

# SCHAFFER GROUP, LTD.

**TIPITINA'S FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
(AUDIT REPORT)**

**YEAR ENDED DECEMBER 31, 2015**

**CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY COMPANY**

**TIPITINA'S FOUNDATION, INC.**  
**TABLE OF CONTENTS**  
**DECEMBER 31, 2015**

I. Independent Auditor's Report

FINANCIAL STATEMENTS

II. Statement of Financial Position - Assets

III. Statement of Financial Position - Liabilities and Net Assets

IV. Statement of Activities

V. Statement of Functional Expenses

VI. Statement of Cash Flows

VII. Notes to the Financial Statements

# SCHAFFER GROUP, LTD.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Tipitina's Foundation, Inc.  
New Orleans, LA

We have audited the accompanying financial statements of Tipitina's Foundation, Inc. (a Louisiana Not-For-Profit Corporation), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

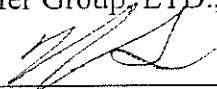
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Tipitina's Foundation, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Schafer Group, LTD., LLC



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Kernion T. Schafer  
Managing Member

September 13, 2016

**TIPITINA'S FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**

ASSETS

Current Assets

Cash	\$	19,050
Contributions Receivable		37,424
Accounts Receivable		28,904
Other Receivable		117
Recorded Music Inventory		26,736
Instruments Inventory		10,887
Current Portion of Note Receivable		113,557
Prepaid Expenses		15,703
Prepaid Instruments		28,109

Total Current Assets	280,487
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Property and Equipment

Furniture and Equipment	150,363
Leasehold Improvements	285,703
Instruments	86,183
Instruments - Instruments Program	377,467
	899,716
Less: Accumulated Depreciation	(402,117)

Total Property and Equipment	497,599
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Other Assets

Security Deposits	3,000
Note Receivable from Studio Network - Shreveport I, LLC	629,105
Less: Current Portion of Note Receivable	(113,557)

Total Other Assets	518,548
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TOTAL ASSETS	\$ 1,296,634
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**TIPITINA'S FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>	
Accounts Payable	\$ 86,645
Cash Overdraft	67,191
Allowance for Estimated CD Returns	4,223
Current Portion of Long-Term Liabilities	113,557
Due to Related Parties	109,140
Deferred Revenue	<u>675</u>
Total Current Liabilities	<u>381,431</u>
<u>Long-Term Liabilities</u>	
Note Payable - Whitney Bank, Net of Debt Issuance Costs	434,368
Note Payable - City of Shreveport	191,755
Less: Current Portion of Long-Term Liabilities	<u>(113,557)</u>
Total Long-Term Liabilities	<u>512,566</u>
Total Liabilities	<u>893,997</u>
<u>Net Assets</u>	
Unrestricted	365,213
Temporarily Restricted	<u>37,424</u>
Total Net Assets	<u>402,637</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,296,634</u>

**TIPITINA'S FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2015**

**UNRESTRICTED NET ASSETS**

<u>Revenue</u>	
Contributions and Grants	\$ 1,021,816
Special Event and Fundraiser Income	354,613
Public Funds	20,100
Program Income	22,451
CD Revenue: Goin' Home, net of Allowance	6,565
Total Revenue	<u>1,425,545</u>
Net Assets Released from Restrictions	<u>4,000</u>
Total Unrestricted Revenues	<u>1,429,545</u>
<u>Expenses</u>	
Program Services:	
Instruments Program	139,740
Internship Program	266,897
Music Office Co-op	459,848
Sunday Youth Music Workshop	97,200
Community	37,084
Total Program Services	<u>1,000,769</u>
Supporting Services:	
General and Administrative Expenses	216,941
Fundraising	186,971
Total Supporting Services	<u>403,912</u>
Total Unrestricted Expenses	<u>1,404,681</u>
<u>Other Income (Expenses)</u>	
Other Income on CD - Goin' Home (Note 7)	(662)
Depreciation and Amortization	(147,637)
Interest Income	33,657
Interest Expense	(33,657)
Interest Expense - Debt Issuance Costs	(1,490)
Total Other Income (Expenses)	<u>(149,789)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (124,925)</u>

