United States Tennis Association Incorporated and Affiliates

Consolidated Financial Statements
Years Ended December 31, 2016 and 2015

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Contents

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Independent Auditor's Report

Board of Directors
United States Tennis Association Incorporated
White Plains, NY

We have audited the accompanying consolidated financial statements of United States Tennis Association Incorporated and Affiliates, which are comprised of the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of changes in net assets, revenues and expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United States Tennis Association Incorporated and Affiliates as of December 31, 2016 and 2015, their revenues and expenses, and the changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 28, 2017

United States Tennis Association Incorporated and Affiliates

Consolidated Balance Sheets
(dollars in thousands)

December 31,	**2016**	2015
Assets		
Current:		
Cash and cash equivalents (Note 3)	**$ 102,361**	$135,761
Investments (Note 3)	**140,866**	133,672
Accounts receivable, net of allowance for doubtful accounts	**7,573**	10,820
Other current assets	**7,836**	7,021
Total Current Assets	**258,636**	287,274
Restricted Cash and Securities on Deposit	**131,171**	89,408
Long-term Investments (Note 3)	**14,095**	13,982
Property, Building and Equipment, Net (Note 5)	**654,479**	493,768
Intangible Asset (Note 8)	**12,658**	12,658
Other Assets	**5,341**	4,277
Total Assets	**$1,076,380**	$901,367
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 73,881**	$ 87,167
Accrued interest payable	**11,648**	7,333
Deferred income	**27,513**	21,411
Deferred rent credit (Note 11)	**4,130**	4,399
Current portion of debt payable (Note 7)	**14,966**	14,437
Total Current Liabilities	**132,138**	134,747
Debt Payable, Less Current Portion and Deferred Debt Finance Costs, Net (Note 7)	**557,901**	374,589
Deferred Income, Less Current Portion	**21,555**	12,227
Other Liabilities	**1,958**	2,025
Total Liabilities	**713,552**	523,588
Commitments and Contingencies (Notes 2, 3, 6, 7, 8 and 11)		
Net Assets:		
Unrestricted net assets of controlling interest:		
General	**237,827**	253,519
Board designated (Note 2)	**120,000**	120,000
Noncontrolling interests in consolidated subsidiaries (Note 8)	**5,001**	4,260
Total Net Assets	**362,828**	377,779
Total Liabilities and Net Assets	**$1,076,380**	$901,367

See accompanying notes to consolidated financial statements.

United States Tennis Association Incorporated and Affiliates

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

Years ended December 31, 2016 and 2015

	Controlling Interest				
	General	Board Designated	Total	Noncontrolling Interest	Total
Net Assets as of January 1, 2015	$245,179	$120,000	$365,179	$ 5,637	**$370,816**
Income attributable to controlling interest	8,340	-	8,340	-	**8,340**[(b)]
Income attributable to noncontrolling interest	-	-	-	978	**978**[(b)]
Distributions to noncontrolling interest	-	-	-	(2,355)	**(2,355)**
Net Assets as of December 31, 2015	253,519	120,000	373,519	4,260	**377,779**
Loss attributable to controlling interest	(15,692)	-	(15,692)	-	**(15,692)**[(a)]
Income attributable to noncontrolling interest	-	-	-	1,085	**1,085**[(a)]
Distributions to noncontrolling interest	-	-	-	(344)	**(344)**
Net Assets as of December 31, 2016	**$237,827**	**$120,000**	**$357,827**	**$ 5,001**	**$362,828**

(a) Portion of $(14,607) representing consolidated net loss.

(b) Portion of $9,318 representing consolidated net income.

See accompanying notes to consolidated financial statements.

United States Tennis Association Incorporated and Affiliates

Consolidated Statements of Revenues and Expenses (dollars in thousands)

Years ended December 31,	**2016**	2015
Operating Revenues:		
US Open	**$305,123**	$298,106
USA team events	**2,013**	744
Tour events (Note 8)	**30,462**	29,292
Membership	**18,175**	16,848
NTC tennis facility programs (other than US Open)	**3,737**	3,835
Community tennis leagues and tournaments, including National Campus	**3,815**	2,616
Investment return allocated to operations (Note 4)	**8,000**	7,050
Other	**1,339**	1,437
Total Operating Revenues	**372,664**	359,928
Operating Expenses:		
Program services:		
US Open:		
Direct expenses	**116,223**	105,374
Depreciation, demolition and related asset write-off, pledge and debt interest expense (Notes 5, 6, 7 and 11)	**62,911**	41,208
USA team events	**6,066**	3,309
Tour events (including depreciation) (Note 8)	**27,833**	27,038
Membership	**11,249**	11,338
NTC tennis facility programs (including depreciation and debt interest)	**10,922**	10,824
Community tennis, including National Campus:		
Grants to independent regional associations	**48,176**	47,072
Other community tennis programs (including depreciation)	**47,146**	38,915
Player development	**18,402**	18,079
Pro circuit and officials	**7,364**	7,429
Marketing, digital and other program services	**11,790**	8,463
Total Program Services	**368,082**	319,049
Administrative and supporting services (including depreciation and taxes)	**23,389**	21,893
Total Operating Expenses	**391,471**	340,942
(Deficit) Excess of Operating Revenues Over Operating Expenses	**(18,807)**	18,986
Nonoperating Other Income (Loss) and Deductions:		
Investment return, net of amounts allocated to operations (Note 4)	**2,892**	(10,627)
Net gain on sale of investment in tennis investments (Note 8)	**1,308**	959
Total Nonoperating Other Income (Loss) and Deductions	**4,200**	(9,668)
(Deficit) Excess of Revenues Over Expenses	**$ (14,607)**	$ 9,318

