

MusiCares Foundation, Inc.

Financial Statements as of and for the
Years Ended July 31, 2010 and 2009, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of MusiCares Foundation, Inc. ("MusiCares Foundation") as of July 31, 2010 and 2009, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of MusiCares Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of MusiCares Foundation as of July 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

May 9, 2011

MUSICARES FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,285,078	\$ 4,524,125
Board-designated 20th Anniversary Campaign cash and cash equivalents	<u>686,308</u>	<u></u>
Total cash	2,971,386	4,524,125
Receivable from The NARAS Foundation (Note 6)	166,405	162,577
Board-designated 20th Anniversary Campaign pledge receivable — current (Note 9)	354,000	240,000
Other receivables	404,660	109,710
Investments (Notes 3 and 4)	2,651,080	957,863
Prepaid expenses and other current assets	<u>127,484</u>	<u>86,470</u>
Total current assets	6,675,015	6,080,745
RESTRICTED CASH (Note 8)	475,598	132,975
BOARD-DESIGNATED 20TH ANNIVERSARY CAMPAIGN PLEDGE RECEIVABLE — Net — noncurrent (Note 9)	931,540	354,727
PROPERTY — Net (Note 5)	25,378	45,354
DEFERRED COMPENSATION ASSET (Note 7)	<u>22,079</u>	<u>13,829</u>
TOTAL	<u>\$ 8,129,610</u>	<u>\$ 6,627,630</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 217,100	\$ 298,467
Deferred revenue (Note 2)	36,099	29,201
Payable to The National Academy of Recording Arts & Sciences, Inc. (Note 6)	<u>51,398</u>	<u>355,431</u>
Total current liabilities	304,597	683,099
DEFERRED COMPENSATION LIABILITY (Note 7)	<u>22,079</u>	<u>13,829</u>
Total liabilities	<u>326,676</u>	<u>696,928</u>
NET ASSETS (Note 2):		
Unrestricted net assets:		
General	5,335,084	5,203,000
Board-designated 20th Anniversary Campaign (Notes 9 and 10)	<u>706,712</u>	<u>29,736</u>
Total unrestricted net assets	<u>6,041,796</u>	<u>5,232,736</u>
Temporarily restricted net assets:		
Purpose restricted (Note 8)	475,598	132,975
Time restricted — Board-designated 20th Anniversary Campaign (Notes 9 and 10)	<u>1,285,540</u>	<u>564,991</u>
Total temporarily restricted net assets	<u>1,761,138</u>	<u>697,966</u>
Total net assets	<u>7,802,934</u>	<u>5,930,702</u>
TOTAL	<u>\$ 8,129,610</u>	<u>\$ 6,627,630</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted Purpose	Time	Total	Unrestricted	Temporarily Restricted Purpose	Time	Total
SUPPORT AND REVENUES:								
Person of the Year Dinner/Auction (Note 2)	\$ 5,509,859	\$ -	\$ -	\$ 5,509,859	\$ 6,836,518	\$ -	\$ -	\$ 6,836,518
Contributions from The National Academy of Recording Arts & Sciences, Inc. (Note 6)	1,308,837	695,146		2,003,983	1,394,999	656,953		2,051,952
Board-designated 20th Anniversary Campaign (Note 10)	388,295		1,009,230	1,397,525	29,736		564,991	594,727
MAP Benefit Concert (Note 2)		101,955		101,955		286,606		286,606
Hurricane Relief/Music Rising/Flood Relief		772,070		772,070		7,569		7,569
Other fundraising auctions (Note 2)	338,127			338,127	208,315			208,315
Other income	570,325	86,590		656,915	919,808	52,891		972,699
Interest and dividend income	96,637			96,637	105,385			105,385
Unrealized gain (loss) on investments — net	98,711			98,711	(162,016)			(162,016)
Realized loss on investments — net	(396)			(396)	(10,819)			(10,819)
Total support and revenues	8,310,395	1,655,761	1,009,230	10,975,386	9,321,926	1,004,019	564,991	10,890,936
NET ASSETS RELEASED FROM RESTRICTIONS/ RECLASSIFICATION — Satisfaction of purpose/time restrictions	1,601,819	(1,313,138)	(288,681)	-	1,126,107	(1,126,107)		-
PROGRAM SERVICES AND SUPPORTING EXPENSES:								
Program services:								
Financial assistance program	2,165,059			2,165,059	2,106,152			2,106,152
MAP Fund	1,077,032			1,077,032	1,514,727			1,514,727
Hurricane Relief/Music Rising/ Flood Relief	431,300			431,300	127,086			127,086
Encore Hall Project	25,000			25,000	2,565			2,565
Total program services	3,698,391	-	-	3,698,391	3,750,530	-	-	3,750,530

(Continued)