See Independent Auditor's Report and Notes to the Financial Statements.  
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**TIPITINA'S FOUNDATION, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015**

**TEMPORARILY RESTRICTED NET ASSETS**

<u>Revenue</u>	
Contributions and Grants	\$ 37,424
Total Revenue	<u>37,424</u>
Net Assets Released from Restrictions	<u>(4,000)</u>
Total Temporarily Restricted Revenues	<u>33,424</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>\$ 33,424</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (91,501)</u>
Net Assets, Beginning of Year (Previously Reported)	\$ 608,083
Prior Period Adjustments (Note 13)	<u>(113,945)</u>
Net Assets, Beginning of Year (Restated)	\$ 494,138
Increase (Decrease) in Net Assets	<u>(91,501)</u>
Net Assets, End of Year	<u>\$ 402,637</u>



**TIPITINA'S FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2015**

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Salaries	\$ 455,353	\$ 55,149	\$ 100,579	\$ 611,081
Payroll Taxes	35,877	4,108	8,231	48,216
Health Insurance	21,817	2,948	6,170	30,935
Total Salaries and Related Expenses	<u>513,047</u>	<u>62,205</u>	<u>114,980</u>	<u>690,232</u>
Administrative Expense	327	8,983	-	9,310
Administrative Support	-	17,784	-	17,784
Consulting	12,500	300	7,675	20,475
Computer/Gear Supplies & Repairs	2,753	-	-	2,753
Rent	239,250	36,000	1,400	276,650
Instructors	75,665	-	-	75,665
Direct Assistance	7,284	-	-	7,284
Dues and Subscriptions	95	-	-	95
Instrument Repair	6,089	-	-	6,089
Insurance	-	9,416	-	9,416
Licenses and Permits	500	204	-	704
Miscellaneous	164	1,197	-	1,361
Marketing, Advertising, Printing, and Promotions	9,129	1,825	3,134	14,088
Professional Services	-	33,366	5,796	39,162
Project Development/Entertainment	365	1,366	-	1,731
Repairs and Maintenance	6,728	2,180	2,119	11,027
Service Fees	-	430	-	430
Office Supplies and Expenses	9,747	9,299	4,024	23,070
Taxes and Licenses	-	228	-	228
Travel & Parking	33,608	22,603	784	56,995
Utilities	49,502	9,555	1,244	60,301
Events	34,016	-	45,815	79,831
Total Expense Before CD Expenditures	<u>1,000,769</u>	<u>216,941</u>	<u>186,971</u>	<u>1,404,681</u>
Total CD Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 1,000,769</u>	<u>\$ 216,941</u>	<u>\$ 186,971</u>	<u>\$ 1,404,681</u>

See Independent Auditor's Report and Notes to the Financial Statements.  
SCHAFER GROUP, LTD.  
CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY COMPANY

**TIPITINA'S FOUNDATION, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015**

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Increase (Decrease) in Net Assets	\$ (91,501)
Non Cash Items Included in Increase (Decrease) in Net Assets:	
Contributions and Grants - Instrument Donations	(56,442)
Depreciation	147,637
Interest Expense - Debt Issuance Costs	1,490
Decrease (Increase) in Current Assets:	
Contributions Receivable	4,851
Accounts Receivable, Net of Allowance	(877)
Other Receivable	312
Recorded Music Inventory	414
Prepaid Expenses	(11,853)
Increase (Decrease) in Current Liabilities:	
Accounts Payable	(31,593)
Accrued Payroll and Related Expense	(12,640)
Refundable Advance	(11,067)
Deferred Revenue	(3,038)
Net Cash Provided By (Used in) Operating Activities	<u>(64,307)</u>

