

MusiCares Foundation, Inc.

Financial Statements as of and for the
Years Ended July 31, 2013 and 2012, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
MusiCares Foundation, Inc.:

We have audited the accompanying financial statements of MusiCares Foundation, Inc. ("MusiCares Foundation"), which comprise the statements of financial position as of July 31, 2013 and 2012, and the related statements of activities, cash flows, and functional expenses for the years 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.

Auditors' 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 MusiCares Foundation'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 MusiCares Foundation'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, such financial statements referred to above present fairly, in all material respects, the financial position of The MusiCares Foundation as of July 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 18, 2014

MUSICARES FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,924,166	\$ 3,171,944
Board-designated 20th Anniversary Campaign cash and cash equivalents (Note 9)	2,875,604	7,341,299
Total cash and cash equivalents	5,799,770	10,513,243
Receivable from The NARAS Foundation (Note 5)	239,552	213,035
Receivable from National Academy of Recording Arts & Sciences, Inc.	133,530	183,280
20th Anniversary Campaign pledges receivable — current (Note 8)	569,984	837,316
Other receivables	410,539	114,418
Investments (Note 3)	10,625,725	2,985,331
Prepaid expenses and other current assets	85,929	92,892
Total current assets	17,865,029	14,939,515
20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE — net — noncurrent (Note 8)	588,687	1,189,523
DEFERRED COMPENSATION ASSET (Note 6)	59,324	39,864
TOTAL	<u>\$ 18,513,040</u>	<u>\$ 16,168,902</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 365,904	\$ 238,376
Deferred revenue (Note 2)	7,700	31,225
Total current liabilities	373,604	269,601
DEFERRED COMPENSATION LIABILITY (Note 6)	59,324	39,864
Total liabilities	432,928	309,465
NET ASSETS (Note 2):		
Unrestricted net assets:		
General	8,377,160	6,875,558
Board-designated 20th Anniversary Campaign (Notes 8 and 9)	8,544,281	6,951,436
Total unrestricted net assets	16,921,441	13,826,994
Temporarily restricted net assets:		
Purpose restricted (Note 7)		5,604
Time restricted — 20th Anniversary Campaign (Notes 8 and 9)	1,158,671	2,026,839
Total temporarily restricted net assets	1,158,671	2,032,443
Total net assets	18,080,112	15,859,437
TOTAL	<u>\$ 18,513,040</u>	<u>\$ 16,168,902</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JULY 31, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted Purpose	Temporarily Restricted Time	Total	Unrestricted	Temporarily Restricted Purpose
SUPPORT AND REVENUES:						
Person of the Year Dinner/Auction (Note 2)	\$ 8,783,947	\$ -	\$ -	\$ 8,783,947	\$ 9,177,590	\$ -
Contributions from National Academy of Recording Arts & Sciences, Inc. (Note 5)	1,833,997	250,542		2,084,539	1,618,518	171,735
20th Anniversary Campaign (Note 9)	795,000		46,899	841,899	1,834,961	568,663
MAP Benefit Concert (Note 2)		226,030		226,030		185,845
Hurricane Relief/Music Rising/Flood Relief		29,397		29,397		
Other fundraising auctions (Note 2)	340,466			340,466	330,245	
Other income	897,164	187,074		1,084,238	574,622	162,849
Interest and dividend income	227,150			227,150	112,246	
Unrealized gain (loss) on investments — net	420,423			420,423	(38,705)	
Realized loss on investments — net	(9,981)			(9,981)	(75,130)	
Total support and revenues	13,288,166	693,043	46,899	14,028,108	13,534,347	520,429
NET ASSETS RELEASED FROM RESTRICTIONS/RECLASSIFICATION — Satisfaction of purpose/time restrictions	1,613,714	(698,647)	(915,067)	-	1,261,852	(605,852)
PROGRAM SERVICES AND SUPPORTING EXPENSES:						
Program services:						
Financial assistance program	3,873,214			3,873,214	3,049,554	
MAP Fund	1,466,502			1,466,502	1,484,667	
Hurricane Relief/Music Rising/Flood Relief	177,603			177,603	38,169	
Encore Hall Project					100,000	
Total program services	5,517,319	-	-	5,517,319	4,672,390	-

