

**INNERCITY TENNIS FOUNDATION**

**FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**

For The Years Ended  
December 31, 2022 and 2021

**- This page intentionally left blank -**

**INNERCITY TENNIS FOUNDATION**  
**TABLE OF CONTENTS**

---

		<u>Page Number</u>
Independent Auditor's Report		1
<b>FINANCIAL STATEMENTS</b>		
Statements of Financial Position	Statement 1	4
Statements of Activities	Statement 2	5
Statements of Functional Expenses	Statement 3	6
Statements of Cash Flows	Statement 4	8
Notes to Financial Statements		9

**- This page intentionally left blank -**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
InnerCity Tennis Foundation  
Minneapolis, Minnesota

### **Opinion**

We have audited the accompanying financial statements of InnerCity Tennis Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InnerCity Tennis Foundation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **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 InnerCity Tennis Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of InnerCity Tennis Foundation'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about InnerCity Tennis Foundation'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.

  
REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

April 25, 2023

## **FINANCIAL STATEMENTS**

**INNERCITY TENNIS FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
For The Years Ended December 31, 2022 and 2021

**Statement 1**

	2022	2021
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$1,828,978	\$723,944
Beneficial interest in assets held by the Minneapolis Foundation	919,288	1,043,792
Contributions receivable	100,000	7,000
Accounts receivable, net	137,878	108,108
Employee retention credits receivable	26,979	572,954
Inventory	14,418	11,263
Prepays	17,894	22,348
Total current assets	<u>3,045,435</u>	<u>2,489,409</u>
<b>Property and equipment:</b>		
Buildings and improvements	1,607,394	1,490,831
Air structures	1,524,405	1,524,405
Equipment and furniture	375,250	340,426
Vehicles	102,945	63,318
Expansion project in progress	13,674	13,674
Accumulated depreciation	(1,939,819)	(1,710,154)
Total property and equipment	<u>1,683,849</u>	<u>1,722,500</u>
<b>Other assets:</b>		
Goodwill	185,291	185,291
Intangible assets	10,985	10,985
Accumulated amortization - intangibles	(10,966)	(10,867)
Total other assets	<u>185,310</u>	<u>185,409</u>
<b>Total assets</b>	<u><u>\$4,914,594</u></u>	<u><u>\$4,397,318</u></u>
<b>Liabilities and net assets:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$43,911	\$24,302
Accrued expenses	149,717	67,000
Deferred revenue	245,126	212,587
Note payable, due within one year	8,050	-
Finance lease liability, due within one year	8,556	6,984
Total current liabilities	<u>455,360</u>	<u>310,873</u>
<b>Non-current liabilities:</b>		
Note payable, due in more than one year	31,078	-
Finance lease liability, due in more than one year	11,088	19,644
Total non-current liabilities	<u>42,166</u>	<u>19,644</u>
<b>Total liabilities</b>	<u>497,526</u>	<u>330,517</u>
<b>Net assets:</b>		
Without donor restrictions	3,817,068	4,066,551
With donor restrictions	600,000	250
Total net assets	<u>4,417,068</u>	<u>4,066,801</u>
<b>Total liabilities and net assets</b>	<u><u>\$4,914,594</u></u>	<u><u>\$4,397,318</u></u>

The accompanying notes are an integral part of these financial statements.