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted Purpose	Time	Total	Unrestricted	Temporarily Restricted Purpose	Time	Total
Supporting expenses:								
Person of the Year Dinner/Auction (Note 2)	\$ 3,428,949	\$ -	\$ -	\$ 3,428,949	\$ 4,890,626	\$ -	\$ -	\$ 4,890,626
General fundraising (Note 2)	610,075			610,075	971,359			971,359
Administration	615,723			615,723	425,459			425,459
Board-designated 20th Anniversary Campaign	302,534			302,534				-
Other fundraising auctions	246,522			246,522	336,728			336,728
MAP Benefit Concert	200,960			200,960	202,974			202,974
Total supporting expenses	<u>5,404,763</u>	<u>-</u>	<u>-</u>	<u>5,404,763</u>	<u>6,827,146</u>	<u>-</u>	<u>-</u>	<u>6,827,146</u>
Total program services and supporting expenses	<u>9,103,154</u>	<u>-</u>	<u>-</u>	<u>9,103,154</u>	<u>10,577,676</u>	<u>-</u>	<u>-</u>	<u>10,577,676</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER COMPREHENSIVE GAIN	809,060	342,623	720,549	1,872,232	(129,643)	(122,088)	564,991	313,260
OTHER COMPREHENSIVE GAIN				<u>-</u>	<u>16,919</u>			<u>16,919</u>
INCREASE (DECREASE) IN NET ASSETS	809,060	342,623	720,549	1,872,232	(112,724)	(122,088)	564,991	330,179
NET ASSETS:								
Beginning of year	<u>5,232,736</u>	<u>132,975</u>	<u>564,991</u>	<u>5,930,702</u>	<u>5,345,460</u>	<u>255,063</u>		<u>5,600,523</u>
End of year	<u>\$ 6,041,796</u>	<u>\$ 475,598</u>	<u>\$ 1,285,540</u>	<u>\$ 7,802,934</u>	<u>\$ 5,232,736</u>	<u>\$ 132,975</u>	<u>\$ 564,991</u>	<u>\$ 5,930,702</u>

See notes to financial statements.

(Concluded)

MUSICARES FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,872,232	\$ 330,179
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,976	14,993
Net unrealized (gain) loss on investments	(98,711)	162,016
Net realized loss on investments	396	10,819
Changes in operating assets and liabilities:		
Receivable from The NARAS Foundation	(3,828)	(53,865)
Receivable from The National Academy of Recording Arts & Sciences, Inc.		44,000
Board-designated 20th Anniversary Campaign pledge receivable	(690,813)	(594,727)
Other receivables	(294,950)	9,491
Prepaid expenses and other current assets	(41,014)	11,281
Accounts payable and accrued liabilities	(81,367)	(99,078)
Deferred revenue	6,898	(69,300)
Payable to The National Academy of Recording Arts & Sciences, Inc.	(304,033)	355,431
Pension liability		(187,333)
Net cash provided by (used in) operating activities	<u>384,786</u>	<u>(66,093)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,915,787)	(105,352)
Proceeds from maturities of investments	1,320,885	17,000
Increase in restricted cash	(778,320)	
Decrease in restricted cash	435,697	122,088
Purchases of property		(21,780)
Net cash (used in) provided by investing activities	<u>(1,937,525)</u>	<u>11,956</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(1,552,739)</u>	<u>(54,137)</u>
CASH AND CASH EQUIVALENTS — Beginning of year	<u>4,524,125</u>	<u>4,578,262</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 2,971,386</u>	<u>\$ 4,524,125</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES — Disposal of fully depreciated property	<u>\$ 3,312</u>	<u>\$ 2,317</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2010

	Financial Assistance Program	MAP Fund	Hurricane Relief/ Music Rising/ Flood Relief	Encore Hall Project	Total Program Services	Person of the Year Dinner/ Auction	General Fundraising	Administration	Board-designated 20th Anniversary Campaign	Other Fundraising Auctions	MAP Benefit Concert	Total Supporting Expenses	Total
Event expenses	\$ 3,873	\$ 6,068	\$ -	\$ -	\$ 9,941	\$2,590,226	\$207,586	\$ 21,013	\$ 800	\$ 24,034	\$ 70,713	\$2,914,372	\$2,924,313
Financial grants and assistance	1,388,974	713,482	380,418	25,000	2,507,874		540	21,725				22,265	2,530,139
Professional fees	39,996	35,385	1,380		76,761	161,118	59,736	151,150	212,331	71,783	19,543	675,661	752,422
Salaries and benefits	521,509	246,862	44,274		812,645	159,471	249,356	255,211	70,786	94,436	69,878	899,138	1,711,783
Administration	162,224	53,473	1,897		217,594	369,624	63,520	118,881	17,919	41,095	33,445	644,484	862,078
Travel and entertainment	36,870	14,897	1,227		52,994	131,745	13,443	18,316	698	10,964	3,624	178,790	231,784
Video services			2,104		2,104	7,711	347				1,675	9,733	11,837
Taxes and licenses	3,602	2,146			5,748	3,977	13,200	3,594		1,601	792	23,164	28,912
Computer expenses	8,011	4,719			12,730	5,077	2,347	5,857		2,609	1,290	17,180	29,910
Subtotal	2,165,059	1,077,032	431,300	25,000	3,698,391	3,428,949	610,075	595,747	302,534	246,522	200,960	5,384,787	9,083,178
Depreciation								19,976				19,976	19,976
TOTAL	<u>\$2,165,059</u>	<u>\$1,077,032</u>	<u>\$431,300</u>	<u>\$25,000</u>	<u>\$3,698,391</u>	<u>\$3,428,949</u>	<u>\$610,075</u>	<u>\$615,723</u>	<u>\$ 302,534</u>	<u>\$246,522</u>	<u>\$200,960</u>	<u>\$5,404,763</u>	<u>\$9,103,154</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2009