(Continued)

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JULY 31, 2013 AND 2012

	2013			2012		
	Unrestricted	Temporarily Restricted Purpose	Restricted Time	Total	Unrestricted	Temporarily Restricted Purpose
Supporting expenses:						
Person of the Year Dinner/Auction (Note 2)	\$ 4,649,374	\$ -	\$ -	\$ 4,649,374	\$ 5,271,683	\$ -
General fundraising (Note 2)	415,024			415,024	422,161	
Administration	627,215			627,215	490,216	
20th Anniversary Campaign	117,222			117,222	418,234	
Other fundraising auctions	217,637			217,637	220,396	
MAP Benefit Concert	263,642			263,642	232,456	
Total supporting expenses	6,290,114	-	-	6,290,114	7,055,146	-
Total program services and supporting expenses	11,807,433	-	-	11,807,433	11,727,536	-
INCREASE (DECREASE) IN NET ASSETS	3,094,447	(5,604)	(868,168)	2,220,675	3,068,663	(87,337)
NET ASSETS:						
Beginning of year	13,826,994	5,604	2,026,839	15,859,437	10,758,331	2,114,176
End of year	\$ 16,921,441	\$ -	\$ 1,158,671	\$ 18,080,112	\$ 13,826,994	\$ 2,026,839
						\$ 5,604
						\$ 15,859,437

See notes to financial statements.

(Concluded)

MUSICARES FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,220,675	\$ 2,895,903
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation		8,271
Net unrealized (gain) loss on investments	(420,423)	38,705
Net realized loss on investments	9,981	75,130
Changes in operating assets and liabilities:		
Receivable from The NARAS Foundation	(26,517)	(29,209)
Receivable from National Academy of Recording Arts & Sciences, Inc.	49,750	(183,280)
20th Anniversary Campaign pledges receivable	868,168	87,337
Other receivables	(296,121)	92,288
Prepaid expenses and other current assets	6,963	(19,675)
Accounts payable and accrued liabilities	127,528	(342)
Deferred revenue	(23,525)	(70,705)
Payable to National Academy of Recording Arts & Sciences, Inc.		(63,171)
Net cash provided by operating activities	<u>2,516,479</u>	<u>2,831,252</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(7,504,979)	(1,345,906)
Proceeds from sales and maturities of investments	275,027	3,559,175
Decrease in restricted cash		91,027
Net cash (used in) provided by investing activities	<u>(7,229,952)</u>	<u>2,304,296</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,713,473)	5,135,548
CASH AND CASH EQUIVALENTS — Beginning of year	<u>10,513,243</u>	<u>5,377,695</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 5,799,770</u>	<u>\$ 10,513,243</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2013

