

THE BLUES FOUNDATION, INC.

**FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Blues Foundation, Inc.

We have audited the accompanying statements of financial position of The Blues Foundation, Inc. (a nonprofit organization) as of December 31, 2006 and 2005, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of The Blues Foundation, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Blues Foundation, Inc. as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Whitehorn Tankersley & Co., PLLC

May 31, 2007

MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA DIVISION OF FIRMS: PRIVATE COMPANIES PRACTICE SECTION
TENNESSEE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

**THE BLUES FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION**

	DECEMBER 31	
	2006	2005
<i>ASSETS</i>		
CURRENT ASSETS		
Cash	\$ 202,098	\$ 130,903
Restricted cash	<u>10,194</u>	<u>16,215</u>
	212,292	147,118
Accounts receivable	14,668	20,319
Unconditional promises to give	27,750	4,875
Inventories	21,252	20,844
Prepaid expenses	<u>8,550</u>	<u>71,625</u>
TOTAL CURRENT ASSETS	<u>284,512</u>	<u>264,781</u>
PROPERTY AND EQUIPMENT		
Office furniture and equipment	35,936	37,190
Equipment under capital lease	-	8,305
Less accumulated depreciation and amortization	<u>(25,743)</u>	<u>(36,401)</u>
	<u>10,193</u>	<u>9,094</u>
OTHER ASSETS		
Beneficial interest in assets held by the Community Foundation of Greater Memphis	1,370	1,208
Collections-blues memorabilia	<u>135,544</u>	<u>109,196</u>
	<u>136,914</u>	<u>110,404</u>
	<u>\$ 431,619</u>	<u>\$ 384,279</u>
<i>LIABILITIES AND NET ASSETS</i>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,182	\$ 13,436
Payroll taxes withheld and payable	2,135	1,401
Current portion of long-term debt	-	5,919
Deferred revenue	<u>119,373</u>	<u>138,052</u>
TOTAL CURRENT LIABILITIES	<u>123,690</u>	<u>158,808</u>
NET ASSETS		
Unrestricted	255,369	205,474
Temporarily restricted	<u>52,560</u>	<u>19,997</u>
	<u>307,929</u>	<u>225,471</u>
	<u>\$ 431,619</u>	<u>\$ 384,279</u>

See notes to financial statements

THE BLUES FOUNDATION, INC.
STATEMENTS OF ACTIVITIES

	YEAR ENDED DECEMBER 31	
	2006	2005
UNRESTRICTED NET ASSETS		
Support and revenue		
Contributions - corporate and individual sponsors	\$ 18,919	\$ 41,645
Grant revenue	1,920	62,794
Memberships	163,739	107,767
Ticket sales and entry fees	222,562	119,084
Sponsorships	93,200	85,200
Advertising	34,003	36,115
Merchandise sales	70,060	61,160
Interest income	2,399	470
Hotel commissions	5,962	3,647
Income from beneficial interest in assets held by the Community Foundation of Greater Memphis	161	54
Other	6,492	1,715
In-kind donations - blues memorabilia	17,348	12,600
In-kind donations - other	88,176	101,877
In-kind donations - capital assets	<u>12,500</u>	<u>1,029</u>
Total support and revenue	<u>737,441</u>	<u>635,157</u>
Reclassifications		
Net assets released from restrictions - expiration of time and purpose restrictions	<u>10,937</u>	<u>10,000</u>
Total support and revenue and reclassifications	<u>748,378</u>	<u>645,157</u>
Expenses		
Advertising	53,821	37,445
Advertising sales commission	1,624	2,215
Alarm services - office	305	305
Awards	8,534	15,683
Bad debts	-	23,327
Bank charges	12,584	9,605
Catering and banquets	69,853	50,213
Dues and subscriptions	2,105	2,306
Entertainment	107	29