**INNERCITY TENNIS FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
For The Years Ended December 31, 2022 and 2021

**Statement 2**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue:</b>						
Activity revenue	\$1,775,915	\$ -	\$1,775,915	\$1,633,677	\$ -	\$1,633,677
Summer park program fees	79,745	-	79,745	128,182	-	128,182
Unrealized gain (loss) on beneficial interest	(125,071)	-	(125,071)	103,503	-	103,503
Other income	39,294	-	39,294	43,865	-	43,865
Total revenue	<u>1,769,883</u>	<u>-</u>	<u>1,769,883</u>	<u>1,909,227</u>	<u>-</u>	<u>1,909,227</u>
<b>Support:</b>						
Contributions	456,351	600,000	1,056,351	325,018	-	325,018
COVID-19 funding	-	-	-	732,988	-	732,988
Special event income	210,751	-	210,751	169,816	-	169,816
Less: special event expenses	(67,552)	-	(67,552)	(37,112)	-	(37,112)
Net special event revenue	143,199	-	143,199	132,704	-	132,704
Total support	<u>599,550</u>	<u>600,000</u>	<u>1,199,550</u>	<u>1,190,710</u>	<u>-</u>	<u>1,190,710</u>
Net assets released from restriction	250	(250)	-	-	-	-
Total support and revenue	<u>2,369,683</u>	<u>599,750</u>	<u>2,969,433</u>	<u>3,099,937</u>	<u>-</u>	<u>3,099,937</u>
<b>Expenses:</b>						
<b>Program:</b>						
Outreach	440,359	-	440,359	560,176	-	560,176
Tennis center	1,674,800	-	1,674,800	1,471,014	-	1,471,014
Expansion project	158	-	158	176	-	176
Total program	<u>2,115,317</u>	<u>-</u>	<u>2,115,317</u>	<u>2,031,366</u>	<u>-</u>	<u>2,031,366</u>
<b>Supporting services:</b>						
Management and general	301,752	-	301,752	167,672	-	167,672
Fundraising	202,097	-	202,097	170,149	-	170,149
Total supporting services	<u>503,849</u>	<u>-</u>	<u>503,849</u>	<u>337,821</u>	<u>-</u>	<u>337,821</u>
Total expenses	<u>2,619,166</u>	<u>-</u>	<u>2,619,166</u>	<u>2,369,187</u>	<u>-</u>	<u>2,369,187</u>
Change in net assets	(249,483)	599,750	350,267	730,750	-	730,750
Net assets - beginning of year	4,066,551	250	4,066,801	3,335,801	250	3,336,051
Net assets - end of year	<u>\$3,817,068</u>	<u>\$600,000</u>	<u>\$4,417,068</u>	<u>\$4,066,551</u>	<u>\$250</u>	<u>\$4,066,801</u>

The accompanying notes are an integral part of these financial statements.

**INNERCITY TENNIS FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For The Years Ended December 31, 2022 and 2021

**Statement 3**  
**Page 1 of 2**

	2022					Total
	Program Services		Supporting Services			
	Outreach	Tennis Center	Expansion Project	Management	Fundraising	
Expenses:						
Personnel costs	\$331,115	\$933,851	\$ -	\$203,244	\$159,932	\$1,628,142
Utilities	7,499	137,979	-	4,499	-	149,977
Depreciation and amortization	-	241,116	-	-	-	241,116
Cost of goods sold	-	28,589	-	-	-	28,589
Special event expense	-	-	-	-	67,552	67,552
Program expenses	53,743	8,966	-	1,875	-	64,584
Professional fees	-	70,031	-	42,018	28,012	140,061
Contract services	-	54,881	-	5,034	3,156	63,071
Insurance	4,833	10,472	-	16,111	806	32,222
Rent	6,998	37,322	-	1,166	1,166	46,652
Facility maintenance	-	39,019	-	2,158	-	41,177
Local mileage and parking	7,325	236	2	28	187	7,778
Training and staff development	-	-	-	149	-	149
Tax expense	(99)	92	-	95	-	88
Supplies	21,535	36,763	-	1,800	315	60,413
Telephone	1,710	5,203	-	520	-	7,433
Postage and delivery	157	852	-	26	87	1,122
Dues and subscriptions	1,260	780	-	2,946	500	5,486
Printing and copying	636	3,496	-	95	2,129	6,356
Advertising, marketing and PR	1,100	1,100	-	1,100	1,100	4,400
Bank charges	-	57,224	-	9,848	2,513	69,585
Interest expense	-	1,574	-	832	-	2,406
Other	2,547	5,254	156	8,208	2,194	18,359
Total expenses	440,359	1,674,800	158	301,752	269,649	2,686,718
Less expenses included with revenues on the statement of activities:						
Special event expense	-	-	-	-	(67,552)	(67,552)
Total expenses included in the expenses section on the statement of activities	\$440,359	\$1,674,800	\$158	\$301,752	\$202,097	\$2,619,166

The accompanying notes are an integral part of these financial statements.