	Program Services				Supporting Services							
	Financial Assistance Program	MAP Fund	Hurricane Relief/Music Rising/Flood Relief	Total Program Services	Person of the Year Dinner/ Auction	General Fundraising	Administration	20th Anniversary Campaign	Other Fundraising Auctions	MAP Benefit Concert	Total Supporting Expenses	Total
Event expenses	\$ 184,736	\$ 5,753	\$ -	\$ 190,489	\$ 3,737,731	\$ 3,563	\$ 8,062	\$ 25,666	\$ 23,543	\$ 93,938	\$ 3,892,503	\$ 4,082,992
Financial grants and assistance	2,313,272	1,090,434	158,391	3,562,097		2,475	19,010				21,485	3,583,582
Professional fees	178,418	55,155	1,311	234,884	177,303	107,310	104,916	43,181	67,677	19,673	520,060	754,944
Salaries and benefits	878,974	238,161	16,818	1,133,953	233,906	216,839	308,392	36,788	74,189	70,720	940,834	2,074,787
Administration	212,315	30,772	906	243,993	257,628	54,930	116,169	9,319	28,786	67,256	534,088	778,081
Travel and entertainment	68,755	37,646	15	106,416	218,794	6,941	52,073	255	17,344	5,753	301,160	407,576
Video services	6,892			6,892	7,105					2,125	9,230	16,122
Taxes and licenses	10,815	3,082	78	13,975	4,935	7,133	8,863	1,012	2,891	1,944	26,778	40,753
Computer expenses	19,037	5,499	84	24,620	11,972	15,833	9,730	1,001	3,207	2,233	43,976	68,596
Subtotal	3,873,214	1,466,502	177,603	5,517,319	4,649,374	415,024	627,215	117,222	217,637	263,642	6,290,114	11,807,433
Depreciation												
TOTAL	\$ 3,873,214	\$ 1,466,502	\$ 177,603	\$ 5,517,319	\$ 4,649,374	\$ 415,024	\$ 627,215	\$ 117,222	\$ 217,637	\$ 263,642	\$ 6,290,114	\$ 11,807,433

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2012

	Program Services					Supporting Services						
	Financial Assistance Program	MAP Fund	Hurricane Relief/Music Rising/ Flood Relief	Encore Hall Project	Total Program Services	Person of the Year						Total
						Dinner/ Auction	General Fundraising	Administration	20th Anniversary Campaign	Other Fundraising Auctions	MAP Benefit Concert	
Event expenses	\$ 20,524	\$ 7,227	\$ -	\$ -	\$ 27,751	\$ 4,101,361	\$ 23,615	\$ 8,072	\$ 5,625	\$ 22,461	\$ 78,208	\$ 4,239,342
Financial grants and assistance	1,957,063	1,062,498	26,439	100,000	3,146,000			16,278				16,278
Professional fees	94,155	43,082	352		137,589	226,295	123,582	101,874	295,477	87,571	22,255	857,054
Salaries and benefits	758,011	295,542	10,748		1,064,301	194,654	205,041	227,985	88,023	72,510	76,536	864,749
Administration	150,435	32,896	575		183,906	511,053	49,385	88,261	21,784	26,142	30,721	727,346
Travel and entertainment	49,813	36,442			86,255	205,623	6,468	19,700	2,603	5,715	20,261	260,370
Video services	540				540	21,710					2,025	23,735
Taxes and licenses	10,138	4,035			14,173		8,860	11,462	2,729	3,464	1,389	27,904
Computer expenses	8,875	2,945	55		11,875	10,987	5,210	8,313	1,993	2,533	1,061	30,097
Subtotal	3,049,554	1,484,667	38,169	100,000	4,672,390	5,271,683	422,161	481,945	418,234	220,396	232,456	7,046,875
Depreciation					-			8,271				8,271
TOTAL	\$ 3,049,554	\$ 1,484,667	\$ 38,169	\$ 100,000	\$ 4,672,390	\$ 5,271,683	\$ 422,161	\$ 490,216	\$ 418,234	\$ 220,396	\$ 232,456	\$ 7,055,146
												\$ 11,727,536

See notes to financial statements.

MUSICARES FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JULY 31, 2013 AND 2012

1. ORGANIZATION

MusiCares Foundation, Inc. ("MusiCares Foundation"), was established by National Academy of Recording Arts & Sciences, Inc. ("The Recording Academy") to provide assistance to music people in need and to focus the resources of the music industry on human service issues that directly affect the health and welfare of the community. MusiCares Foundation provides such services as financial assistance grants and addiction recovery services. MusiCares Foundation, along with The NARAS Foundation ("The GRAMMY Foundation"), a related party, supports the charitable goals of The Recording Academy.