See notes to financial statements

THE BLUES FOUNDATION, INC.
STATEMENTS OF ACTIVITIES - CONTINUED

	YEAR ENDED DECEMBER 31	
	2006	2005
UNRESTRICTED NET ASSETS - CONTINUED		
Expenses - continued		
Equipment and space rental	\$ 63,315	\$ 56,005
Event expense	77,174	6,338
Fundraising expense	-	(617)
HART Fund distributions	15,835	2,000
Insurance	3,687	2,974
Interest	82	731
Labor services	33,689	51,750
Postage and shipping	21,374	10,054
Cost of merchandise	28,746	14,851
Membership incentives	33,904	18,460
Parking - office	879	689
Miscellaneous	311	337
Office expense	41	-
Payroll	107,192	96,028
Payroll taxes	7,650	6,731
Printing	17,690	13,762
Professional fees	10,865	13,447
Publicity and media	12,450	11,624
Production	18,011	27,186
Supplies - office	4,843	5,175
Talent	16,475	18,525
Taxes and licenses	1,260	1,400
Telephone - office	5,786	4,180
Travel	11,847	16,798
Utilities - office	8,700	9,000
Rent - office	38,760	39,960
Web-site	4,839	2,188
Depreciation and amortization	3,062	4,397
Loss on disposition of assets	1,083	534
In-kind expenses - other	-	4,914
Total expenses	698,483	580,549
INCREASE (DECREASE) IN UNRESTRICTED		
NET ASSETS	49,895	64,608

See notes to financial statements

THE BLUES FOUNDATION, INC.
STATEMENTS OF ACTIVITIES - CONTINUED

	YEAR ENDED DECEMBER 31	
	2006	2005
TEMPORARILY RESTRICTED NET ASSETS		
Support and revenue		
Contributions - corporate and individual	<u>\$ 43,500</u>	<u>\$ 9,360</u>
Total support and revenue	<u>43,500</u>	<u>9,360</u>
 Reclassifications		
Net assets released from restrictions - expiration of time and purpose restrictions	<u>(10,937)</u>	<u>(10,000)</u>
Total support and revenue and reclassifications	<u>32,563</u>	<u>(640)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>32,563</u>	<u>(640)</u>
INCREASE IN NET ASSETS	<u>\$ 82,458</u>	<u>\$ 63,968</u>

See notes to financial statements

THE BLUES FOUNDATION, INC.
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
BALANCE, DECEMBER 31, 2004	\$ 140,866	\$ 20,637	\$ 161,503
Increase (decrease) in net assets	<u>64,608</u>	<u>(640)</u>	<u>63,968</u>
BALANCE, DECEMBER 31, 2005	<u>205,474</u>	<u>19,997</u>	<u>225,471</u>
Increase (decrease) in net assets	<u>49,895</u>	<u>32,563</u>	<u>82,458</u>
BALANCE, DECEMBER 31, 2006	<u>\$ 255,369</u>	<u>\$ 52,560</u>	<u>\$ 307,929</u>

See notes to financial statements

THE BLUES FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

	<u>YEAR ENDED DECEMBER 31</u>	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from donors	\$ 326,181	\$ 474,454
Cash paid to suppliers and employees	(553,933)	(546,517)
Interest received	2,399	470
Interest paid	(82)	(732)
Other operating cash receipts	<u>298,273</u>	<u>185,040</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>72,838</u>	<u>112,715</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and fixtures	<u>(1,745)</u>	<u>(4,851)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(1,745)</u>	<u>(4,851)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	<u>(5,919)</u>	<u>(11,293)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(5,919)</u>	<u>(11,293)</u>
NET INCREASE IN CASH	65,174	96,571
CASH, BEGINNING OF YEAR	<u>147,118</u>	<u>50,547</u>
CASH, END OF YEAR	<u>\$ 212,292</u>	<u>\$ 147,118</u>

See notes to financial statements

THE BLUES FOUNDATION, INC.
STATEMENTS OF CASH FLOWS - CONTINUED

	YEAR ENDED DECEMBER 31	
	2006	2005
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 82,458	\$ 63,968
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSET TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation and amortization	3,062	4,397
Loss on disposition of fixed assets	1,083	534
Non-cash contribution of property and equipment	(3,500)	(1,029)
Non-cash contribution of blues memorabilia	(26,348)	(12,600)
Change in value of beneficial interest in assets held by the Community Foundation of Greater Memphis	(162)	(54)
(Increase) decrease in assets:		
Accounts receivable	5,651	4,794
Promises to give	(22,875)	5,125
Inventories	(408)	1,993
Memorabilia	-	(212)
Prepaid expenses	63,075	(71,305)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(11,254)	(3,906)
Payroll taxes payable	734	458
Deferred revenue	<u>(18,678)</u>	<u>120,552</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 72,838</u>	<u>\$ 112,715</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES - NONE		

See notes to financial statements

THE BLUES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1 - DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ACTIVITIES - The Blues Foundation, Inc. (the "Foundation"), located in Memphis, Tennessee, is a not-for-profit Tennessee corporation organized for the preservation and perpetuation of the Blues musical art form.