**INNERCITY TENNIS FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For The Years Ended December 31, 2022 and 2021

**Statement 3**  
**Page 2 of 2**

	2021					Total
	Program Services		Supporting Services			
	Outreach	Tennis Center	Expansion Project	Management	Fundraising	
Expenses:						
Personnel costs	\$404,871	\$816,163	\$ -	\$110,943	\$143,658	\$1,475,635
Utilities	7,222	134,323	-	2,889	-	144,434
Depreciation and amortization	-	226,106	-	-	-	226,106
Cost of goods sold	-	8,209	-	-	-	8,209
Special event expense	-	-	-	-	37,112	37,112
Program expenses	59,934	-	-	-	-	59,934
Professional fees	14,742	38,159	-	7,371	14,742	75,014
Contract services	11,490	55,876	-	4,587	-	71,953
Insurance	4,229	9,163	-	14,097	705	28,194
Rent	7,806	43,483	-	1,301	1,301	53,891
Facility maintenance	-	30,913	-	260	-	31,173
Local mileage and parking	9,907	12	2	-	-	9,921
Training and staff development	18,984	-	-	500	-	19,484
Supplies	11,479	43,347	-	1,631	15	56,472
Telephone	1,430	4,351	-	435	-	6,216
Postage and delivery	286	1,554	-	47	158	2,045
Dues and subscriptions	526	618	-	2,349	447	3,940
Printing and copying	607	3,339	-	91	2,034	6,071
Advertising, marketing and PR	4,336	3,787	-	3,787	3,787	15,697
Bad debt expense	-	6,300	-	2,599	2,120	11,019
Bank charges	-	42,370	-	7,973	1,023	51,366
Other	2,327	2,941	174	6,812	159	12,413
Total expenses	<u>560,176</u>	<u>1,471,014</u>	<u>176</u>	<u>167,672</u>	<u>207,261</u>	<u>2,406,299</u>
Less expenses included with revenues on the statement of activities:						
Special event expense	-	-	-	-	(37,112)	(37,112)
Total expenses included in the expenses section on the statement of activities	<u>\$560,176</u>	<u>\$1,471,014</u>	<u>\$176</u>	<u>\$167,672</u>	<u>\$170,149</u>	<u>\$2,369,187</u>

The accompanying notes are an integral part of these financial statements.

**INNERCITY TENNIS FOUNDATION**
**STATEMENTS OF CASH FLOWS**

For The Years Ended December 31, 2022 and 2021

**Statement 4**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$350,267	\$730,750
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	241,116	226,106
(Increase) decrease in fair value of investments	124,504	(104,034)
(Gain) loss on sale of property and equipment	(4,500)	-
(Increase) decrease in current assets:		
Contributions receivable	(93,000)	15,406
Accounts receivable	(29,770)	(66,784)
Employee retention credits receivable	545,975	(425,643)
Inventory	(3,155)	1,905
Prepays	4,454	(11,068)
Increase (decrease) in current liabilities:		
Accounts payable	19,609	(13,708)
Accrued expenses	82,717	(25,493)
Deferred revenue	32,539	(8,529)
Net cash provided by operating activities	<u>1,270,756</u>	<u>318,908</u>
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	4,500	-
Purchases of property and equipment	(161,387)	(67,233)
Net cash used in investing activities	<u>(156,887)</u>	<u>(67,233)</u>
Cash flows from financing activities:		
Principal payments on note payable	(1,851)	-
Principal payments on finance lease	(6,984)	(3,320)
Net cash used in financing activities	<u>(8,835)</u>	<u>(3,320)</u>
Increase in cash and cash equivalents	1,105,034	248,355
Cash and cash equivalents - beginning year	<u>723,944</u>	<u>475,589</u>
Cash and cash equivalents - end of year	<u>\$1,828,978</u>	<u>\$723,944</u>
Supplemental disclosure of non-cash investing and financing activity:		
Equipment financed through finance lease arrangement	<u>\$ -</u>	<u>\$29,948</u>
Equipment financed through note payable arrangement	<u>\$40,980</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**INNERCITY TENNIS FOUNDATION**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021

