed-income instruments	-	11,117
Restricted cash and cash equivalents:		
Cash	4,555	3,340
Corporate and government fixed-income securities	2,273	12,415
Debt service reserve escrow:		
Cash	8,211	164
Corporate and government fixed-income securities	20,895	29,392
	<b>152,914</b>	<b>220,454</b>
Investments valued at NAV <sup>(1)</sup> :		
Common/collective trusts and private mutual funds	8,561	47,647
Alternative investments and private equity	48,881	58,132
<b>Total</b>	<b>\$ 210,356</b>	<b>\$ 326,233</b>

<sup>(1)</sup> Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts prescribed in this table are intended and permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Investments for which fair value is estimated using the reported NAV, or the equivalent, are summarized as follows:

### *December 31, 2020*

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (Days)
Common/collective trusts and private mutual funds:				
Fixed income	\$ -	\$ -	Daily	10
Global ex-U.S. equity	8,362	-	Monthly	15
Emerging markets	199	-	Monthly	30
<b>Total</b>	<b>\$ 8,561</b>	<b>\$ -</b>		
Alternative investments:				
Absolute return	\$ 7,897	\$ -	Semiannually	60-65
Hedge fund	12,638	-	Annually	30-90
Private equity	28,346	11,836	See note (a)	See note (a)
<b>Total</b>	<b>\$ 48,881</b>	<b>\$ 11,836</b>		

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

December 31, 2019

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (Days)
Common/collective trusts and private mutual funds:				
Fixed income	\$ 11,410	\$ -	Daily	10
Global ex-U.S. equity	25,259	-	Monthly	15
Emerging markets	10,978	-	Monthly	30
<b>Total</b>	<b>\$ 47,647</b>	<b>\$ -</b>		
Alternative investments:				
Absolute return	\$ 14,601	\$ -	Semiannually	60-65
Hedge fund	20,955	-	Annually	30-90
Private equity	22,576	16,526	See note (a)	See note (a)
<b>Total</b>	<b>\$ 58,132</b>	<b>\$ 16,526</b>		

(a) Redemption not permitted; distributions require liquidation of underlying assets.

### 8. Investment Return Presentation

The following schedule summarizes the investment portfolio return:

Year ended December 31,	2020	2019
Dividend and interest income (net of interest expense, excluding debt interest, and investment fees)	\$ 566	\$ 4,767
Realized gain, net	17,424	4,066
Change in unrealized gain (loss), net	(10,568)	14,442
	7,422	23,275
Investment return allocated to operations	(7,400)	(7,400)
<b>Investment Return, net of amounts allocated to operations</b>	<b>\$ 22</b>	<b>\$ 15,875</b>

USTA has reported a portion of the return on the investment portfolio as a source of funding for operating expenditures and is noted in the table above as “investment return allocated to operations.” This amount is not to exceed 5% of the average market value of the last 12 quarters of the total investment portfolio or the market value of the previous year (inclusive of any uninvested cash), whichever is less (amounts not based on the actual return of the investment portfolio). This amount is presented in the consolidated statements of activities as “investment return allocated to operations,” a separate line item within operating revenue. It amounted to \$7,400 for both years ended December 31, 2020 and 2019. A corresponding deduction is included within “nonoperating other income and deductions” in order to reflect the amounts reported in operations. Actual cash deposits or withdrawals from the investment portfolio can vary each year, depending on business needs.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

### 9. Property, Building and Equipment, Net

Property, building and equipment, net, consist of the following:

<i>December 31,</i>	<b>2020</b>	<b>2019</b>
Land, building and improvements	\$ 11,342	\$ 11,342
Leasehold improvements	1,193,588	1,179,531
Machinery and equipment	105,393	102,767
Computer hardware and software	73,119	63,856
Furniture and fixtures	68,902	67,773
Construction-in-progress	9,676	15,298
	<b>1,462,020</b>	<b>1,440,567</b>
Less: accumulated depreciation and amortization	<b>(674,910)</b>	<b>(614,425)</b>
<b>Net Property, Building and Equipment</b>	<b>\$ 787,110</b>	<b>\$ 826,142</b>

Depreciation and amortization expense was \$62,345 and \$68,492 for the years ended December 31, 2020 and 2019, respectively, which has been attributed to US Open, Tour Events, NTC Facility programs, Community Tennis and Administration on the consolidated statements of activities based on the nature and function of the underlying depreciable assets.