See accompanying notes to consolidated financial statements.

United States Tennis Association Incorporated and Affiliates

Consolidated Statements of Cash Flows (dollars in thousands)

Years ended December 31,	**2016**	2015
Cash Flows From Operating Activities:		
(Deficit) excess of revenues over expenses	**$ (14,607)**	$ 9,318
Adjustments to reconcile (deficit) excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization of leasehold improvements (Note 5)	**41,062**	32,732
Gain on sale of securities, net (Note 4)	**(1,505)**	(4,744)
Unrealized (gain) loss on investments, net (Note 4)	**(7,501)**	10,175
Net gain on sale of investment in tennis tournaments (Note 8)	**(1,308)**	(959)
Loss on disposal of property, building and equipment (Note 5)	**15,051**	351
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	**3,247**	(5,403)
Decrease (increase) in other assets	**2,122**	(3,062)
Increase in accounts payable, accrued expenses and other liabilities	**14,918**	14,667
Increase in deferred income	**15,161**	7,646
Net Cash Provided By Operating Activities	**66,640**	60,721
Cash Flows From Investing Activities:		
Property, building and equipment, net	**(240,780)**	(158,638)
(Increase) decrease in restricted cash and securities on deposit	**(41,763)**	131,378
Proceeds from sale of tennis investment (Note 8)	**1,308**	3,000
Investment in Trident8 (Laver Cup) (Note 8)	**(4,000)**	-
Purchase of investments	**(9,367)**	(21,444)
Proceeds from sales of investments	**11,066**	18,813
Net Cash Used In Investing Activities	**(283,536)**	(26,891)
Cash Flows From Financing Activities:		
Issuance of 2016 private placement debt, net of issuance costs (Note 7)	**197,854**	-
Amortization of deferred issuance costs (Note 7)	**423**	314
Scheduled payment of debt payable	**(14,437)**	(7,026)
Distribution to noncontrolling interest (Note 8)	**(344)**	(2,355)
Net Cash Provided By (Used In) Financing Activities	**183,496**	(9,067)
Net (Decrease) Increase in Cash and Cash Equivalents	**(33,400)**	24,763
Cash and Cash Equivalents at Beginning of Year	**135,761**	110,998
Cash and Cash Equivalents at End of Year	**$ 102,361**	$ 135,761
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	**$ 15,207**	$ 12,994
Taxes	**284**	36
Supplemental Disclosures of Noncash Financing and Investing Activities:		
Property, building and equipment purchased through accounts payable/accrued expenses and other liabilities	**$ 19,300**	$ 43,256

See accompanying notes to consolidated financial statements.

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, US Open Series, LLC ("USOS"), and Tennis Rendezvous LLC ("Tennis Rendezvous"). 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. Management of the Organization makes estimates and judgments in preparing 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 alternative investments 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:

(a) promote the development and growth of tennis as a means of healthful recreation and physical fitness;

(b) sponsor and operate the United States Open Tennis Championship ("US Open"), the pre-eminent international tennis competition in the United States, open to male and female professional and amateur tennis players;

(c) establish and maintain rules of play and high standards of conduct and good sportsmanship;

(d) foster national and international tennis tournaments and competitions;

(e) 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; and

(f) 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 US Olympic Committee.

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

In 2016, USTA relocated various Community Tennis operations from its headquarters in New York to the USTA National Campus in Lake Nona, Florida. Also referred to as the new Home of American Tennis, it is a 100 court facility intended to enhance the sport at every level (i.e., recreational, amateur and professional).

USTA is the sole member of NTC and such organizations have identical Boards of Directors. NTC is a New York State not-for-profit corporation organized by USTA whose purpose is to:

(a) 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 one other) 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;

(b) provide a venue for the holding of the US Open;

(c) foster national and international sports competitions;

(d) establish, administer and promote programs devoted to the development of tennis as a means of healthful recreation and physical fitness; and

(e) 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.

NTC is exempt from federal income tax under Section 501(c)(3) of the Code.