ACCOUNTING BASIS - The accompanying financial statements have been prepared on the accrual basis of accounting. Under this basis of accounting, support and revenue are recognized in the period earned and expenses are recognized when incurred. Cash contributions are recognized as revenue when received.

USE OF ESTIMATES - The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF PRESENTATION - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

RESTRICTED CASH - Restricted cash represents cash restricted for the HART (Handy's Artists Relief Trust) fund which is temporarily restricted as to purpose.

ACCOUNTS RECEIVABLE AND PROMISES TO GIVE - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for any probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. The Foundation does not assess finance charges on past-due amounts of accounts receivable nor require collateral. Past due accounts receivable are determined based upon contractual terms as defined on customer invoices.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

THE BLUES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1 - DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ACCOUNTS RECEIVABLE AND PROMISES TO GIVE - CONTINUED - The Foundation uses the allowance method to determine uncollectible promises receivable and other receivables. The allowance, if any, is based upon prior years' experience and management's analysis of specific promises made. No allowance was considered necessary at December 31, 2006 or 2005.

IN-KIND DONATIONS - In-kind donations of goods are recorded at their estimated fair market value at date of contribution.

Donated services are recognized as contributions in accordance with SFAS No 116, *Accounting for Contributions Received and Contributions Made*, if the savings create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills and would otherwise be purchased by the Foundation. Donated services meeting these criteria totaled \$5,500 and \$7,835 as of December 31, 2006 and 2005, respectively.

The Foundation leases office space at a reduced rate and is required to pay \$1,200 per month to cover a portion of the rent and \$300 per month to reimburse the lessor for utility expenses. The fair value of use of the office space over the required monthly payment approximated \$25,560 during 2006 and 2005 as estimated by management of the Foundation and is included in the accompanying financial statements in other in-kind donations and office rent expense.

INVENTORIES - Inventories represent donated music memorabilia held for sale, which is valued at estimated fair value at the date of gift using the specific identification method, and various other merchandise valued at the lower of cost or market using the average cost method.

PROPERTY AND EQUIPMENT - Property and equipment are recorded at cost plus the cost of additions and those improvements which materially increase the useful lives of the assets. Donated property and equipment are recorded at their fair value at the date of gift by a charge to property and equipment and a credit to support and revenue. Repair and maintenance costs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the related asset.

COLLECTIONS - The Foundation capitalizes its collection items, as acceptable under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the date of donation. Gain or loss from deaccessions of these items are reflected on the Statement of Activities in the appropriate net asset class, depending on the existence and type of donor imposed restrictions.

THE BLUES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 1 - DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

DEFERRED REVENUE - Revenue from sponsorships or other revenues for specific events to be held in a future fiscal year are recorded as deferred revenue until the event is held. Likewise, any expenses paid in advance of the event are presented as prepaid in order to properly match revenues with related expenses.

REVENUE RECOGNITION - Contributions received or receivable are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

FUNCTIONAL ALLOCATION OF EXPENSES - The costs of providing various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among programs, fundraising and management and general services benefitted. These allocations are based upon various assumptions determined by management of the Foundation and therefore represent an estimate based upon these factors. Accordingly, it is at least reasonably possible that a change in the estimate will occur in the near term.

ADVERTISING - The Foundation expenses advertising costs as incurred. Such costs totaled \$53,821 and \$37,445 in 2006 and 2005, respectively, including \$36,400 in 2006 and \$26,535 in 2005 which were from in-kind donations.

CONCENTRATIONS - The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

STATEMENT OF CASH FLOWS - For purposes of the Statements of Cash Flows, the Foundation's policy is to consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2006 or 2005.