Federal and State Income Taxes — MusiCares Foundation is generally exempt from federal and state income taxes as an Internal Revenue Code (IRC) Section 501(c)(3) organization and corresponding state provisions, except for unrelated business income, which is subject to tax. MusiCares Foundation holds a non-private foundation status pursuant to IRC Section 509(a)(1), specifically under IRC Section 170(b)(1)(A)(vi).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents — Cash and cash equivalents include demand deposits and short-term investments with maturities of 90 days or less from the purchase date.

20th Anniversary Campaign Pledges Receivable — Pledges due in fiscal year 2014 are included as current assets and pledges due after fiscal year 2014 are included in noncurrent assets. The pledges due in greater than one year are reported at net present value using risk-free interest rates at the date of such pledges, which vary between 0.19% and 2.9% in both fiscal years (see Note 8).

Investments — Investments are carried at fair value based upon market quotations. Securities transactions are accounted for on trade dates. Dividend income is recorded on the ex-dividend date and interest income is recorded as earned on an accrual basis. Realized and unrealized gains and losses are determined by comparison of specific cost of acquisition to proceeds at the time of disposal or fair value at the date of the statements of financial position.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Depreciation — Depreciation of property is provided for over the estimated useful lives of the assets (three to seven years) on a straight-line basis.

Deferred Revenue — Deferred revenue results from advance payments to MusiCares Foundation for events and goods/services that have been sold at auction, but have not yet been provided. Advance payments for events are recognized as revenue when the events take place. Auction revenue is recognized at the time the goods and/or services are provided to the auction winner.

Net Assets — All revenues and support are included in unrestricted net assets, unless they are specifically restricted by the donor's terms of the gift or require the passage of time. Contributions initially recorded as temporarily restricted net assets are reclassified to unrestricted net assets when restrictions have been met. Contributions whose restrictions are met in the same year as the contribution is made are initially classified as temporarily restricted net assets and reclassified to unrestricted net assets in the same year.

Sponsorships — Airline services received in exchange for the right for affiliation with MusiCares Foundation trademarks and official programs are included in Person of the Year Dinner/Auction revenue. Such revenue is recorded based upon the fair value of the services received and is recognized over the period of the sponsorship agreement or designated programs. Airline services received were estimated to have a fair value of \$192,800 and \$144,560 in 2013 and 2012, respectively.

In-Kind Donations — In-kind donations relate to goods and services that are donated by vendors and are given to MusiCares Foundation Person of the Year participants or are used for other fundraising and program purposes. Donated goods and services received were estimated to have a fair value of \$2,140,344 in 2013 and were included in Person of the Year Dinner/Auction revenue of \$2,088,469, MAP Benefit Concert of \$49,950 and other income of \$1,925. Donated goods and services received were estimated to have a fair value of \$2,537,901 in 2012 and were included in Person of the Year Dinner/Auction revenues.

In-kind donations from The Recording Academy relate to discounts on rental expenses and event tickets contributed in the amounts of \$168,867 and \$174,467 for the years ended July 31, 2013 and 2012, respectively (see Note 5).

Contributed goods and services are reported as contributions at their fair value if such goods and services create or enhance nonfinancial assets, would have been purchased if not provided by contribution or require specialized skills, and are provided by individuals possessing such specialized skills.

Donor-Restricted Gifts — Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give are reported at fair value at the date the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions (see Note 7).

Income Taxes — The MusiCares Foundation accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. FASB ASC 740 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken, or expects to take, on a tax return. During the years ended July 31, 2013 and 2012, MusiCares Foundation did not record any liability for unrecognized tax benefits.

Financial Instruments — Financial instruments consist of cash equivalents, other receivables, 20th Anniversary Campaign pledges receivable, investments, deferred compensation asset and liability, accounts payable and accrued liabilities, and net receivables/payables to The Recording Academy and The GRAMMY Foundation. Assets and liabilities, other than and investments, are stated at cost, which closely approximates their carrying value due to their short-term maturities and as these are the amounts at which they are expected to be realized or liquidated. Refer to Note 3 for information related to the fair value of investments.