USTA is also the sole member of PD and such organizations have identical Boards of Directors. PD is a New York State not-for-profit corporation organized by USTA whose purpose is to:

(a) 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;

(b) 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; and

(c) provide assistance to individuals through the making of grants to support the charitable programs that PD conducts.

In 2016, PD began transitioning from its headquarters from Boca Raton, Florida, to the USTA National Campus in Lake Nona, Florida, and commenced operations in early January, 2017. It includes indoor and outdoor courts, smart courts to record and track players' progress, and other training facilities.

PD is exempt from federal income tax under Section 501(c)(3) of the Code.

USOS was organized by USTA to operate and manage television and marketing initiatives for a series of professional tennis tournaments known as the US Open Series. Such company has contributed to increased viewership and visibility, helping grow the sport of tennis. 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.

Tennis Rendezvous was organized in 2014, among other reasons, for USTA to acquire the ATP 250 Sanction for the ATP Tour, Inc. tennis tournament played in Memphis, Tennessee. Tennis Rendezvous was organized in Delaware pursuant to that States' Limited Liability Act. Taxable income and related taxes, if any, are the responsibility of the sole member of Class A Units, USTA, which represented a 51% interest in Tennis Rendezvous. The remaining 49% noncontrolling interest was represented by the Class B Units held by an unaffiliated party. USTA sold the ATP 250 Sanction to unaffiliated US domiciled entities on July 29, 2015 and used a portion of the proceeds to redeem the Class B Units, thus giving USTA a 100% ownership interest in the remaining net assets of Tennis Rendezvous.

Cincinnati Tennis LLC was organized to operate the Western and Southern Financial Group Masters' tournaments. In March 2009, Cincinnati Tennis LLC acquired TCI Ventures LLC to obtain the ATP World Tour Sanction for the Masters' Tournament. Cincinnati Tennis LLC leases the women's sanction from Octagon, Inc. USTA owns an 80% interest in Cincinnati Tennis LLC. The remaining 20%, which is owned by former members of TCI Ventures, LLC and by Octagon, Inc., is reported as a noncontrolling interest in the accompanying consolidated financial statements. Taxable income and related taxes of Cincinnati Tennis LLC, if any, are the responsibility of each of its members.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Organization considers investments with financial institutions and securities brokers, other than those that are restricted as to use, 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 limits. These financial institutions have strong credit ratings and management believes credit risk related to these deposits is minimal.

Restricted Cash and Securities on Deposit

As of December 31, 2016 and 2015, NTC had restricted cash and securities on deposit with two major financial institutions, one of which acts as the trustee for the Noteholders and Lending Banks, in the amount of $131,171 and $89,408, respectively, as a result of the 2016 and 2014 Private Placements as further discussed in Note 7. As of December 31, 2016 and 2015, the amounts on deposit with such institutions included (a) temporarily invested Private Placement Financing proceeds of $105,831 and $74,581, respectively, dedicated to financing the Strategic Transformation Project discussed in Note 5 and, (b) a six-month debt service reserve of $25,340 and $14,827, respectively.

Allowance for Doubtful Accounts

The Organization fully provides an allowance for doubtful accounts for accounts receivable specifically identified by management for which collectability is uncertain. For 2016 and 2015, the allowance for doubtful accounts was $10 at the end of each year.

Fair Value Measurements

The 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 inputs 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 based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include publicly-traded equity securities and publicly-traded mutual funds that are actively traded on a major exchange or over-the-counter market.

Level 2 – Valuation 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, such as municipal bonds. 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 based on inputs that are unobservable and reflect management's best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments.

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.

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.

In accordance with ASC 350, "Intangibles – Goodwill and Other," 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. It is amortized over its estimated useful life, generally three to five years.

Deferred Debt Finance Costs

Deferred debt finance costs are primarily amortized over the life of each series using the effective interest rate method. In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. The Organization has adopted ASU 2015-03 during the year ended December 31, 2016, and applied its provisions retrospectively.

Concentrations

The Organization generated slightly more than 80% of its operating revenues, excluding barter received, from the US Open in 2016 and 2015. These revenues arise from various sources, including broadcast rights, ticket sales, sponsorships and licensing.

Revenue Recognition

Revenue from events (US Open, Pro Tournaments, including those operated by Cincinnati Tennis LLC and others as part of the US Open Series), including revenue from broadcasting, ticketing and sponsorship, is recognized when the event occurs. Certain broadcast revenues are derived from multi-year contracts that include both variable and fixed components. Where appropriate, the fixed components of contracted revenues are recognized on a straight-line basis over the term of the agreement. Cash collected in advance of an event is recorded as deferred income. Fees received in advance for memberships and the use of tennis facilities are recognized as revenue in the periods in which the fees are earned. Life membership fees are recognized over a period of 30 years.