<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Purchase of Property and Equipment	(229,199)
(Increase) Decrease in Prepaid Instruments	106,730
Payments Received on Note Receivable	109,692
Net Cash Provided by (Used in) Investing Activities	<u>(12,777)</u>

<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	
Increase (Decrease) in Cash Overdraft	67,191
Payments on Notes Payable	(109,692)
Increase (Decrease) in Due to Related Parties	109,140
Net Cash Provided by (Used in) Financing Activities	<u>66,639</u>

Net Increase (Decrease) in Cash	(10,445)
Cash, Beginning of Year	29,495
Cash, End of Year	<u>\$ 19,050</u>

SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION

Cash Paid During the Year For:	
Interest	<u>\$ 33,657</u>
Income Taxes	<u>\$ -</u>
NonCash Investing and Financing Activities:	
Instrument Donations Received	<u>\$ 56,442</u>

See Independent Auditor's Report and Notes to the Financial Statements.

SCHAFER GROUP, LTD.  
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**TIPITINA'S FOUNDATION INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

The Tipitina's Foundation, Inc. (the Foundation) is chartered in the State of Louisiana as a 501(c)(3) non-profit corporation. The Foundation is dedicated to supporting Louisiana and New Orleans' irreplaceable music community and preserving the state's unique musical cultures through its four main programs: Instruments Program, Internship Program, Music Office Co-Op, and Community Service.

All the activities are carried out through public contributions, grants, and monthly membership fees for use of the Co-Op Centers.

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

C. Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification 958, Not-for-Profit Entities*. Under FASB ASC 958, the Foundation is required to report 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.

Unrestricted Net Assets – Net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The only limits on the use of unrestricted net assets are the broad limits resulting from the following:

- The nature of the not-for-profit;
- The environment in which the not-for-profit operates;
- The purpose specified in the not-for-profit's articles of incorporation or bylaws; and
- Limits resulting from contractual agreements with suppliers, creditors, and others entered into by the not-for-profit in the course of its business.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the not-for-profit pursuant to those stipulations.

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

Permanently Restricted Net Assets – Net Assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the not-for-profit.

D. Use of Estimates

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

E. Cash and Cash Equivalents

For the purpose of cash flows, the Foundation considers all unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Foundation had no cash equivalents at December 31, 2015.

F. Contributions and Accounts Receivable

Contributions receivable consist of unconditional promises to give and are recorded in the year the promise is made. Conditional promises to give are not included as support until the conditions are substantially met. The Foundation considers all Contributions Receivable to be fully collectible within one year. Accordingly, there was no allowance for uncollectible promises recorded.

Accounts Receivable consists of balances due from Welk Music Group relating to the CD entitled "Goin' Home: A Tribute to Fats Domino". (See Note 7)

G. Recorded Music and Instruments Inventory

Inventory, which consists of recorded music and instruments, are stated at the lower of cost or market, with cost determined on an average cost basis and market based on the lower of replacement cost or realizable value.

Donated instruments, if applicable, are valued at the estimated fair value at the date of donation.

H. Property and Equipment

Property and Equipment purchases are recorded and carried at cost. Additions, improvements, and betterments to furniture and equipment and leasehold improvements in excess of \$500 are capitalized. All additions to instruments are capitalized.

**TIPITINA'S FOUNDATION INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Depreciation is computed on the straight-line method over the following estimated useful lives:

Furniture and Equipment	5 - 7 years
Leasehold Improvements	15 years
Instruments	3 - 5 years
Instruments – Instruments Program	3 - 5 years

Depreciation expense for the year ended December 31, 2015 was \$147,637.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are recorded as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

I. Contributions and Promises to Give

Contributions and unconditional promises to give are measured at their fair value and recognized as revenue in the period they are received and recorded as increases in unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets, depending on the nature of the donor restrictions. Contributions and unconditional promises to give that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the contributions or promises to give are recognized.

Conditional promises to give are recorded as a contribution when the condition of which it depends is substantially met.