Recent Accounting Pronouncements — In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures*, which amended ASC 820, *Fair Value Measurement*, to require new disclosures related to significant transfers in and out of Level 1 and Level 2, including reasons for significant transfers, and to require new disclosures related to Level 3 fair value measurements. In addition, the new guidance clarifies existing disclosure requirements related to the level of disaggregation of classes of assets and liabilities, and provides further detail about inputs and valuation techniques used for fair value measurement. The new guidance was effective for MusiCares Foundation beginning August 1, 2010, except for the new disclosures related to Level 3 fair value measurements, which do not affect MusiCares Foundation. See Note 3 for details of fair value measurements and disclosures required by the adoption of these amendments.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, which further amends ASC 820. ASU No. 2011-04 provides guidance on measuring the fair value of financial instruments managed within a portfolio and the application of premiums and discounts on fair value measurements. The ASU clarifies the application of existing fair value measurement and disclosure requirements and requires additional disclosures about fair value measurements. The new guidance was effective for MusiCares Foundation beginning August 1, 2012. The adoption of ASU No. 2011-04 did not have a material impact on MusiCares Foundation's financial statements (See Note 3).

In October 2012, the FASB issued ASU No. 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires a not-for-profit entity (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The guidance is effective for MusiCares Foundation beginning September 1, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. The adoption of ASU No. 2012-05 is not expected to have a material impact on MusiCares Foundation's financial statements.

Subsequent Events — MusiCares Foundation has evaluated subsequent events through February 18, 2014, the date the financial statements were available to be issued.

3. INVESTMENTS

Investments at July 31, 2013 and 2012, are maintained in Certificates of Deposit (CDs), and mutual funds primarily invested in equity securities, fixed-income investments, and broad commodity investments.

Cash equivalents represent cash held by MusiCares Foundation's investment managers that will be invested based on MusiCares Foundation's investment strategy and are reflected within cash and cash equivalents in the statements of financial position.

MusiCares Foundation presents its investments in accordance with FASB ASC 820. FASB ASC 820 requires classifying holdings as Level 1, Level 2, or Level 3 based upon various inputs or methodologies used to value the holdings as summarized below:

Level 1 — Quoted prices in active markets for identical assets.

MusiCares Foundation's Level 1 investments include cash equivalents and investments registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940.

Level 2 — Significant observable market-based inputs, other than Level 1 quoted prices, or unobservable inputs that are corroborated by market data.

As of July 31, 2013, MusiCares Foundation's Level 2 investments include CDs, which represent time deposits that bear a maturity date and a fixed-interest rate. These CDs are not traded in active markets. As values can be corroborated by market data, CDs are classified as Level 2.

Level 3 — Significant unobservable inputs that are not corroborated by observable market data.

MusiCares Foundation does not hold any investments classified as Level 3.

The inputs or methodologies used for valuing MusiCares Foundation's holdings are not necessarily an indication of the risks associated with investing in those holdings. The estimated fair value amounts have been determined by MusiCares Foundation using available market information and appropriate valuation methodologies. Management judgment is required to develop estimates of fair value for certain holdings. Accordingly, the estimates presented below are not necessarily indicative of the amounts the MusiCares Foundation could have realized in an actual market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Where significant, inputs used to measure fair value of any investment fall into different levels of the fair value hierarchy that investment is included in the lowest level, which relates to any such input.