THE BLUES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 2 - BENEFICIAL INTEREST IN ASSETS HELD BY THE COMMUNITY FOUNDATION OF GREATER MEMPHIS

In October, 2001, the Foundation transferred \$972 in investments to the Community Foundation of Greater Memphis (the "Community Foundation") to establish the Blues Foundation Fund for the benefit of the Foundation. The Community Foundation holds and manages all investments in the fund. Distributions to the Foundation are made per approval of the Board of Directors.

NOTE 3 - INDEBTEDNESS

The Foundation had a \$50,000 unsecured line of credit agreement with a local bank. The agreement bore interest at prime plus 1.0% which was payable monthly. The line of credit was paid in full on June 11, 2004 with cash and financing provided by the bank through an unsecured promissory note for \$22,667 to be paid over twenty-four months at an interest rate of 5.55%. All amounts under this promissory note were paid in full in 2006.

NOTE 4 - COMMITMENTS

OPERATING LEASES - The Foundation leases its office space on a month-to-month basis. The office space is located in a building that is partially owned by a board member. Rent expense under this lease totaled \$13,200 and \$14,400 during the years ended December 31, 2006 and 2005, respectively. Effective February 1, 2007 the Foundation entered into a new 2 year lease agreement for its office space with monthly lease payments of \$4,500. In conjunction with this agreement, the landlord has committed to contribute a portion of the rent received to the Foundation. The Foundation also leased postage equipment under a noncancellable operating lease. Future minimum lease payments under operating leases with initial lease term in excess of one year are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Amount</u>
2007	\$ 49,500
2008	54,000
2009	<u>4,500</u>
	<u>\$108,000</u>

THE BLUES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 4 - COMMITMENTS - CONTINUED

OTHER - During 2005, the Foundation entered into group booking contracts with local hotels for a specified number of confirmed room nights for the 2006 International Blues Challenge. The agreements require liquidated damages for cancellation of the rooms. At December 31, 2005, substantially all rooms per the agreements had been confirmed. Any amounts paid by the Foundation are included in prepaid expenses in the accompanying Statement of Financial Position. Payments from persons contracting for these rooms through the Foundation are included in deferred revenue at December 31, 2005 in the accompanying Statements of Financial Position. Such amounts totaled \$69,525 and \$76,339, respectively, at December 31, 2005.

NOTE 5 - TAX EXEMPT STATUS

The Internal Revenue Service has issued a determination letter indicating that, under Section 501(c)(3) of the Internal Revenue Code of 1986, The Blues Foundation, Inc. will be treated as an organization not subject to income taxes. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

NOTE 6 - BEALE STREET CARAVAN, INC.

In 2000, the Foundation entered into an agreement with Beale Street Caravan, Inc. ("BSCI") to provide certain radio services previously provided by the Foundation. A non-inclusive broadcasting license was granted by the Foundation to BSCI for a period of ten years at a cost of \$1 per year.

NOTE 7 - CONDITIONAL PROMISE TO GIVE

In 2004, the Foundation received a conditional bridge grant of \$80,000 from the Community Foundation of Greater Memphis for operating support over a two-year period beginning March 31, 2004. The conditions of the grant were substantially met at December 31, 2004 for the first installment of \$40,000 and such amount was recorded as grant revenue in 2004. As of March 4, 2005, the Community Foundation of Greater Memphis waived the matching requirements for the final installment which resulted in the recognition of \$40,000 of revenue in fiscal year 2005.

THE BLUES FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE 8 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following restricted purposes as of December 31, 2006:

Handy's Artists Relief Trust	\$ 9,060
Building	12,500
Time restrictions	<u>31,000</u>
	<u>\$ 52,560</u>

NOTE 9 - FUNCTIONAL EXPENSES

The Foundation's expenses classified by function for the years ended December 31, 2006 and 2005 approximated the following:

	<u>2006</u>	<u>2005</u>
Program services	\$484,606	\$341,282
Management and general	209,955	226,052
Fundraising	<u>3,922</u>	<u>13,215</u>
	<u>\$698,483</u>	<u>\$580,549</u>