J. Grants

Grants are evaluated to determine if they represent a contribution, conditional promise to give, or an exchange transaction. If a grant is determined to be a contribution or unconditional promise to give, the grant is measured at fair value and recognized as revenue in the period received and recorded as an increase in unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets, depending on the nature of the grant. If a grant is determined to be a conditional promise to give, the grant is recognized as revenue when the condition of which it depends is substantially met. If funds are received relating to a

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

conditional grant, the amount received will be reported as a refundable advance until the conditions of the grant are met. If the grant is determined to be an exchange transaction, revenue is reported as an increase in unrestricted net assets when the revenue is earned. Any funds received in excess of revenue earned is reported as Deferred Revenue.

**K.**      Contributed Services

The Foundation receives accounting, consulting, and computer services from Fountainbleau Management Services, LLC (FMS), which is affiliated with the Founder of the Foundation. The services provided by FMS for the year ended December 31, 2015 were estimated at \$17,784 and reported as Administrative Support on the Statement of Functional Expenses. (See Note 5)

The Foundation receives a substantial amount of services donated by its supporters in carrying out the Foundation's administration, fundraising campaigns, and program services. No amounts have been reflected in the financial statements for these services since they do not meet the criteria for recognition under FASB ASC 958-605.

**L.**      Contributed Utilities and Facilities Usage

The Foundation receives contributions of utilities and the use of facilities for free or at below-market rates. Contributed utilities are valued using rates normally charged to a consumer with similar usage requirements. Contributed facilities are recorded at fair value. (See Note 5 and Note 6.)

**M.**      Special Events and Fundraising Income

Contributions are solicited by special events. Special Events may generate both revenue from the exchange transaction and support from the excess price charged, which represents a contribution. The portion of a fundraising event payment that is a contribution is recognized as revenue when received. The portion of a special event payment that is an exchange transaction is recognized after the special event takes place. If the special event has not taken place before the end of the reporting period, the exchange portion of the payment is classified as deferred revenue in the statement of financial position. Funds received from special events are reported in Special Events and Fundraising Income.

**N.**      Program Income

Program income consists of monthly and annual membership subscriptions to the Foundation's Music Office Co-Ops located across the state of Louisiana that provide fully-equipped workspace for musicians, filmmakers, and other digital media professionals in addition to training tools and resources.

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

O. Functional Expenses

Expenses are charged to program, general and administrative, or fundraising based on a combination of specific identification and estimates developed by management.

The various programs and supporting services of the Foundation are as follows:

*Instruments Program:* Instruments A Comin' strives to increase youth participation in Louisiana music programs by providing new and refurbished instruments to school band programs.

*Internship Program:* The Internship Program is an after-school jazz performance program for high school students focusing on instrumental performance, recording, music theory, and career professionalism.

*Music Office Co-Op:* The Music Office Co-Ops Program provide fully-equipped workspace for musicians, filmmakers, and other digital media professionals in addition to training tools and resources.

*Sunday Youth Music Workshop:* The Sunday Youth Music Workshop Program offers young, aspiring musicians the opportunity to play with and learn from some of the area's most experienced and celebrated musicians. Every workshop offers students a hands-on, improvisational approach to music education.

*Community:* The Community Program consists of various other activities to help Louisiana's musical community and preserve its unique culture and character.

*General and Administrative:* Includes the direction of the overall affairs of the Foundation.

*Fundraising:* Involves the direction of the overall fundraising affairs of the Foundation.

P. Marketing, Advertising and Promotion Expenses

The Foundation expenses marketing, advertising, and promotion expenditures as incurred.

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**Q. Income Tax Status**

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Foundation qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

As of December 31, 2015, the Foundation does not have any unrecognized tax benefits in its financial statements. During the year ended December 31, 2015, the Company was not assessed penalties or interest by income taxing authorities. The Foundation's federal and state tax returns are subject to possible examination by taxing authorities generally for a period of three years from the filing of those returns.