Ticket Revenues

Ticket revenues are principally sourced from the US Open and the Western and Southern Financial Group Masters Tournament, net of admissions taxes, and amounted to $123,013 and $118,791 for the years ended December 31, 2016 and 2015, respectively. They are derived from a wide range of individuals and corporations.

Broadcasting Revenues

Broadcasting revenues are earned through more than ten exclusive television rights agreements with domestic and international broadcasters, for which the material contracts extend through December 2025. The aggregate gross revenues derived from such agreements for the years ended December 31, 2016 and 2015 were $96,860 and $94,821, 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, $1,222 in 2016 and $1,265 in 2015 of the aggregate broadcasting revenues specified above have, instead, been included in the amounts reported under the caption "Ticket Revenues" elsewhere in this Note 2.

Sponsorship Revenues

Sponsorship revenues are derived from over 32 sponsorship agreements with counterparties. Most of these sponsorships are multi-year contracts extending through December 31, 2018. The contracts involve various forms of sponsorship for the US Open, Western and Southern Financial Group Masters tournaments, US Open Series and Arthur Ashe Kids Day. The gross aggregate revenues from such agreements for the years ended December 31, 2016 and 2015 were $89,010 and $91,738, 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, $12,208 in 2016 and $11,795 in 2015 of the aggregate sponsorship revenues specified above have, instead, been included in the amounts reported under the caption "Ticket Revenues" elsewhere in this Note 2.

Transactions With Multiple Elements

The Organization has occasion to enter into certain revenue transactions, such as the sale of broadcasting rights, sponsorships and tickets 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, to 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.

The Organization enters into barter transactions that involve the exchange of broadcast and sponsorship rights for cash and various other products and services (such as advertising). The Organization was able to approximate the fair value of certain measurable noncash elements and has included barter received and barter used totaling $10,692 and $6,884 for the years ended December 31, 2016 and 2015, respectively, in various operating revenue and operating expense lines in the Consolidated Statements of Revenues and Expenses. The values are based on the estimated fair market value or the estimated amounts that it would cost the Organization to independently procure such products and services.

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.

Income Taxes

USTA, NTC, USOS 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. The Organization has filed all applicable returns when required. USTA's share of income taxes for Cincinnati Tennis LLC and Tennis Rendezvous has been provided pursuant to the operating agreement with the other members of these organizations. For the years ended December 31, 2016 and 2015, 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 under ASC 740, "Income Taxes." The Organization believes it is no longer subject to income tax examinations for the years prior to 2013.

Advertising Costs

The Organization expenses advertising costs as they are incurred. The Organization recognized advertising expense of $6,396 and $6,312 for the years ended December 31, 2016 and 2015, respectively, in the accompanying Consolidated Statements of Revenues and Expenses. These are advertising expenses for the US Open, US 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 $10,692 and $6,884 for the years ended December 31, 2016 and 2015, respectively. Such amounts are included in various operating revenue and operating expense lines in the Consolidated Statements of Revenues and Expenses.

Contributed Services

The Board of Directors and many other volunteers have contributed services involving significant amounts of time to the Organization. These consolidated financial statements do not reflect a provision for contributed services; such services do not meet the requirements for recognition.

Net Assets Designated for Specific Purposes by Board of Directors

The Board of Directors designates a portion of general unrestricted net assets for specific purposes. Funds designated by the Board of Directors for ongoing operations of $120,000 are 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 US Open fails to provide adequate funds to meet those needs in any given year.

Indefinite Lived Intangible Assets

The indefinite lived intangible assets of the Organization are tested annually for impairment in accordance with ASC 350, 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 2016 and 2015.

Noncontrolling Interest

In accordance with ASC 810, "Consolidation," the Organization reports noncontrolling interests, sometimes referred to as minority interests, as part of total net assets in the Consolidated Balance Sheets. Furthermore, the Organization reports the changes in net assets of both the controlling and noncontrolling 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.

Recently Issued Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2018, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Organization is currently evaluating the impact of the pending adoption of ASU 2014-09 on its financial statements.

Accounting for Leases

On February 25, 2016, the FASB issued ASU 2016-02, "Leases," which will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The standard is effective for non-public business entities for fiscal years beginning after December 15, 2019 and the Organization is currently evaluating the impact of the pending adoption of ASU 2016-02.

Investments Using Net Asset Value

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Such ASU seeks to eliminate diversity in practice surrounding how investments measured at net asset value using the practical expedient with future redemption dates have been categorized in the fair value hierarchy. The standard is effective for annual periods beginning after December 15, 2016 for not-for-profit organizations. Management is currently determining the impact that adoption of this guidance will have on the Organization's financial results.

Financial Statements of Not for Profits

In August 2016, the FASB issued ASU 2016-14, "Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities." The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Organization's consolidated financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

3. 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, their valuation is based on Level 2 inputs within the hierarchy used in measuring fair value.