As of December 31, 2020 and 2019, \$50,159 and \$43,730, respectively, of computer software costs have been capitalized. Accumulated amortization for such software costs is \$32,309 and \$27,548 as of December 31, 2020 and 2019, respectively.

Construction-in-progress included various site-wide improvements at the NTC Facility. The Organization has substantially completed the construction of certain projects (retractable roof over Arthur Ashe Stadium, a new Louis Armstrong stadium, a new Grandstand stadium and ticket office) and continues to formulate plans for a transformation of the NTC Facility, which includes new broadcast facilities and other facility enhancements. The remaining cost for this transformation is estimated to be approximately \$16,500 purchased through accounts payable/accrued expenses as disclosed on the cash flow. The funding is comprised of the private placement financings described in Note 10, as well as by cash and cash equivalents, investments and revenue generation.

#### ***Capitalized Interest***

For the years ended December 31, 2020 and 2019, the Organization capitalized interest of \$305 and \$168, respectively, on qualifying assets.

### 10. Line of Credit and Irrevocable Letter of Credit

USTA had an unsecured line of credit with a financial institution in the amount of \$50,000 that was terminated on July 17, 2020 in conjunction with issuing the 2020 Revolving Credit Facility (Credit Facility) for \$150,000 as further discussed in Note 12. The Organization had two different borrowing options when utilizing this line, including London Interbank Offered Rate (LIBOR) for borrowings that exceeded 30 days, or the prime rate. In 2020, USTA did not borrow from the line of credit.

# United States Tennis Association Incorporated and Affiliates

## Notes to Consolidated Financial Statements (dollars in thousands)

As part of the site-wide improvements at the NTC Facility, NTC established irrevocable letters of credit with one beneficiary, an insurance underwriter, for \$12,435, as part of NTC's Owner Construction Insurance Policy Program. There were no drawings against these letters of credit in 2020 and 2019.

### 11. Private Placement Financing and Other Debt

In 2014, 2016, and 2018, NTC entered into a series of transactions collectively referred to as the Private Placement Financings (Private Placement). The Private Placement consisted of \$750,000 Senior Secured Fixed Rate Notes (Notes). The proceeds of such financings were used to legally defease all series of bonds outstanding in 2014, fund the Debt Service Reserve Account and provide financing for capital improvements at the NTC Facility.

The following table provides an overview of the Notes Facility and Term Loan Facility discussed in Notes 12 and 13:

	Notes, Series A	Notes, Series B	Notes, Series C	Note, Series D	Credit Facility	Term Loan Facility (Note 10)	Total
Date of funding	September 8, 2014	September 8, 2014	May 26, 2016	June/July 2018 <sup>(a)</sup>	July 17, 2020	June 30, 2017	
Principal amount at inception	\$ 75,000	\$ 325,000	\$ 200,000	\$ 150,000	\$ 150,000	\$ 25,000	\$ 925,000
Term (in years)	10	25	20	15	2	5	5-25
Interest rate (%)	3.11	4.08	3.29 <sup>(b)</sup>	4.04 <sup>(c)</sup>	Variable <sup>(d)</sup>	Variable <sup>(e)</sup>	2.50-4.08
Balance, December 31, 2020	\$ 36,623	\$ 278,668	\$ 200,000	\$ 150,000	\$ 25,000	\$ 19,600	\$ 709,891 <sup>(f)</sup>

<sup>(a)</sup>The \$150,000 financing was funded in two installments: \$80,000 on June 6, 2018 and \$70,000 on July 26, 2018.

<sup>(b)</sup>Interest only for the first five years.

<sup>(c)</sup>Interest only for 15 years, with a balloon payment due at the end of 15 years.

<sup>(d)</sup>Variable interest rate based on plus 2.5%.

<sup>(e)</sup>Variable interest rate based on trailing five-year average yield on 30-year US Treasury Bonds plus 2.5%.