**Note 2. PUBLIC FUNDS**

Public funds is comprised of grants received under agreements with the State of Louisiana. For the year ended December 31, 2015, grant awards received from the State of Louisiana totaled \$20,100.

**Note 3. RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets consist of the following:

Purpose and Time Restricted Promises to Give	<u>\$ 37,424</u>
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**Note 4. CONCENTRATIONS OF CREDIT RISK**

The Foundation maintains cash balances in non-interest bearing accounts at one financial institution. For the year ended December 31, 2015, the Federal Deposit Insurance Corporation provided deposit insurance coverage up to \$250,000 per depositor, per insured bank, for each account ownership category.

At December 31, 2015, approximately 57% of contributions receivable was due from one donor.



**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

At December 31, 2015, 100% of accounts receivable was due from Welk Music Group relating to the CD entitled "Goin' Home: A Tribute to Fats Domino". (See Note 7)

For the year-ended December 31, 2015, approximately 52% of Special Event and Fundraising Income was earned by the Instruments Program.

For the year-ended December 31, 2015, approximately 46% of Contributions and Grants was earned from Related Parties. (See Note 5)

Note 5.      RELATED PARTY TRANSACTIONS

The Foundation leases on a month-to-month basis office space, New Orleans, Alexandria, Shreveport, Lake Charles, and Monroe Co-op and Internship locations, and event facilities from entities related to the Founder of the Foundation or to the Founder and a Board member of the Foundation. Rent expense on these locations for the year ended December 31, 2015 was \$216,200. (See Note 6) Included in Contributions and Grants Revenue for the year ended December 31, 2015 is \$104,600 for free use of the facilities owned by the Founder of the Foundation and \$23,236 of donated utilities for these facilities. At December 31, 2015, the amount included in accounts payable for rent owed to an entity owned by the Founder and a Board member of the Foundation is \$61,378.

The Founder and various entities related to the Founder of the Foundation pay expenses on behalf of the Foundation. These expenses are reimbursed by the Foundation or donated by the related entity. For the year ended December 31, 2015, the amount donated to the Foundation was \$101,568, which is included in Contributions and Grant Revenue. At December 31, 2015, the amount included in accounts payable to be reimbursed to the various related companies was \$0.

The Foundation receives accounting, consulting, and computer services from a company that is related to the Founder of the Foundation. The services provided by the related entity for the year ended December 31, 2015 were \$17,784. (See Note 1K) For the year ended December 31, 2015, the amount donated to the Foundation was \$17,784, which is included in Contributions and Grant Revenue.

In addition, Contributions and Grant Revenue includes \$242,525 that was donated by the Founder and various entities owned by the Founder.

The Due to Related Parties balance of \$109,140 at December 31, 2015 is due on demand and bears no interest.

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

Note 6.            LEASES

The Foundation leases on a month-to-month basis office space, New Orleans, Alexandria, Shreveport, Lake Charles, and Monroe Co-op and Internship locations, and event facilities from entities related to the Founder of the Foundation or to the Founder and a Board member of the Foundation. Rent expense for these locations for the year ended December 31, 2015 was \$216,200. (See Note 5) The Foundation also leases on a month-to-month basis or on a short-term basis the Baton Rouge and Lafayette Co-op and Internship locations, office space, and other facilities from unrelated parties. Rent expense on these facilities for the year ended December 31, 2015 was \$60,250.

Note 7.            CD RECORD MASTER

In September 2007, the Foundation released a CD entitled "Goin' Home: A Tribute to Fats Domino" (CD) that contained the musical performances of a wide variety of recording artists, which included Louisiana musicians, of compositions associated with Fats Domino. The proceeds from this recording will help revitalize Fats Domino's Lower 9<sup>th</sup> Ward neighborhood and benefit the programs of the Foundation.