Alternative investments are those made in limited partnerships, offshore limited liability companies and private equity concerns, all of which are valued based on Level 3 inputs within the investment hierarchy used in measuring fair value. 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.

Notes to Consolidated Financial Statements (dollars in thousands)

Certain alternative investments, which include private equity investments, have rolling lockups ranging from one to three years. In addition, the carrying values of private equity investments do not include future funding commitments of $9,525 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 Balance Sheets.

The following tables identify assets measured at fair value on a recurring basis as of December 31, 2016 and 2015:

	Fair Value Measurement at Reporting Date Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Fair Value as of December 31, 2016	Cost as of December 31, 2016
Cash and cash equivalents	**$102,361**	**$ -**	**$ -**	**$102,361**	**$102,361**
Stocks	**17,314**	**-**	**-**	**17,314**	**13,734**
Publicly-traded mutual funds	**35,478**	**-**	**-**	**35,478**	**36,971**
Common/collective trusts and private mutual funds	**-**	**45,223**	**-**	**45,223**	**39,179**
Alternative investments and private equity	**-**	**-**	**56,946**	**56,946**	**45,435**
Subtotal	**155,153**	**45,223**	**56,946**	**257,322**	**237,680**
Restricted cash and securities on deposit:					
Cash	**45,276**	**-**	**-**	**45,276**	**45,276**
Fixed income securities	**85,895**	**-**	**-**	**85,895**	**86,431**(1)
Total	**$286,324**	**$45,223**	**$56,946**	**$388,493**	**$369,387**
	74%	**12%**	**14%**	**100%**	

(1) Amounts include premiums paid to acquire the fixed income securities.

(dollars in thousands)

	Fair Value Measurement at Reporting Date Using				
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Fair Value as of December 31, 2015	Cost as of December 31, 2015
Cash and cash equivalents	$135,761	$ -	$ -	$135,761	$135,761
Stocks	16,248	-	-	16,248	14,351
Publicly-traded mutual funds	32,320	-	-	32,320	36,649
Common/collective trusts and private mutual funds	-	43,224	-	43,224	39,979
Alternative investments and private equity	-	-	55,862	55,862	44,681
Subtotal	184,329	43,224	55,862	283,415	271,421
Restricted cash and securities on deposit:					
Cash	39,594	-	-	39,594	39,594
Fixed income securities	49,814	-	-	49,814	50,196[1]
Total	$273,737	$43,224	$55,862	$372,823	$361,211
	73%	12%	15%	100%	

[1] Amounts include premiums paid to acquire the fixed income securities.

The components of total assets carried at fair value as of December 31, 2016 and 2015 are classified in the Consolidated Balance Sheets as follows:

December 31,	**2016**	2015
Cash and cash equivalents	**$102,361**	$135,761
Investments (included in current assets)	**140,866**	133,672
Long-term investments (exclusively private equities)	**14,095**	13,982
	257,322	283,415
Restricted cash and securities on deposit	**131,171**	89,408
	$388,493	$372,823

The following tables set forth changes in the assets measured at fair value using Level 3 inputs on a recurring basis for the years ended December 31, 2016 and 2015:

Description	Balance at December 31, 2015	Purchases	Sales	Realized Gain	Unrealized Gain	Balance at December 31, 2016
Alternative investments	**$41,880**	**$2,404**	**$(2,314)**	**$ 649**	**$232**	**$42,851**
Private equity	**13,982**	**4,117**	**(4,565)**	**495**	**66**	**14,095**
Total	**$55,862**	**$6,521**	**$(6,879)**	**$1,144**	**$298**	**$56,946**

(dollars in thousands)

Description	Balance at December 31, 2014	Purchases	Sales	Realized Gain	Unrealized Gain (Loss)	Balance at December 31, 2015
Alternative investments	$42,993	$6,607	$ (7,482)	$4,440	$(4,678)	$41,880
Private equity	14,119	2,593	(3,089)	-	359	13,982
Total	$57,112	$9,200	$(10,571)	$4,440	$(4,319)	$55,862

Investments for which fair value is estimated using reported net asset values ("NAV"), or the equivalent, are summarized as follows as of December 31, 2016:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common/collective trusts and private mutual funds:				
Fixed income	**$15,063**	**$ -**	Daily	10 days
Global ex-U.S. equity	**19,471**	**-**	Monthly	15 days
Emerging markets	**10,689**	**-**	Monthly	30 days
	$45,223	**$ -**		
Alternative investments:				
Absolute return	**$20,819**	**$ -**	Semiannually	60-65 days
Hedge fund	**22,032**	**-**	Annually	30-90 days
Private equity	**14,095**	**9,525**	*(a)*	*(a)*
Total	**$56,946**	**$9,525**		

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

4. Investment Return Presentation

The following schedule summarizes the investment portfolio return for the years ended December 31, 2016 and 2015:

Years ended December 31,	**2016**	2015
Dividend income	**$ 1,458**	$ 1,985
Interest income (net of interest expense, excluding debt interest, and investment fees)	**428**	(131)
Realized gain, net	**1,505**	4,744
Change in unrealized gain (loss), net	**7,501**	(10,175)
	10,892	(3,577)
Investment return allocated to operations	**(8,000)**	(7,050)
Investment return, net of amounts allocated to operations	**$ 2,892**	$(10,627)

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 twelve 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 Revenues and Expenses as "Investment return allocated to operations," a separate line item within operating revenue. It amounted to $8,000 and $7,050 for the years ended December 31, 2016 and 2015, respectively. A corresponding deduction is included within "Nonoperating Other Income (Loss) 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.

Notes to Consolidated Financial Statements (dollars in thousands)

In 2016 the Organization's actual investment return was a gain of 6.2% and in 2015 was a loss of (2.8%). The Organization expenses investment management and advisory fees as they are incurred. The Organization incurred fees related to investment expenses of $893 and $1,156 for the years ended December 31, 2016 and 2015, respectively, reporting them as a reduction of investment return in the accompanying Consolidated Statements of Revenues and Expenses.

5. Property, Building and Equipment, Net

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

December 31,	**2016**	2015
Land, building and improvements	**$ 12,031**	$ 12,031
Leasehold improvements	**882,314**	530,725
Machinery and equipment	**83,956**	73,383
Computer hardware and software	**28,721**	23,558
Furniture and fixtures	**45,472**	36,356
Construction-in-progress	**40,716**	260,932
	1,093,210	936,985
Less: Accumulated depreciation and amortization	**(438,731)**	(443,217)
Net property, building and equipment	**$ 654,479**	$ 493,768

Depreciation and amortization expense was $41,062 and $32,732 for the years ended December 31, 2016 and 2015, respectively, which has been distributed between US Open, Tour Events, NTC Facility Programs, Community Tennis and Administration.

As of December 31, 2016 and 2015, $14,347 and $11,983, respectively, of computer software costs have been capitalized. Accumulated amortization for such software costs is $11,324 and $9,978 as of December 31, 2016 and 2015, 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 and a new Grandstand stadium) and continues to formulate plans for a transformation of the NTC Facility which includes building a new Louis Armstrong stadium, new ticket office and other facility enhancements. Construction work began after the 2013 US Open and is expected to be complete by the 2018 US Open. The cost for this transformation is estimated to be between $600,000 and $650,000. It is being funded with the private placement financings described in Note 7, as well as by cash and cash equivalents, investments and revenue generation.

During 2016, USTA incurred one-time fixed asset disposals and other nonrecurring costs in the amount of $16,653 ($15,051 write-off of the undepreciated cost of certain assets and $1,602 demolition cost) principally related to the demolition, write-off and replacement of the Louis

(dollars in thousands)

Armstrong Stadium and renovation of surrounding NTC Facilities. Although USTA considers these costs as unusual or infrequently occurring, it has included them with depreciation, demolition and related asset write-off, pledge and debt interest expense appearing under Operating Expenses in the Consolidated Statements of Revenues and Expenses.

Capitalized Interest

For the years ended December 31, 2016 and 2015, the Organization capitalized interest of $6,095 and $4,493, respectively, on qualifying assets in accordance with ASC 835, "Interest."

6. Line of Credit and Irrevocable Letter of Credit

USTA has an unsecured line of credit with a financial institution in the amount of $25,000 that expired on August 31, 2016, and was renewed for a one-year term at a nominal fee. The Organization has two different borrowing options when utilizing this line, including London Interbank Offered Rate ("LIBOR"), or the prime rate. Had the Organization borrowed from the line of credit in 2016 it would have used the LIBOR (plus spread) rate, which was 1.77% at December 31, 2016. Accrued interest on the line of credit is payable monthly. No principal or interest amounts were outstanding on December 31, 2016 or 2015. Interest expense related to this line of credit was $-0- in each of the years ended December 31, 2016 and 2015.

As part of the site-wide improvements at the NTC Facility, NTC established irrevocable letters of credit with one beneficiary, the City of New York, for $1,831 and another beneficiary, an insurance underwriter, for $12,685 as part of NTC's Owner Construction Insurance Policy Program. There were no drawings against these letters of credit in 2016 and 2015.