<sup>(f)</sup>Amount shown on consolidated statements of financial position "debt payable, less current portion and deferred debt finance costs, net" of \$685,863 is net of current portion of debt payable of \$18,925 and unamortized deferred finance costs of \$5,103. At December 31, 2019, the corresponding amounts were \$680,025, which was net of \$18,311 payable in 2020 and unamortized deferred finance costs of \$4,866.

The Notes were issued to institutional accredited investors within the meaning of Regulation D under the Securities Act of 1933, as amended. The Notes include \$75,000 of Senior Secured Notes, Series A (Series A); \$325,000 of Senior Secured Notes, Series B (Series B); \$200,000 of Senior Secured Notes, Series C (Series C); and \$150,000 of Senior Secured Notes, Series D (Series D). The Notes were issued at a fixed rate and are redeemable at any time in whole or pro rata in part, in an amount not less than \$10,000 of the aggregate principal amount of the Notes then outstanding in the case of partial payment. Prepayments are subject to par, accrued interest, plus a Make-Whole Amount, if any, based on the provisions of the financing documents. Each series of the Notes are Pari Passu without preference or priority with one another and with any borrowings outstanding under the Credit Facility.

The Notes have substantially the same provisions, including: (i) the method of funding the repayment of the principal and interest and other provisions relating to security interests,

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guarantees, earnings coverage of debt service, funding of certain operating expenses, and the incurrence of additional indebtedness on the part of both NTC and USTA; (ii) the requirement by NTC to deposit receipts from U.S. Open ticket sales and other NTC revenues up to annual amounts to be determined in accordance with the Deposit and Disbursement Agreement and other financing documents with the trustee for payment of principal and interest; and (iii) USTA's pledge of its right to future U.S. Open net broadcasting revenues as security in the form of deposits with the trustee in amounts based on formulae in the financing documents. Excess deposits are refunded to USTA once NTC meets its annual debt service, debt service reserve requirement, rent obligations to the City of New York, and operating expense funding obligations with the trustee.

The Notes have a debt service reserve requirement requiring NTC to deposit certain amounts into a Debt Service Reserve Account, the magnitude of which depends on the senior secured debt service coverage ratio. The adequacy of such amounts is tested on the last day of the fiscal year based on an amount equal to the maximum amount of debt service required to be paid on the Notes and any other outstanding parity indebtedness during any future six-month period. For each of the years 2020 and 2019, such requirement totaled \$28,525 for each year respectively. At December 31, 2020 and 2019, cash and securities on deposit totaled \$29,106 and \$29,556, respectively, which exceeded such requirement.

As indicated above, the funding of the Debt Service Reserve Account depends on the senior secured debt service coverage ratio. While the minimum coverage ratio required is 1.50 to 1.00, failure to achieve a coverage ratio of at least 2.00 to 1.00 would result in a mandatory increase of the funds on deposit in the Debt Service Reserve Account such that they would equal payments of debt service required for any future 12-month period instead of the six-month period currently required. The coverage ratios exceeded 2.0 to 1.0 at December 31, 2020 and 2019.

Costs of issuing the Private Placement have been deferred and are being amortized over the life of each series of Notes. Costs of issuance totaled \$4,328 for the 2014 Private Placement, \$2,146 for the 2016 Private Placement and \$459 for the 2018 Private Placement. In 2020 and 2019, \$451 and \$465, respectively, was amortized, along with \$1,730 being amortized prior thereto, resulting in unamortized deferred issuance costs of \$4,287 and \$4,738 at December 31, 2020 and 2019, respectively.

The following table sets forth the scheduled annual principal payments to be made on the Notes, Credit Facility (Note 12) and the Term Loan Facility (Note 13) during each of the next five years and all years thereafter:

*Year ending December 31,*

	Principal Payments
2021	\$ 18,925
2022	71,401
2023	29,443
2024	34,813
2025	22,854
2026 and thereafter	532,455
	\$ 709,891

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### 12. USTA Credit Facility

On July 17, 2020, USTA was issued a \$150,000 Revolving Credit Facility (Credit Facility) by a large nationally recognized bank with an initial term of two years. USTA has the option of choosing a variable interest rate based on the Alternative Base Rate (ABR) loan rate plus 2.25% or the Eurodollar revolving loan rate plus 3.25%. In 2020, \$25,000 was drawn on the Credit Facility with no amounts being repaid. Effective July 18, 2022, the Credit Facility will terminate.