As of July 31, 2013, MusiCares Foundation's holdings applying the FASB ASC 820 hierarchy are as follows:

	Fair Value Measurements — July 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Market-Based Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total cash equivalents	<u>\$ 3,671,231</u>	<u>\$ 3,671,231</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:				
Certificates of Deposit	\$ 3,110,030		\$ 3,110,030	
Mutual funds:				
U.S. equity funds	2,883,806	\$ 2,883,806	-	\$ -
Global equity funds	1,221,118	1,221,118		
U.S. fixed-income bond funds	2,820,065	2,820,065		
Global fixed-income bond funds	206,616	206,616		
Other	<u>384,090</u>	<u>384,090</u>		
Total investments	<u>\$ 10,625,725</u>	<u>\$ 7,515,695</u>	<u>\$ 3,110,030</u>	<u>\$ -</u>

As of July 31, 2012, MusiCares Foundation's holdings applying the FASB ASC 820 hierarchy are as follows:

	Fair Value Measurements — July 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Market-Based Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total cash equivalents	<u>\$ 9,135,474</u>	<u>\$ 9,135,474</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:				
Mutual funds:				
U.S. equity funds	\$ 203,713	\$ 203,713	\$ -	\$ -
Global equity funds	1,266,221	1,266,221		
U.S. fixed-income bond funds	461,215	461,215		
Global fixed-income bond funds	823,274	823,274		
Broad commodities	120,847	120,847		
Other	<u>110,061</u>	<u>110,061</u>		
Total investments	<u>\$ 2,985,331</u>	<u>\$ 2,985,331</u>	<u>\$ -</u>	<u>\$ -</u>

Transfers between levels are recognized based on the beginning fair value of the fiscal year in which they occurred. There were no significant transfers of investments between levels during 2013 or 2012.

The fair value of other financial instruments is discussed in Note 2.

4. PROPERTY

Property as of July 31, 2013 and 2012, consists of the following:

	2013	2012
Office equipment	\$ 6,316	\$ 6,316
Computer equipment and software	63,234	64,162
Furniture and fixtures	<u>65,381</u>	<u>65,381</u>
Total property	134,931	135,859
Accumulated depreciation	<u>(134,931)</u>	<u>(135,859)</u>
Property — net	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense amounted to \$0 and \$8,271 in 2013 and 2012, respectively.

5. AFFILIATED ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions and contributions of services from The Recording Academy amounting to \$2,628,157 and \$2,371,303 in 2013 and 2012, respectively. The details are described below:

	2013	2012
Cash contributions:		
General Cash Contributions:		
General contributions	\$ 1,667,378	\$ 1,444,051
Person of the Year Dinner/Auction	529,750	569,750
Musicians Assistance Program Fund	248,294	171,735
MAP Benefit Concert	11,620	11,300
Flood Relief	<u>2,248</u>	<u> </u>
Subtotal cash contributions	<u>2,459,290</u>	<u>2,196,836</u>
Noncash contributions:		
Discounted rent	156,917	156,917
GRAMMY show tickets	11,200	16,800
Special Merit Awards Ceremony	<u>750</u>	<u>750</u>
Subtotal noncash contributions	<u>168,867</u>	<u>174,467</u>
Total cash and noncash contributions	<u>\$ 2,628,157</u>	<u>\$ 2,371,303</u>

Total contributions from The Recording Academy provided for approximately 19% and 16% of total support and revenues in 2013 and 2012, respectively. Program-related contributions are shown as temporarily restricted for those specific programs in the statements of activities.

The Recording Academy has historically made general cash contributions to MusiCares Foundation to support ongoing operations. Through The Recording Academy's budgetary process, its Board of

Trustees voted to make a discretionary general cash contribution payment of \$1,771,322 for the fiscal year ending July 31, 2014. This contribution is subject to change by the Board of Trustees of The Recording Academy and will be recorded as contribution revenue at the time it is received.

MusiCares Foundation was billed by The Recording Academy for certain operating expenses incurred on its behalf amounting to \$385,405 and \$356,422 in 2013 and 2012, respectively, as follows:

	2013	2012
Salary and benefits	\$ 160,524	\$ 143,876
Rent expense	50,458	48,368
Other operating expenses (shared services)	<u>174,423</u>	<u>164,178</u>
Total expenses billed by the The Recording Academy	<u>\$ 385,405</u>	<u>\$ 356,422</u>

MusiCares Foundation and The GRAMMY Foundation share some executive staff and events department staff. The salaries and benefits for these shared staff members are either paid in equal parts by each respective Foundation, or they are paid fully by the Foundation for which they predominantly work, and an intercompany allocation is then made commensurate with the percentage of time worked for each Foundation.