7. Private Placement Financing

In 2014 and 2016, NTC entered into a series of transactions collectively referred to as the Private Placement Financings ("Private Placement"). The Private Placement consisted of $600,000 Senior Secured Fixed Rate Notes ("Notes") and a $150,000 Senior Secured Revolving Credit Facility ("Credit Facility"). 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 as discussed in Note 5. The following table provides an overview of the Notes and Credit Facility:

	Notes, Series A	Notes, Series B	Notes, Series C	Credit Facility	Total
Date of funding	September 8, 2014	September 8, 2014	May 26, 2016	May 26, 2016[a]	
Principal amount at inception	$75,000	$325,000	$200,000	$150,000	$750,000
Term	10 Years	25 Years	20 Years	5 Years	5-25 years
Interest rate	3.11%	4.08%	3.29%	Variable[b]	Range of 0.% to 4.08%
Balance at December 31, 2016	$65,171	$313,367	$200,000	$ -	$578,538[c]

[a]- Original Credit Facility issued on July 1, 2014 was for $75,000. It was subsequently amended on May 26, 2016, and increased to $150,000. No amounts were drawn on the Credit Facility in 2015 or 2016.

[b] - Variable interest rate based on Alternative Base Rate loan or Eurodollar loan plus 1.375% based on A- rating.

[c] - Amount shown on Consolidated Balance Sheet "Debt Payable, Less Current Portion and Deferred Debt Finance Costs, Net" of $557,901 is net of current portion of debt payable $(14,966) and unamortized deferred finance costs of $5,671. At December 31, 2015, the corresponding amounts were $374,589 which was net of $14,437 payable in 2016 and unamortized deferred finance costs of $3,948.

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") and $200,000 of Senior Secured Notes, Series C ("Series C"). 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 principle 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 Credit Facility is equally distributed between two large nationally recognized banks with an initial term of five years. The Credit Facility's variable interest rate is based on the Alternative Base Rate ("ABR") loan or Eurodollar revolving loan rate plus 1.375% based on the A- rating by a major rating agency. Draws under the Credit Facility are on parity with the Notes as to pledged monies as well as deposits in the Debt Service Reserve Account.

The Notes and Credit Facility 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, 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 US 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 US 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 and Credit Facility 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 and on any date of borrowing under the Credit Facility based on an amount equal to (i) the maximum amount of interest that will be due and payable under the Credit Facility during any future six-month period based on the one-year LIBOR swap rate plus (ii) the maximum amount of debt service required to be paid on the Notes and any other outstanding parity indebtedness (other than the Credit Facility) during any future six-month period. At December 31, 2016 and 2015, such requirement approximated $25,496 and $14,822, respectively, of which NTC had cash and securities on deposit with the trustee of $25,340 plus a related investment income receivable of $158 which, together, exceeded such requirement at December 31, 2016. Cash and securities on deposit plus investment income receivable at December 31, 2015 approximated $14,827 and $304, respectively, which also 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 2.00 to 1.00 at December 31, 2016 and 2015.

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 and $2,146 for the 2016 Private Placement. In 2016 and 2015, $423 and $314, respectively, was amortized along with $66 being amortized prior thereto, resulting in unamortized deferred finance costs of $5,671 and $3,948 at December 31, 2016 and 2015, respectively.

(dollars in thousands)

The following table sets forth the scheduled annual principal and interest payments to be made on the Notes during each of the next five years and all years thereafter:

Year ending December 31,

	Principal Payments	Interest Payments
2017	$ 14,966	$ 22,025
2018	15,516	20,708
2019	16,086	20,138
2020	16,678	19,546
2021	17,291	18,932
2022-2039	498,001	173,460
	$578,538	$274,809

Based upon the borrowing rates currently available to the Organization, the fair value of the Notes at December 31, 2016 was $575,226.

8. Tournaments

Cincinnati Tennis LLC

As mentioned in Note 1, USTA owns an 80% controlling interest in Cincinnati Tennis LLC. Cincinnati Tennis LLC holds the ATP Tour, Inc. (“ATP”) World Tour Sanction (“Sanction”) for the Western and Southern Financial Group Masters’ tournaments. The total purchase price, inclusive of payments to the ATP and transfer of an equity interest in Cincinnati Tennis LLC to the former members of TCI Ventures, LLC, including Octagon, Inc., totaled $12,636. Consideration paid included cash of $3,726, a note payable of $6,480, which has since been paid, and an equity interest in Cincinnati Tennis LLC then valued at $2,430.

The Sanction is subject to termination if Cincinnati Tennis LLC fails to follow the ATP’s rules and regulations. Based on previous experience, including Cincinnati Tennis LLC’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 carrying value of $12,658 is not being amortized and is evaluated annually for impairment. No impairment was deemed to have occurred in 2016 or in years prior.

Operating revenues of $28,130 in 2016 and $25,920 in 2015 and operating expenses of $22,315 in 2016 and $20,593 in 2015 of Cincinnati Tennis LLC are included in the “Tour events” in each of the sections headed operating revenues and operating expenses, respectively, in the Consolidated Statements of Revenues and Expenses for the years ended December 31, 2016 and 2015, respectively.