The Credit Facility provisions include: (i) the method of funding the repayment of the principal and interest and other provisions relating to security interests, guarantees, earnings coverage of debt service, and the incurrence of additional indebtedness on the part of USTA; (ii) (a) amounts received by the Borrower from Sponsorship Agreements net of amounts allocated to ticket or certain other revenues and (b) NTC Distributions received by the USTA.

Costs of issuing the Credit Facility of \$986 have been deferred and are being amortized over the initial life of the Credit Facility (24 months). In 2020 \$246 was amortized resulting in unamortized deferred issuance costs of \$740 at December 31, 2020.

The Credit Facility has a minimum coverage ratio required of 1.25 to 1.00, The coverage ratios exceeded 1.25 to 1.0 at December 31, 2020

### 13. Term Loan Facility

In 2017, Cincy entered into a \$25,000 term loan facility (Loan Facility). The proceeds are to be used to provide financing for capital improvements at the facility where the Masters Tournament is held. The Loan Facility is convertible with a maximum credit facility of \$25,000 with variable interest based on one-month LIBOR plus 1.625%. The Loan Facility converted to a fixed-term loan on December 31, 2018 with principal payments due annually equal to  $\frac{1}{15}$  of the outstanding balance at December 31, 2018. The interest rate at December 31, 2020 and 2019 was 2.02% and 3.42%, respectively. The note matures on June 30, 2022, with a balloon payment due for the then-outstanding amount, as shown in the overview chart in Note 11. At December 31, 2020 and December 31, 2019, the balance outstanding is \$19,600 and \$21,233, respectively.

USTA has made a springing guarantee for the Loan Facility, which can only be activated if the event is moved or the ATP revokes ATP Sanction, as further discussed in Note 14 Tournaments. The Loan Facility contains certain covenants, which, among other things, requires the Organization to maintain certain debt service coverage, as defined by the agreement. The Organization received a waiver for these covenants at December 31, 2020.

Debt issuance costs of \$256 are recorded at cost and are being amortized over the term of the related debt. In 2020 and 2019, \$51 was amortized for each year, respectively, along with \$25 being amortized prior thereto, resulting in unamortized deferred issuance costs of \$77 and \$128 at December 31, 2020 and 2019, respectively.

### 14. Tournaments

#### *Cincinnati Tennis LLC*

As mentioned in Note 1, in 2020 and 2019, USTA has a controlling interest of 93.8% in Cincy, which holds the ATP Sanction for the Masters Tournaments. The total purchase price to acquire the initial

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80% ownership, inclusive of payments to the ATP and transfer of an equity interest in Cincy to the former members of TCI Ventures, LLC, including Octagon, Inc., totaled \$12,636. In 2017, USTA increased its ownership by 13.8% to 93.8% in consideration of a cash payment of \$5,760, inclusive of transfer fees. Such payment included a transfer of members' equity of \$2,433 and additional paid-in capital for the increase in valuation of \$3,327.

The ATP Sanction is subject to termination if Cincy fails to follow the ATP's rules and regulations. Based on previous experience, including Cincy's continued compliance with the ATP's rules and regulations, it is expected that the Sanction will be effective indefinitely. Given the Sanction's indefinite life, its value of \$12,658 is not being amortized and is evaluated annually for impairment. We consider the COVID-19 pandemic as a triggering event in the assessment of the recoverability of the indefinite lived intangible asset, the ATP Sanction. Based on our evaluation we conducted during the quarters since the pandemic emerged, we determined that impairment of the asset had not occurred.

Operating revenues of \$9,820 in 2020 and \$35,418 in 2019 and operating expenses of \$25,453 in 2020 and \$29,992 in 2019 of Cincy are included in the "Tour events" in each of the sections headed operating revenues and operating expenses, respectively, in the consolidated statements of activities for the years ended December 31, 2020 and 2019, respectively.