The Foundation was responsible for the recording of the CD. As such, the Foundation capitalized the cost of recording the record master, which is the master tape resulting from the performance of the artists. The record master was amortized over the estimated life of the record performance. As of December 31, 2015, the CD Record Master was fully amortized.

Welk Music Group (Welk) was contracted to manufacture and distribute the CD. Welk collects sales made to retailers and incurs the production, distribution and promotion costs. All sales collected net of expenditures and a retainage are submitted to the Foundation. Any net proceeds not received by the Foundation have been recorded in accounts receivable. (See Note 1F) The sales earned and the production, distribution, and promotion costs incurred have been reflected in the statement of activities net of estimated sales returns. The Allowance for Estimated CD Returns is maintained to account for estimated future sales returns. Actual returns are charged against the allowance. Increases and decreases in estimated sales returns on previously recorded revenue are treated as changes in estimate. An increase in sales returns is recorded as Accrued Loss on CD on the statement of activities. A decrease in sales returns is included in Other Income on CD on the statement of activities. The Allowance for Estimated CD Returns as of December 31, 2015 was \$4,223. However, it is at least reasonably possible that a change in estimate will occur in the near term.

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

As noted above, many of the artists featured on the CD were Louisiana artists. Since these Louisiana artists would not ordinarily receive such an opportunity and these artists will receive national recognition for their participation in the CD, the amortization, production, distribution, and promotion costs of the CD were allocated between program (50%) and fundraising (50%) expenditures.

The amortization, production, distribution, and promotion costs of the CD comprise 0% of total program and fundraising expenditures for 2015.

There are potential liabilities regarding mechanical copyright royalties that may be due to various publishing companies. However, it is unlikely that such royalties will be collected by the publishers. Therefore, accrued royalties as of December 31, 2015 was \$0. However, it is at least reasonably possible that a change in estimate will occur in the near term.

Note 8.            COMPENSATED ABSENCES

The full-time employees of the Foundation are entitled to paid vacation and sick leave. The Foundation does not accrue a liability for these absences because they cannot be reasonably estimated. The Foundation's policy is to recognize the cost of compensated absences when paid to employees.

Note 9.            NOTE RECEIVABLE FROM STUDIO NETWORK – SHREVEPORT I, LLC

Prior to 2012, three buildings in Shreveport, Louisiana, which consist of 616, 620 and 624 Texas Street, were donated to the Foundation. The donated land/buildings were reported with a fair market value of \$0 since the cost to remediate environmental and structural issues with the buildings exceeded the FMV.

During 2012, renovations began on the three buildings.

During 2012, the Foundation acquired a \$511,000 loan from Whitney Bank that is secured by the building at 616 Texas Street and guaranteed by the Founder of the Foundation. (See Note 10) After paying fees, taxes, and insurance, the remaining proceeds of the loan were paid to Fountainbleau Construction, LLC, an entity owned by the Founder of the Foundation, to cover unpaid construction costs incurred in 2012 as well as to prepay some of the construction costs that were incurred in 2013.

During 2013, the Foundation acquired a \$400,000 loan from the City of Shreveport to cover environmental remediation costs incurred in renovating the three buildings. (See Note 10). All proceeds went to the Foundation.

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

Since the Foundation was unable to sell the buildings due to their poor condition and since the Foundation was not in a position to incur the costs necessary to renovate and develop the buildings at 616, 620, and 624 Texas Street, all buildings were transferred to Studio Network - Shreveport I, LLC as discussed below. The Members of Studio Network – Shreveport I, LLC are the Founder and a member of the Board of Directors.

On May 15, 2013, the buildings at 620 and 624 Texas Street were transferred to Studio Network - Shreveport I, LLC. As a result of the transfer, Studio Network - Shreveport I, LLC agreed to pay the principal and interest payments on the \$400,000 City of Shreveport loan discussed above and in Note 10. Therefore, the Foundation recorded a \$400,000 Note Receivable from Studio Network - Shreveport I, LLC that matures in March 2018 and bears an interest rate of 0.95% plus \$8,111 per year for the related letter of credit discussed in Note 10. Balance owed to Foundation at December 31, 2015 was \$191,755.