---

**Note 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. ORGANIZATION**

InnerCity Tennis Foundation (Foundation), which was organized in 1952, is a Minnesota non-profit charitable organization designated under Section 501(c)(3), of the Internal Revenue Code. The Foundation raises funds from the general public used for conducting various youth and adult programs throughout the year to provide mentoring, training, and personal growth opportunities that enhance health, education, and character through the game of tennis.

**B. COVID-19 PANDEMIC**

The COVID-19 pandemic was a significant event in fiscal year 2021. State issued directives impacted programing resulting in a reduction of activity revenue. To help offset this loss, the Foundation received COVID-19 relief revenue as detailed in note 1M.

**C. FINANCIAL STATEMENT PRESENTATION**

The financial statements of the Foundation have been prepared on the accrual basis of accounting and are presented in accordance with the FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

**D. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and related disclosures. Accordingly, actual results could differ from those estimates.

**E. CASH AND CASH EQUIVALENTS**

For the purposes of presenting cash flows, cash equivalents include short-term investments with maturities of three months or less, except for cash equivalents included in investments.

**F. ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. An allowance is provided for uncollectible amounts based on management's judgment considering historical information. Services are provided on an unsecured basis and no interest is charged. Payment is required within 30 days of receipt. Past-due balances are reviewed monthly by management and when all collection efforts have been exhausted, the accounts are written off. Management has established an allowance for doubtful accounts of \$10,000 for each of the years ended December 31, 2022 and 2021.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying statements of financial position. Contract liabilities are reported as deferred revenue in the accompanying statements of financial position.

**G. CONTRIBUTIONS RECEIVABLE**

The Foundation records unconditional promises to give that are expected to be collected within one year at net realizable value. For long-term contributions receivable, management has determined the amount of the present value discount to be immaterial and was not recorded.

**INNERCITY TENNIS FOUNDATION**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021

---

The Foundation uses the allowance method to determine uncollectible contributions receivable. Past due balances are reviewed monthly by management and when all collection efforts have been exhausted, the accounts are written off. At December 31, 2022 and 2021, all contributions receivables are due within one year and are expected to be fully collected.

**H. INVENTORY**

Inventory consists of clothing, tennis equipment and accessories held for resale. Inventory is valued at the lower of cost, (determined on a first-in, first-out basis) or net realizable value.

**I. PROPERTY AND EQUIPMENT**

Property and equipment are recorded at original cost. Additions, improvements, or major renewals greater than \$1,000 are capitalized. Donations of property and equipment are recorded as contributions at estimated fair value. Any gains or losses on property and equipment retirements are recognized in the statement of activities.

Depreciation is computed using straight-line and accelerated methods and rates based on estimated service lives as follows:

Buildings and building improvements	3-39 Years
Air structures	7-15 Years
Equipment and furniture	3-15 Years
Computer equipment	3-7 Years
Vehicles	5-7 Years

**J. BENEFICIAL INTEREST IN ASSETS HELD BY THE MINNEAPOLIS FOUNDATION**

The Foundation has established a fund held by the Minneapolis Foundation.

The Minneapolis Foundation has control over the assets and reinvestment of the fund, but InnerCity Tennis Foundation has retained the right to make fund distributions. Based on current generally accepted accounting principles, these funds are recorded at the fair value of the Minneapolis Foundation's underlying assets.