MusiCares Foundation billed certain affiliated entities during 2013 and 2012 for the face value of tickets for events held by MusiCares Foundation. The GRAMMY Foundation was billed by MusiCares Foundation for tickets related to the Person of the Year dinner in the amounts of \$22,500 and \$31,500 in 2013 and 2012, respectively.

MusiCares Foundation was billed \$73,400 and \$89,700 for 2013 and 2012, respectively, by The Recording Academy for the face value of the tickets purchased by MusiCares Foundation related the GRAMMY Show.

6. BENEFIT PLANS

401(k) Plan — Effective August 1, 1997, The Recording Academy established a 401(k) plan covering eligible employees of MusiCares Foundation and certain affiliated entities, including The Recording Academy, The GRAMMY Foundation, and Latin Academy of Recording Arts & Sciences. Eligible employees can elect to defer compensation subject to Internal Revenue Service withholding rules. In 2013 and 2012, MusiCares Foundation made a contribution match of 50%, of the employee's elective deferral contributions, which amounted to \$50,686 in 2013 and \$51,439 in 2012, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. A discretionary match was made in 2013 of \$55,586 and no discretionary contribution was made in 2012.

Executive Compensation Program — MusiCares Foundation maintains a deferred compensation plan as described under Section 457(b) of the IRC. The 457(b) plan provides eligible executives with the opportunity to make voluntary contributions on a pretax basis. Total compensation deferred as of July 31, 2013 and 2012, was \$59,324 and \$39,864, respectively.

7. TEMPORARILY PURPOSE RESTRICTED NET ASSETS

Temporarily purpose restricted net assets as of July 31, 2013 and 2012, are available for the following purposes:

	2013	2012
Encore Hall	\$ -	\$ -
Financial assistance — Agua Fund		5,300
Nashville Flood Relief Fund		304
		<u>5,604</u>
Total	<u>\$ -</u>	<u>\$ 5,604</u>

Net assets during the fiscal years ended July 31, 2013 and 2012, were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	2013	2012
Purpose restrictions accomplished:		
MAP Fund/Benefit Concert	\$ 530,368	\$ 455,917
Financial assistance program	124,780	58,262
Financial assistance — Agua Fund	11,550	5,140
Sandy Relief	24,014	
Nashville Flood Relief	7,935	38,169
Encore Hall		48,364
Total net assets released from purpose restriction	<u>\$ 698,647</u>	<u>\$ 605,852</u>

Since 1994, MusiCares Foundation has actively pursued opportunities to provide affordable housing for aging members of the music community. For several years, this goal was pursued by working to establish a low-income retirement facility to be called Encore Hall. Over those years, funds were raised and restricted for the overall project. Some of the funds raised were expended in feasibility studies, architect and planning fees, etc., as various sites were explored. In 2006, MusiCares Foundation pledged \$500,000 to The Actor's Fund of America to sponsor "The MusiCares Great Room" at the Lillian Booth Home in New Jersey. This home, which is operated by The Actors Fund of America, provides assisted living care and skilled nursing to entertainment professionals, including professionals from the music industry. This pledge was fulfilled over three years, with an initial grant of \$200,000 in 2006 and subsequent conditional pledges of \$150,000 each in 2007 and 2008.

Since 2003, Agua Fund, Inc., has provided an annual grant to MusiCares Foundation for its financial assistance program. Funds from this grant provide emergency help to musicians in need in the Washington, D.C. area. For the fiscal years ended July 31, 2013 and 2012, the total grant received was \$6,250, in each year, and is included as temporarily restricted funds within other income in the statements of activities. Expenses related to the Agua Fund, Inc., grant are reflected within the financial assistance program in the statements of activities.

