

**INNERCITY TENNIS FOUNDATION**

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

For The Years Ended  
December 31, 2023 and 2022

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

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		<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



## 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, 2023 and 2022, 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, 2023 and 2022, 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, LLC  
St. Paul, Minnesota

April 12, 2024

## **FINANCIAL STATEMENTS**

**INNERCITY TENNIS FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
For The Years Ended December 31, 2023 and 2022

**Statement 1**

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$1,423,494	\$1,828,978
Beneficial interest in assets held by the Minneapolis Foundation	1,037,999	919,288
Contributions receivable	67,229	126,979
Accounts receivable, net	190,491	137,878
Inventory	16,649	14,418
Prepays	13,639	17,894
Total current assets	<u>2,749,501</u>	<u>3,045,435</u>
Property and equipment:		
Buildings and improvements	1,786,769	1,607,394
Air structures	1,524,405	1,524,405
Equipment and furniture	386,420	375,250
Vehicles	102,945	102,945
Expansion project in progress	60,320	13,674
Accumulated depreciation	(2,196,108)	(1,939,819)
Total property and equipment	<u>1,664,751</u>	<u>1,683,849</u>
Other assets:		
Goodwill	185,291	185,291
Intangible assets	10,985	10,985
Accumulated amortization - intangibles	(10,985)	(10,966)
Total other assets	<u>185,291</u>	<u>185,310</u>
Total assets	<u>\$4,599,543</u>	<u>\$4,914,594</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$46,253	\$43,911
Accrued expenses	156,252	149,717
Deferred revenue	395,336	245,126
Note payable, due within one year	6,394	8,050
Finance lease liability, due within one year	7,982	8,556
Total current liabilities	<u>612,217</u>	<u>455,360</u>
Non-current liabilities:		
Note payable, due in more than one year	26,681	31,078
Finance lease liability, due in more than one year	4,196	11,088
Total non-current liabilities	<u>30,877</u>	<u>42,166</u>
Total liabilities	<u>643,094</u>	<u>497,526</u>
Net assets:		
Without donor restrictions	3,509,457	3,817,068
With donor restrictions	446,992	600,000
Total net assets	<u>3,956,449</u>	<u>4,417,068</u>
Total liabilities and net assets	<u>\$4,599,543</u>	<u>\$4,914,594</u>

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

**INNERCITY TENNIS FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
For The Years Ended December 31, 2023 and 2022

**Statement 2**

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue:</b>						
Activity revenue	\$1,662,731	\$ -	\$1,662,731	\$1,775,915	\$ -	\$1,775,915
Summer park program fees	77,430	-	77,430	79,745	-	79,745
Unrealized gain (loss) on beneficial interest	117,637	-	117,637	(125,071)	-	(125,071)
Other income	34,704	-	34,704	39,294	-	39,294
Total revenue	<u>1,892,502</u>	<u>0</u>	<u>1,892,502</u>	<u>1,769,883</u>	<u>0</u>	<u>1,769,883</u>
<b>Support:</b>						
Contributions	580,857	115,000	695,857	456,351	600,000	1,056,351
Special event income	63,999	-	63,999	210,751	-	210,751
Less: special event expenses	-	-	-	(67,552)	-	(67,552)
Net special event revenue	<u>63,999</u>	<u>0</u>	<u>63,999</u>	<u>143,199</u>	<u>0</u>	<u>143,199</u>
Total support	<u>644,856</u>	<u>115,000</u>	<u>759,856</u>	<u>599,550</u>	<u>600,000</u>	<u>1,199,550</u>
Net assets released from restriction	<u>268,008</u>	<u>(268,008)</u>	<u>-</u>	<u>250</u>	<u>(250)</u>	<u>-</u>
Total support and revenue	<u>2,805,366</u>	<u>(153,008)</u>	<u>2,652,358</u>	<u>2,369,683</u>	<u>599,750</u>	<u>2,969,433</u>
<b>Expenses:</b>						
<b>Program:</b>						
Outreach	704,664	-	704,664	440,359	-	440,359
Tennis center	1,712,254	-	1,712,254	1,674,800	-	1,674,800
Expansion project	57,937	-	57,937	158	-	158
Total program	<u>2,474,855</u>	<u>0</u>	<u>2,474,855</u>	<u>2,115,317</u>	<u>0</u>	<u>2,115,317</u>
<b>Supporting services:</b>						
Management and general	448,601	-	448,601	301,752	-	301,752
Fundraising	189,521	-	189,521	202,097	-	202,097
Total supporting services	<u>638,122</u>	<u>0</u>	<u>638,122</u>	<u>503,849</u>	<u>0</u>	<u>503,849</u>
Total expenses	<u>3,112,977</u>	<u>0</u>	<u>3,112,977</u>	<u>2,619,166</u>	<u>0</u>	<u>2,619,166</u>
Change in net assets	(307,611)	(153,008)	(460,619)	(249,483)	599,750	350,267
Net assets - beginning 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>
Net assets - end of year	<u>\$3,509,457</u>	<u>\$446,992</u>	<u>\$3,956,449</u>	<u>\$3,817,068</u>	<u>\$600,000</u>	<u>\$4,417,068</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, 2023 and 2022