**K. INTANGIBLE ASSETS**

The Foundation has goodwill resulting from the acquisition of Nicollet Tennis Center, Inc. for an amount in excess of the fair value of the net assets acquired. The Foundation performs an annual review for impairment of the goodwill balance of \$185,291. No such impairment existed as of December 31, 2022 and 2021.

**L. NET ASSETS**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**INNERCITY TENNIS FOUNDATION**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022 and 2021

---

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Foundation reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

At December 31, 2022 and 2021, the Foundation had no net assets with donor restrictions that were permanent in nature.

**M. REVENUE AND REVENUE RECOGNITION**

The Foundation recognizes revenue from activities it offers, such as leagues, tennis lessons, court rental, and summer park programs. Revenue is recognized at a point in time, when the activities take place. These contracts with customers are reported as activity revenue and summer park program on the statements of activities. The Foundation records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Foundation recognizes contributions when cash, securities or other assets; or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

In 2021, the Foundation recognized \$732,988 of revenue related COVID-19 relief funding. Revenue consists of Paycheck Protection Program (PPP) loan forgiveness in the amount of \$304,745 and qualified employee retention credits (ERC) in the amount of \$428,243. See Note 7 for the treatment of the PPP loan and Note 8 for the treatment of the ERC.

For the year ended 2022 and 2021, respectively, the Foundation received 66% and 29% of contributions as shown on the statements of activities from two donors.

Customers are charged in advance for activities they register for, however customers can cancel prior to the activity occurring and receive a refund. Payments collected in advance are recorded as deferred revenue until the activity takes place.

**N. CONTRIBUTIONS IN-KIND**

Donations of goods and other noncash assets are recorded at the estimated fair value on the date received. Contributed services, which require special skill and the Foundation would have paid for if not donated, are recorded at their estimated fair value when services are rendered. No significant contributions of such goods or services were received during the years ended December 31, 2022 and 2021.

**O. FAIR VALUE MEASUREMENTS**

The Foundation measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Foundation may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

The Foundation also follows the accounting standard that allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Foundation has not elected to measure any existing financial instruments at fair value at December 31, 2022 and 2021, as permitted under the standard. However, the Foundation may elect to measure newly acquired financial instruments at fair value in the future.

**P. 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 classified by the Internal Revenue Service as other than a private foundation.

The Foundation follows the accounting standards for uncertain tax positions and files as a tax-exempt organization. No liability has been recognized by the Foundation as a result of the implementation of this standard. Should that status be challenged in the future, all years since inception could be subject to review by the Internal Revenue Service.

**Q. CREDIT RISK**

Financial instruments which potentially subject the Foundation to concentrations of credit risk are principally cash and pledges receivable. The Foundation places its cash investment with a high-quality financial institution. Although the balance may at times exceed the federally insured limits, the Foundation has not experienced losses in these accounts and does not believe it is exposed to any significant credit risk.

**R. FUNCTIONAL EXPENSES**

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting function of the Foundation. Those expenses include personnel, accounting, audit, legal fees, utilities, insurance, telephone, postage and delivery, printing and copying, and advertising and marketing. Personnel costs are allocated based on estimates of time and effort. Non-personnel costs are allocated based on an estimate of the benefit received by each function.

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

**S. LEASES**

The Foundation leases certain space and equipment at various terms under operating lease and finance lease agreements. For any lease with an initial term in excess of 12 months, the related leased asset and liability are recognized on the balance sheets as either operating or finance leases at the inception of an agreement where it is determined that a lease exists. The foundation has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing leases to not recognize the asset and liability for the leases. A lease is considered to be short-term if it contains a lease term of 12 months or less. Lease expense related to short term leases is recognized on a straight-line basis over the term of the lease.

Finance leases are included in property and equipment and finance lease liabilities. These assets and liabilities are recognized based on the present value of future payments over the lease term at the commencement date. The Foundation has elected to use the risk-free rate as the discount factor in lieu of determining the incremental borrowing rate for all classes of underlying assets when the implicit rate is not readily determinable.