In 2020 and 2019, Cincy made distributions to its owners totaling \$1,986 and \$1,776, respectively, of which \$123 and \$110, respectively, represents distributions to the non-controlling interests.

### ***TRIDENT8 (Laver Cup)***

In 2016, USTA made a \$6,000 capital commitment to acquire a non-controlling 20% interest in TRIDENT8, a UK private company that is treated as a partnership for US tax purposes. TRIDENT8's purpose is to further interest in tennis by establishing and operating a team tennis competition between regional teams of top professional players from around the world. This competition is referred to as the Laver Cup, in honor of Rod Laver. In 2017 and 2016, USTA made cash payments of \$2,000 and \$4,000, respectively, fulfilling USTA's \$6,000 capital commitment for a non-controlling 20% interest in TRIDENT8. The investment is accounted for using the equity method of accounting and is reported in "other assets" in the accompanying consolidated statements of financial position. For 2020 and 2019, gain (loss) of \$(228) and \$175, respectively, were recorded from TRIDENT8 and losses of \$(1,760) were recorded prior to 2019 for a net book value of \$4,187, which is in other assets on the consolidated statements of financial position. As a result of the COVID-19 pandemic, the Laver Cup was not held in 2020.

### ***Other Tennis Investments***

In 2016, USTA provided Tennis Foundation of Connecticut (TFC) a Secured Promissory Note in the amount of \$425 (the Loan). The Loan included a provision for USTA to receive additional revenues in the event of a sale of the sanction. In 2019, TFC entered into a purchase agreement for the sale and transfer of the sanction. As a result, in 2019, TFC repaid the unpaid principal balance of \$425 plus outstanding interest. As part of this transaction USTA recorded additional revenues from the sanction sale of \$5,941 in the consolidated statements of activities under net gain on sale of tennis investments. Upon completion of the sale, TFC paid USTA \$3,327 and TFC agreed to pay the remaining balance of \$2,614 after the buyer makes the final contractual payment, of which \$2,000 was paid in 2020 and the remaining balance is due March 2021.

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### 15. USTA Foundation

For the years ended December 31, 2020 and 2019, the Organization contributed certain services, facilities and a cash grant to USTA Foundation at a cost of \$2,707 and \$3,499, respectively, which included expenses for National Junior Tennis and Learning (NJTL) efforts. Such costs are included in operating expenses within the accompanying consolidated statements of activities.

### 16. Retirement Plan

The United States Tennis Association Retirement Plan covers substantially all USTA, NTC and PD employees. The plan, which is a defined contribution plan, includes both an employer match and a discretionary employer contribution. Discretionary contributions are calculated on the basis of a fixed percentage of eligible salaries.

Matching contributions are made to the plan on a current basis and amounted to \$1,319 and \$1,540 for the years ended December 31, 2020 and 2019, respectively. The Organization did not make a discretionary employer contribution for the years ended December 31, 2020 and 2019, respectively.

### 17. Commitments and Contingencies

#### *New York City Lease*

The initial term of NTC's long-term lease with New York City is for 25 years from the start of construction of the facility expansion (1994). Thereafter, the lease grants NTC six ten-year renewal options and a final renewal option of up to 14 years. NTC has committed to renew the lease as long as any of the Notes or any borrowings under the Credit Facility are outstanding.

During the initial lease term, the lease provides for annual base rent of approximately \$400 plus 1% of gross revenues from NTC Facility operations and USTA revenues derived from tennis events conducted at the NTC Facility, including broadcast and sponsorship revenues, in excess of \$25,000 for each of the first 20 years and 1% of gross revenues in excess of \$20,000 for each year thereafter. In addition, each renewal term includes a 10% increase on the base rent. In 2020 as a result of the COVID-19 pandemic the lease was amended so that NTC was only required to pay base rent. Rent expense for base rent charged to operations for the year ended December 31, 2020, amounted to \$440, and for the year ended December 31, 2019, amounted to \$4,181. The Organization accounts for the lease as an operating lease.