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

	2023					Total
	Program Services			Supporting Services		
	Outreach	Tennis Center	Expansion Project	Management	Fundraising	
Expenses:						
Personnel costs	\$582,883	\$901,806	\$57,937	\$226,965	\$123,155	\$1,892,746
Utilities	9,258	170,352	-	6,687	-	186,297
Depreciation and amortization	-	256,309	-	-	-	256,309
Cost of goods sold	-	28,664	-	-	-	28,664
Special event expense	-	-	-	-	53,504	53,504
Program expenses	80,187	40,449	-	6,992	-	127,628
Contract services	-	102,443	-	137,000	4,994	244,437
Insurance	5,502	11,921	-	18,340	917	36,680
Lease expense	8,829	47,090	-	1,472	1,472	58,863
Facility maintenance	-	35,324	-	10,021	418	45,763
Training and staff development	1,050	(3,139)	-	10,788	119	8,818
Supplies	-	4,345	-	6,910	36	11,291
Bad debt expense	-	24,159	-	-	-	24,159
Telephone	2,807	8,544	-	854	-	12,205
Postage and delivery	128	695	-	21	71	915
Dues and subscriptions	-	2,446	-	1,772	-	4,218
Printing and copying	878	4,828	-	132	2,941	8,779
Advertising, marketing and PR	13,142	(3,648)	-	6,785	(700)	15,579
Bank charges	-	73,904	-	8,276	2,161	84,341
Interest expense	-	3,304	-	926	-	4,230
Other	-	2,458	-	4,660	433	7,551
<b>Total expenses</b>	<b>\$704,664</b>	<b>\$1,712,254</b>	<b>\$57,937</b>	<b>\$448,601</b>	<b>\$189,521</b>	<b>\$3,112,977</b>

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

**INNERCITY TENNIS FOUNDATION**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For The Years Ended December 31, 2023 and 2022

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

	2022					
	Program Services			Supporting Services		Total
	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
Lease expense	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	<u>440,359</u>	<u>1,674,800</u>	<u>158</u>	<u>301,752</u>	<u>269,649</u>	<u>2,686,718</u>
Less expenses included with revenues on the statements of activities:						
Special event expense	-	-	-	-	(67,552)	(67,552)
Total expenses included in the expenses section on the statements of activities	<u>\$440,359</u>	<u>\$1,674,800</u>	<u>\$158</u>	<u>\$301,752</u>	<u>\$202,097</u>	<u>\$2,619,166</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, 2023 and 2022