**T. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

The Foundation adopted the provisions of ASC 842, *Leases*, using the modified retrospective approach with January 1, 2022 as the date of initial adoption. The Foundation elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Foundation to carry forward the historical lease classification. Adoption of the new standard did not materially impact the Foundation’s net assets and had no impact on cash flows.

**Note 2 LIQUIDITY AND AVAILABILITY**

The Foundation’s financial assets available to meet cash needs for general expenditures within one year of the date of the statement of financial position are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$1,328,978	\$723,694
Beneficial interest in assets held by the Minneapolis Foundation	919,288	1,043,792
Accounts receivable	137,878	108,108
Contributions receivable	-	7,000
Employee retention tax credits receivable	<u>26,979</u>	<u>572,954</u>
Total	<u>\$2,413,123</u>	<u>\$2,455,548</u>

The Foundation considers net assets with donor restrictions to be unavailable for general expenditure and are excluded from the table above.

As the Foundation focuses on its long-term financial sustainability, it has raised funds that are greater than the current operating needs which can be used for long-term projects. To optimize returns while still maintaining a prudent risk profile, the Finance Committee of the Board has overseen the establishment of a fund held by the Minneapolis Foundation. The fund invests in a balanced way; investing in equity and fixed income funds and securities.

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

In addition, the Foundation maintains a conservative liquidity management strategy in which it holds two months of personnel expenses, in excess of anticipated costs. Furthermore, the Foundation has weekly access to the assets held by the Minneapolis Foundation.

**Note 3 LEASE COMMITMENTS**

**A. OPERATING LEASE**

The Foundation has a facility lease through May of 2024, with two additional 5-year terms available.

Rent is calculated at 3% of monthly gross receipts (less sales and entertainment taxes) of InnerCity Tennis Foundation payable to the Minneapolis Park and Recreation Board by the tenth of the following month accompanied by a statement of total monthly gross receipts. All operating costs of the leased premises are the responsibility of the Foundation. Based on the variable rent amount, the lease with the Minneapolis Park and Recreation Board is exempt from the ASU 842 recognition of lease asset and liability.

The lease agreement specifies that InnerCity Tennis Foundation may not increase court fees during any 12-month period by more than \$2 per hour without obtaining approval of the Minneapolis Park and Recreation Board.

**B. FINANCE LEASE**

In 2021, the Foundation entered into a lease purchase agreement for a court sweeper. The agreement requires monthly payments of \$713 through June 2025, with a discount factor applied of 6.7%.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$8,556
2024	8,556
2025	<u>4,278</u>
Total minimum lease payments	21,390
Less: amount representing interest	<u>(1,746)</u>
Present value of minimum payments	<u><u>\$19,644</u></u>

The net book value of property and equipment under finance lease follows:

	<u>2022</u>	<u>2021</u>
Equipment	\$29,948	\$29,948
Less: accumulated depreciation	<u>(6,405)</u>	<u>(2,139)</u>
Net book value	<u><u>\$23,543</u></u>	<u><u>\$27,809</u></u>

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

The following summarizes the line items in the statements of functional expenses which include the components of lease expense for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Operating lease expense included in rent expense	\$46,653	\$52,039
Finance lease costs:		
Amortization of lease assets included in depreciation and amortization expense	\$4,267	\$2,139
Interest on lease liabilities included in interest expense	<u>1,572</u>	<u>957</u>
Total finance lease costs	<u>\$5,839</u>	<u>\$3,096</u>

**Note 4**    **NET ASSETS WITH DONOR RESTRICTIONS**

As of December 31, net assets with donor restrictions are restricted for the following purposes:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Life prep grant	\$ -	\$250
Schools programming	<u>600,000</u>	<u>-</u>
Total	<u>\$600,000</u>	<u>\$250</u>

**Note 5**    **FAIR VALUE MEASUREMENTS**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 1J – Beneficial Interests in Assets Held by the Minneapolis Foundation, and Note 1O – Fair Value Measurements.