In 2016 and 2015, Cincinnati Tennis LLC made distributions to its owners totaling $1,712 and $7,498, respectively, of which 20% or $344 and $1,500, respectively, represents distributions to the noncontrolling interests. Accordingly, in 2016 and 2015, $344 and $1,500, respectively, are included as part of such distributions reported in the Consolidated Statements of Changes in Net Assets.

TRIDENT8 (Laver Cup)

In November 2016, USTA made a $6,000 capital commitment to acquire a noncontrolling 20% interest in TRIDENT8, a UK private company that is treated as a partnership for US tax purposes. TRIDENT8's purpose is to further the interest of tennis by establishing and operating a team tennis competition between regional teams of top professional players from Europe and from the rest of the world. This competition is referred to as the Laver Cup in honor of Rod Laver. In 2016 USTA made a cash payment of $4,000 leaving an unpaid capital commitment of $2,000. The investment is accounted for using the equity method of accounting and is reported in "Other Assets" in the accompanying Consolidated Balance Sheets. For 2016 there were no earnings, losses or distributions from TRIDENT8.

Other Tennis Investments

In 2016, USTA's investment in the Tennis Channel was sold resulting in a gain $1,308 which is reported under "Net gain on sale of investment in tennis investments" in the Consolidated Statements of Revenues and Expenses. In 2015 an ATP 250 Sanction and a 25% interest in Atlanta Tennis Championships was sold for $3,000 resulting in a gain of $959 which is reported under "Net gain on sale of investment in tennis investments" in the Consolidated Statements of Revenues and Expenses. The sale of the ATP 250 Sanction resulted in a distribution to non-controlling partners in the amount of $855 as repayment for their initial investment. Such repayment combined with Cincinnati Tennis LLC distributions of $1,500 applicable to its noncontrolling interest total $2,355 and are reported as part of the "Distributions to noncontrolling interest" in the Consolidated Statements of Changes in Net Assets.

9. USTA Foundation

For the years ended December 31, 2016 and 2015, the Organization contributed certain services and facilities to USTA Foundation at a cost of $2,081 and $2,328, 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 Revenues and Expenses.

10. 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 $979 and $974 for the years ended December 31, 2016 and 2015, respectively. The Organization also made discretionary contributions to the plan of $1,008 and $1,064 for the years ended December 31, 2016 and 2015, respectively.

11. Commitments and Contingencies

New York City Lease

The initial term of NTC's long-term lease with New York City is for twenty-five 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 fourteen 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 twenty 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. Rent expense charged to operations for the year ended December 31, 2016 amounted to $3,143 and for the year ended December 31, 2015 amounted to $3,110. The Organization accounts for the lease as an operating lease.

Usage/Lease Agreement for the West Coast Training Center

USTA was party to a training center lease that expired in 2016 that is classified as an operating lease. Rent expense was $215 for 2016 and 2015, respectively. Such lease has been renewed through December 31, 2022.

Cincinnati Tournament Stadium and Grounds Lease

In 2009, Cincinnati Tennis LLC entered into a 21-year lease, expiring in 2029, for the stadium and grounds where the Western and Southern Financial Group Masters tennis 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 $1,082 in 2016 and $974 in 2015 as compared to payments of $1,332 and $1,224 in 2016 and 2015, respectively. The differences are accounted for in "Deferred rent credit" in the Consolidated Balance Sheets.

As part of the lease, Cincinnati Tennis LLC 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, 2016 is $7,895.

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 Balance Sheets.

USTA National Campus - Home of American Tennis

As mentioned in Note 5, 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 thirty (30) years from December 2016 with annual rental payments of one dollar. The lease includes two renewal terms of twenty years each, cumulatively forty (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 2016, rent expense for this facility was de minimis.

(dollars in thousands)

Minimum operating lease commitments at December 31, 2016 for the various leases described in this note are as follows:

Year ending December 31,	Amount
2017	$ 1,819
2018	1,805
2019	1,789
2020	1,905
2021	1,867
2022 and thereafter	24,152
Total	$33,337

Public Facility Funding Grants

USTA issued grant letters in 2016 and 2015 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, 2016, USTA would have recorded a commitment of $491.

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 2015 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 in US Open "Depreciation, demolition and related asset write-off, pledge and debt interest expense" in the Consolidated Statements of Revenues and Expenses. 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 the first installment of $350 being recognized as an operating expense in US Open "Depreciation, demolition and related asset write-off, pledge and debt interest expense."

US Open Series

Due to the overall success of the US Open Series ("Series"), the Organization made certain minimum sponsorship guarantees to each of the participating tournaments through the 2016 Series. The Organization secured sponsorships, a predefined portion of which is distributed to each tournament and applied to the guarantee. The annual guarantee through 2018 is $689 which is exceeded by the sponsorship funding that has been contracted for the Series.

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.

Subsequent Events

Pursuant to ASC 855, "Subsequent Events," as amended, the Organization has evaluated subsequent events through March 28, 2017, 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.