Statement 4

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	(\$460,619)	\$350,267
Adjustments to reconcile change in net assets to net cash provided (used in) by operating activities:		
Depreciation and amortization	256,309	241,116
(Gain) loss on beneficial interest	(118,711)	124,504
(Gain) on sale of property and equipment	-	(4,500)
Allowance for doubtful accounts	24,159	-
(Increase) decrease in current assets:		
Contributions receivable	59,750	(93,000)
Accounts receivable	(76,772)	(29,770)
Employee retention credits receivable	-	545,975
Inventory	(2,231)	(3,155)
Prepays	4,255	4,454
Increase (decrease) in current liabilities:		
Accounts payable	2,342	19,609
Accrued expenses	6,535	82,717
Deferred revenue	150,210	32,539
Net cash (used in) provided by operating activities	<u>(154,773)</u>	<u>1,270,756</u>
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	-	4,500
Purchases of property and equipment	(237,190)	(161,387)
Net cash used in investing activities	<u>(237,190)</u>	<u>(156,887)</u>
Cash flows from financing activities:		
Principal payments on note payable	(6,054)	(1,851)
Principal payments on finance lease	(7,467)	(6,984)
Net cash used in financing activities	<u>(13,521)</u>	<u>(8,835)</u>
Increase (decrease) in cash and cash equivalents	(405,484)	1,105,034
Cash and cash equivalents - beginning of year	<u>1,828,978</u>	<u>723,944</u>
Cash and cash equivalents - end of year	<u><u>\$1,423,494</u></u>	<u><u>\$1,828,978</u></u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$4,230</u>	<u>\$2,406</u>
Non-cash investing and financing activity:		
Equipment financed through note payable arrangement	<u>\$ -</u>	<u>\$40,980</u>

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

**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. 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*.

**C. 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.

**D. 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.

**E. ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. An allowance is provided for uncollectible amounts based on management's prior experience with customers, analysis of individual accounts, and other reasonable and supportable forward-looking 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 \$34,159 and \$10,000 as of December 31, 2023 and 2022, respectively.

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.

**INNERCITY TENNIS FOUNDATION**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2023 and 2022

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**F. 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.

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, 2023 and 2022, all contributions receivables are due within one year and are expected to be fully collected.

**G. 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.

**H. 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 statements 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

**I. 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.

**J. 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, 2023 and 2022.

## **K. 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.

*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, 2023 and 2022, the Foundation had no net assets with donor restrictions that were permanent in nature.

## **L. 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.

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.

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.

The Foundation was awarded a conditional grant in the amount of \$160,447 during 2023. Amounts not yet recognized as of December 31, 2023 totaled \$114,844 because the conditions on which they depend has not yet been met. These conditional contributions will be recognized as revenue upon the Foundation incurring qualified expenditures per the terms of the grant agreement.

For the years ended 2023 and 2022, respectively, the Foundation received 34% and 66% of contributions as shown on the statements of activities from two donors.

**M. 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, 2023 and 2022.

**N. 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, 2023 and 2022, as permitted under the standard. However, the Foundation may elect to measure newly acquired financial instruments at fair value in the future.

**O. 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.

**P. 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.

**Q. 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.

**R. 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.

**S. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

The Foundation adopted the provisions of FASB Accounting Standards Codification (FASB ASC) 326: *Financial Instruments—Credit Losses* as of January 1, 2023, which replaced the incurred loss impairment method with a method that reflects lifetime expected credit losses. Adoption of the new standard did not impact the Foundation's financial statements.

**T. SPECIAL EVENTS CLASSIFICATIONS**

For the year ending December 31, 2022 all income, including contributions, generated from special events was classified as special event revenue, which was presented net of direct event expenses. For the year ending December 31, 2023, contributions generated from special events were classified as contribution revenue and expenses were presented with the statement of functional expenses, rather than being presented net of revenue.