On April 14, 2014, the building at 616 Texas Street was transferred to Studio Network - Shreveport I, LLC, an entity owned by the Founder and a member of the Board of Directors. As a result of the transfer, Studio Network - Shreveport I, LLC agreed to pay the outstanding principal and interest payments on the \$511,000 Whitney Bank loan discussed above and in Note 10. Therefore, the Foundation recorded a \$481,560 Note Receivable from Studio Network - Shreveport I, LLC that matures in December 2017, bears an interest rate of 5.00%. Balance owed to Foundation at December 31, 2015 was \$437,350.

The transfers of the buildings to Studio Network – Shreveport I, LLC resulted in a total gain of \$38,295 for the Foundation.

Interest earned by the Foundation on these Notes Receivable for the year ended December 31, 2015 was \$33,657.

Annual maturities of the notes receivable are as follows:

<u>Year</u>	
2016	\$ 113,557
2017	494,175
2018	21,373
2019	-
2020	-
Thereafter	-
	<u>\$ 629,105</u>

**TIPITINA'S FOUNDATION INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

Note 10.      NOTES PAYABLE AND DEBT ISSUANCE COSTS

Whitney Bank

During 2012, the Foundation acquired a \$511,000 loan from Whitney Bank with an interest rate of 5% that matures in December 2017, is secured by the building at 616 Texas Street, and guaranteed by the Founder of the Foundation. (See Note 9) The outstanding principle balance at December 31, 2015 was \$437,350.

Annual maturities of the note payable are as follows:

<u>Year</u>	
2016	\$ 28,718
2017	408,632
2018	-
2019	-
2020	-
Thereafter	-
	<u>\$ 437,350</u>

The Company has elected early adoption of ASU 2015-03. Therefore, the Foundation has presented the debt issuance costs associated with the loan as a deduction from Notes Payable – Whitney Bank on the accompanying combined balance sheet. Amortization of the debt issuance costs is reported as interest expense. Total debt issuance costs net of accumulated amortization was \$2,982 as of December 31, 2015.

City of Shreveport

During 2013, the Foundation acquired a \$400,000 loan from City of Shreveport with an interest rate of 0.95% that matures in March 2018 and is secured by the buildings at 616-624 Texas Street. (See Note 9)

Annual maturities of the note payable are as follows:

<u>Year</u>	
2016	\$ 84,839
2017	85,543
2018	21,373
2019	-
2020	-
Thereafter	-
	<u>\$ 191,755</u>

**TIPITINA'S FOUNDATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

Letter of Credit

The Foundation obtained an irrevocable standby letter of credit with Whitney Bank for the \$400,000 City of Shreveport loan discussed above. Letter of Credit bears an annual interest rate of 2%, matures in March 2018, and benefits the City of Shreveport.

Interest

Interest paid on the above Notes Payable and Letter of Credit for the year ended December 31, 2015 was \$33,657.

Note 11.      SUBSEQUENT EVENTS

Management evaluated subsequent events through September 13, 2016, which is the date the financial statements were available to be issued.

Note 12.      PER DIEM PAYMENTS TO BOARD MEMBERS

Per diem payments to board members for the year ended December 31, 2015 were \$0.

Note 13.      PRIOR PERIOD ADJUSTMENTS

In prior years, the Foundation capitalized instruments that are included in Property and Equipment at their fair market value since they were acquired at prices significantly less than fair value. However, the instruments should have been capitalized at cost. Therefore, an adjustment to reduce beginning retained earnings by \$127,445 has been made.

In 2014, the Foundation was awarded a grant. The grant was funded and recorded in 2015. Since the grant was awarded in 2014, the grant should have been reported as a promise to give at December 31, 2014. Therefore, an adjustment to increase beginning retained by \$13,500 has been made.