#### *USTA National Campus - Home of American Tennis*

USTA has built a new state-of-the-art tennis facility near Orlando, Florida. As part of this initiative, USTA entered into a lease for over 64 acres of land. The initial term of the lease is 30 years from December 2016, with annual rental payments of one dollar. The lease includes two renewal terms of 20 years each, cumulatively 40 years, based on the then-prevailing market rent per acre of land. The Organization has accounted for this commitment as an operating lease. For the years ended December 31, 2020 and 2019, rent expense for this facility was de minimis.



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### *Usage/Lease Agreement for the West Coast Training Center*

USTA is party to a training center lease that is classified as an operating lease. The lease was renewed in 2016 through December 31, 2022. Rent expense was \$164 and \$133 for 2020 and 2019, respectively.

### *Cincinnati Tournament Stadium and Grounds Lease*

In 2009, Cincy entered into a 21-year lease, expiring in 2029, for the stadium and grounds where the Masters Tournament is held. The lease is classified as an operating lease. The lease contains purchase options and early termination provisions beginning in 2019 and 2024, subject to repayment of certain debt outstanding on the facilities. Rent expense charged to operations was \$1,045 in 2020 and \$1,213 in 2019, as compared to payments of \$1,295 and \$1,463 in 2020 and 2019, respectively. The differences are accounted for in “deferred rent credit” in the consolidated statements of financial position.

As part of the lease, Cincy and USTA have guaranteed the landlord’s debt outstanding on the facilities, Tennis for Charity, Inc., a 501(c)(3) organization, for which the maximum payable at December 31, 2020, is \$6,195.

Under the lease agreement, the landlord provided funds totaling \$5,000 for capital improvements at the facility. The entire allowance has been used and recorded under “property, building and equipment.” Such allowance is being amortized over the lease term as a reduction of rent expense. The unamortized balance of such allowance is included in “deferred rent credit” in the accompanying consolidated statements of financial position.

### *Summary of Operating Lease Commitments*

Minimum operating lease commitments at December 31, 2020 for the various leases described in this note are as follows:

*Year ending December 31,*

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2021	\$	1,877
2022		1,769
2023		1,595
2024		1,567
2025		7,335
2026 and thereafter		11,911
<b>Total</b>	<b>\$</b>	<b>26,054</b>

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### *Public Facility Funding Grants*

USTA issued grant letters in 2019 and 2018 to several public facilities as part of its Public Facility Funding program whereby all or a portion of the funding is contingent upon various factors. Future funding by USTA is contingent upon the grant recipient completing project milestones, as set forth in the recipient’s grant proposal. Had the milestones been satisfied at December 31, 2020, USTA would have recorded a commitment of \$1,000.

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In 2013, NTC made two separate pledges to the City of New York, which together result in \$10,050 payable over a period of 23 years to help with improvements and, separately, with maintenance of the public park land adjacent to the NTC Facility. In 2016, certain improvements were made, fulfilling the conditions of the \$5,000 improvement pledge resulting in \$4,441, the present value, being recognized as an operating expense. The first installment of \$833 was paid in 2015 and there are annual installments of \$833 payable in each of the following five years. The maintenance pledge of \$5,050 is payable over the next 23 years with annual installments of \$350 for the first three years and \$200 each year thereafter. The maintenance pledge is contingent upon satisfaction of the specified conditions, including annual operating commitments by the City of New York. In 2016, the conditions of the maintenance pledge were met, resulting in 2020 and 2019 operating expenses of \$200 for each year respectively, recognized in the US Open, including depreciation, pledge and debt interest in the consolidated statements of activities.

### *Litigation*

The Organization is involved in various routine litigation matters in the course of its normal operations. Although it is not possible to predict the outcome of such litigation with certainty, based on the facts known to the Organization's management, and after consultation with counsel, management believes that such litigation will not have a material adverse effect on the Organization's consolidated financial position.

### *Environmental Liabilities*

As part of the Organization's facility expansion and improvement projects, certain environmental liabilities may be incurred. The Organization believes that it is adequately insured against this potential exposure.

## **18. Subsequent Events**

The Organization has evaluated subsequent events through March 30, 2021, the date these consolidated financial statements were available to be issued. No modifications of the consolidated financial statements were necessary as a result of the subsequent events evaluation.