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2023 and 2022

A comparison of special events revenue and expense as of December 31 is as follows:

	<u>2023</u>	<u>2022</u>
Special event revenue:		
Contributions	\$119,961	\$ -
Special event income	<u>63,999</u>	<u>210,751</u>
Total revenue	<u>183,960</u>	<u>210,751</u>
Special event expenses:		
Program supplies	36,256	-
Other expenses	60,703	-
Special event expense	<u>-</u>	<u>67,552</u>
Total expenses	<u>96,959</u>	<u>67,552</u>
Net special event revenue	<u><u>\$87,001</u></u>	<u><u>\$143,199</u></u>

**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 statements of financial position are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	1,016,502	\$1,328,978
Beneficial interest in assets held by the Minneapolis Foundation	1,037,999	919,288
Accounts receivable	190,491	137,878
Contributions receivable	<u>27,229</u>	<u>126,979</u>
Total	<u><u>\$2,272,221</u></u>	<u><u>\$2,513,123</u></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.

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.

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2023 and 2022

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**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>
2024	\$8,556
2025	<u>4,278</u>
Total minimum lease payments	12,834
Less: Amount representing interest	<u>(656)</u>
Present value of minimum payments	<u><u>\$12,178</u></u>

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

	<u>2023</u>	<u>2022</u>
Equipment	\$29,948	\$29,948
Less: Accumulated depreciation	<u>(10,684)</u>	<u>(6,405)</u>
Net book value	<u><u>\$19,264</u></u>	<u><u>\$23,543</u></u>

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Operating lease expense included in rent expense	<u>\$58,863</u>	<u>\$46,653</u>
Finance lease costs:		
Amortization of lease assets included in depreciation and amortization expense	\$4,278	\$4,267
Interest on lease liabilities included in interest expense	<u>1,090</u>	<u>1,572</u>
Total finance lease costs	<u>\$5,368</u>	<u>\$5,839</u>

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

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Expansion project	\$35,000	\$ -
Schools and community programming	<u>411,992</u>	<u>600,000</u>
Total	<u>\$446,992</u>	<u>\$600,000</u>

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2023 and 2022

**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 1I – Beneficial Interests in Assets Held by the Minneapolis Foundation, and Note 1N – Fair Value Measurements.

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

	2023			
	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by the Minneapolis Foundation	\$0	\$0	\$1,037,999	\$1,037,999

  

	2022			
	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by the Minneapolis Foundation	\$0	\$0	\$919,288	\$919,288

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, 2023 and 2022:

	Beneficial interest in assets held by the Minneapolis Foundation
Beginning Balance - January 1, 2022	\$1,043,792
Investment return, net	(124,504)
Ending Balance - December 31, 2022	\$919,288
Beginning Balance - January 1, 2023	\$919,288
Investment return, net	118,711
Ending Balance - December 31, 2023	\$1,037,999

**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 \$25,216 and \$24,329 for the years ended December 31, 2023 and 2022, respectively.

**INNERCITY TENNIS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2023 and 2022

**Note 7 CONTINGENT LIABILITIES**

On May 8, 2020 the Foundation entered into a Paycheck Protection Program (PPP) loan for \$253,834. The Foundation received full forgiveness from the SBA on July 9, 2021. On February 17, 2021, the Foundation obtained a second draw PPP loan for \$304,745. The Foundation received full forgiveness from the SBA on April 4, 2022. The expenditures made under the PPP loan program are subject to review and audit by the SBA for six years from the date the loan was forgiven. Management believes that any liability for disallowances, which may arise as a result of an audit, would not be material.

**Note 8 LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	<u>2023</u>	<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.	\$33,075	\$39,128
Less: Current maturities	<u>(6,394)</u>	<u>(8,050)</u>
Long-term portion	<u>\$26,681</u>	<u>\$31,078</u>

The annual maturities of the note payable are as follows for the years ending December 31:

<u>Years Ending</u>	<u>Amount</u>
2024	\$6,394
2025	6,754
2026	7,134
2027	7,536
2028	<u>5,257</u>
	<u>\$33,075</u>

The interest expense on the note payable for the years ended December 31, 2023 and 2022 was \$1,997 and \$832, respectively.

**Note 9 SUBSEQUENT EVENTS**

Management has evaluated subsequent events for potential recognition or disclosure through April 12, 2024, the date that the financial statements were available to be issued.