On May 1, 2010, Nashville and its surrounding communities were unexpectedly struck by a major disaster. Many in this music community experienced significant losses — homes, cars, equipment, and rehearsal space — ruined by the unprecedented flooding in several communities. It was estimated that only a fraction of those who experienced significant loss has adequate flood insurance to cover their damages. MusiCares Foundations has established the MusiCares Nashville Flood Relief Fund to assist music people affected by the Middle Tennessee Floods. MusiCares Foundation's assistance will provide

funds for food and clothing, gasoline and transportation, cleanup efforts, relocation costs, medicine, and other critical supplies. For the fiscal year ended July 31, 2013, total contributions received were \$7,631 and \$7,935 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction. For the fiscal year ended July 31, 2012, total contributions received were \$0 and \$38,169 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction.

In November 2012, MusiCares Foundation established a fund to support members of the music community affected by Hurricane Sandy. MusiCares Foundation's assistance will provide basic living expenses such as shelter, food, utilities, and transportation; medical expenses, including doctor, dentist, hospital bills, and medications; clothing, instrument and recording equipment replacement; relocation costs; home repairs; and debris removal. For the fiscal year ended July 31, 2013, total contributions received were \$21,766 and \$24,014 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction.

8. 20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE

The pledge receivables as of July 31, 2013 and 2012, consist of the following:

	2013	2012
Gross pledge receivable amounts due in:		
Less than one year	\$ 569,984	\$ 837,316
Two to five years	<u>648,233</u>	<u>1,287,235</u>
Total gross pledge receivable	1,218,217	2,124,551
Less unamortized discount	<u>(59,546)</u>	<u>(97,712)</u>
Net 20th Anniversary Campaign pledges receivable	<u>\$ 1,158,671</u>	<u>\$ 2,026,839</u>

9. 20TH ANNIVERSARY CAMPAIGN

In 2009, the MusiCares Foundation embarked on a 20th Anniversary fundraising campaign to raise \$10,000,000. The donors have stipulated that the funds are to be used toward the current activities of MusiCares Foundation to support its ongoing efforts to provide a critical safety net of assistance to musicians and music people in times of crisis, as determined by MusiCares Foundation Board (the "Board"). The funds are to be used toward the campaign and other operating and program needs to ensure that MusiCares Foundation will have the necessary resources regardless of economic or business trends to support its ongoing efforts. The Board will determine the investment, allocation of return on investment, and use of the funds. The distribution of the income of the fund shall be made in amounts and for purposes, the Board determines from time to time in its sole discretion. Accordingly, all funds raised are shown as Board-designated in the accompanying financial statements.

MusiCares Foundation classifies the 20th Anniversary Campaign pledges as time-restricted campaign assets until those amounts have been received according to the payment terms of each agreement, at which time they are shown as net assets released from restrictions/reclassification in the accompanying statements of activities. For fiscal year ended July 31, 2013 and 2012, \$915,067 and \$656,000, respectively, were released from time restrictions. Outright contributions are recorded as unrestricted 20th Anniversary Campaign support and revenues in the statements of activities.

20th Anniversary Campaign funds not fully collected are included in 20th Anniversary Campaign pledges receivable in the statements of financial position (see Note 8). MusiCares Foundation management and the Board established campaign investment policies, return objectives, risk parameters, and determined how those objectives relate to the campaign spending policy and the strategies employed for achieving those objectives when the funds are received.

Subsequent to the fiscal year ended July 31, 2013, the Board approved a revised investment strategy for the 20th Anniversary Campaign funds. This includes the transfer of an additional \$2.5 million for investing based on the approved pre-established investment guidelines. This revision was necessary due to the timing of funding needs for major projects, including a low-income housing complex for artists in Los Angeles, as well as \$500,000 per year to be used towards financial assistance grants and services.

For fiscal years ended July 31, 2013 and 2012, 20th Anniversary Campaign administrative costs were spent from the current-year campaign funds.

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