Assets measured at fair value on a recurring basis as of December 31 are as follows:

	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by the Minneapolis Foundation	<u>\$0</u>	<u>\$0</u>	<u>\$919,288</u>	<u>\$919,288</u>
	<u>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by the Minneapolis Foundation	<u>\$0</u>	<u>\$0</u>	<u>\$1,043,792</u>	<u>\$1,043,792</u>

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

The following table provides a summary of changes in fair value of the Foundation’s Level 3 financial assets for the years ended December 31, 2022 and 2021:

	Beneficial interest in assets held by the Minneapolis Foundation
Beginning Balance - January 1, 2021	\$939,758
Investment return, net	104,034
Ending Balance - December 31, 2021	<u>\$1,043,792</u>
Beginning Balance - January 1, 2022	\$1,043,792
Investment return, net	(124,504)
Ending Balance - December 31, 2022	<u>\$919,288</u>

**Note 6 RETIREMENT PLAN**

The Foundation sponsors a SIMPLE IRA plan that covers eligible employees. The Foundation matches employee contributions up to 3%. The Foundation’s contributions to the plan were \$24,329 and \$21,736 for the years ended December 31, 2022 and 2021, respectively.

**Note 7 PAYCHECK PROTECTION PROGRAM LOANS**

On May 8, 2020 the Foundation entered into an unsecured loan agreement with Wells Fargo Bank for \$253,834, through the U.S. Small Business Administration (SBA) pursuant to the Paycheck Protection Program (PPP) created by Section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The Foundation elected to account for this loan as a conditional contribution under FASB ASC 958-605 and recognized revenue of \$253,834 related to qualifying expenditures incurred prior to December 31, 2020. The Foundation received full forgiveness from the SBA on July 9, 2021.

On February 17, 2021, the Foundation obtained a second draw PPP Loan with Wells Fargo Bank for \$304,745. The Foundation elected to account for this loan as a conditional contribution under FASB ASC 958-605 and recognized the full amount as revenue in 2021. The Foundation received full forgiveness from the SBA on April 4, 2022.

Loan forgiveness is subject to a six-year audit period.

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

**Note 8 EMPLOYEE RETENTION CREDIT**

On March 27, 2020, CARES Act was signed into law providing numerous tax provisions and other stimulus measures, including an employee retention credit (“ERC”), which is a refundable tax credit against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC. An entity is eligible for the employee retention credit (ERC) if it either (1) fully or partially suspended operations during any calendar quarter due to orders from an appropriate government authority limiting business activities due to COVID-19; or (2) experienced a significant decline in gross receipts during the calendar quarter.

The Foundation accounted for the Employee Retention Credit as a conditional contribution under FASB ASC 958-605. During the years ended December 31, 2022 and 2021, the Foundation recorded ERC revenue of \$0 and \$428,243, respectively. Amounts receivable of \$26,979 and \$572,954 are included in the statements of financial position as of December 31, 2022 and 2021, respectively.

**Note 9 LONG-TERM DEBT**

Long-term debt consists of the following at December 31, 2022 and 2021:

	<u>2022</u>
Vehicle note payable to GM Financial bearing interest at 5.49% with monthly installments of \$671. Matures August 2028, secured by vehicle purchased.	\$39,128
Less: current maturities	<u>(6,053)</u>
Long-term portion	<u><u>\$33,075</u></u>

The annual maturities of long-term debt are as follows for the years ending December 31:

<u>Years Ending</u>	<u>Amount</u>
2023	\$6,053
2024	6,394
2025	6,754
2026	7,134
2027	7,536
Thereafter	<u>5,257</u>
	<u><u>\$39,128</u></u>

The interest expense on the note payable for the years ended December 31, 2022 and 2021 was \$832 and \$0, respectively.

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

---

**Note 10** **SUBSEQUENT EVENTS**

Management has evaluated subsequent events for potential recognition or disclosure through April 25, 2023, the date that the financial statements were available to be issued.