	Financial Assistance Program	MAP Fund	Hurricane Relief/ Music Rising/ Flood Relief	Encore Hall Project	Total Program Services	Person of the Year Dinner/ Auction	General Fundraising	Administration	Other Fundraising Auctions	MAP Benefit Concert	Total Supporting Expenses	Total
Event expenses	\$ 14,374	\$ 6,119	\$ -	\$ -	\$ 20,493	\$3,918,042	\$391,002	\$ 4,778	\$ 17,561	\$ 54,035	\$4,385,418	\$ 4,405,911
Financial grants and assistance	1,212,038	1,025,200	98,485		2,335,723		3,600	6,400			10,000	2,345,723
Professional fees	94,024	33,040	344	1,729	129,137	201,996	100,527	102,581	111,813	20,888	537,805	666,942
Salaries and benefits	592,930	373,461	27,946	836	995,173	279,266	354,922	199,244	105,905	80,583	1,019,920	2,015,093
Administration	146,224	60,040	266		206,530	396,584	80,049	62,850	47,727	36,642	623,852	830,382
Travel and entertainment	34,370	10,795			45,165	85,044	12,867	26,237	46,962	7,382	178,492	223,657
Video services	1,100				1,100	377	8,487		517	1,670	11,051	12,151
Taxes and licenses	1,646	665	9		2,320	2,978	11,126	1,659	1,198	350	17,311	19,631
Computer expenses	9,446	5,407	36		14,889	6,339	8,779	6,717	5,045	1,424	28,304	43,193
Subtotal	2,106,152	1,514,727	127,086	2,565	3,750,530	4,890,626	971,359	410,466	336,728	202,974	6,812,153	10,562,683
Depreciation					-			14,993			14,993	14,993
TOTAL	\$2,106,152	\$1,514,727	\$127,086	\$2,565	\$3,750,530	\$4,890,626	\$971,359	\$425,459	\$336,728	\$202,974	\$6,827,146	\$10,577,676

See notes to financial statements.

MUSICARES FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JULY 31, 2010 AND 2009

1. ORGANIZATION

MusiCares Foundation, Inc. ("MusiCares Foundation") was established by the National Academy of Recording Arts & Sciences, Inc. ("The Recording Academy") and The NARAS Foundation ("The GRAMMY Foundation") 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.

Federal and State Income Taxes — MusiCares Foundation is incorporated as a nonprofit organization pursuant to Internal Revenue Code (IRC) Section 501(c)(3) and corresponding state provisions. MusiCares Foundation is generally exempt from federal and state income taxes, except for any unrelated business income, which is subject to tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards — MusiCares Foundation has adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or the "Codification") 105, *Generally Accepted Accounting Principles* (formerly, FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). This statement promulgates that FASB ASC becomes the source of authoritative accounting principles generally accepted in the United States of America (GAAP) recognized by the FASB. The Codification supersedes all prior existing non-Securities and Exchange Commission accounting and reporting standards. Therefore, MusiCares Foundation has changed references to accounting standards herein to be consistent with the Codification.

Use of Estimates — The preparation of financial statements in conformity with 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. MusiCares Foundation maintains cash in financial institutions. Such cash accounts are insured by the Federal Deposit Insurance Commission up to \$250,000 per financial institution. At various times during the years ended July 31, 2010 and 2009, MusiCares Foundation maintained balances in excess of insured amounts.

Restricted Cash — Restricted cash consists of amounts received for Encore Hall, Hurricane Relief/Music Rising, Agua Funds, and Nashville Flood Relief programs. The cash consists of amounts received from donations, fundraising activities, and The Recording Academy and is designated for those specific programs (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.

Equity securities are invested in various mutual funds to reap the benefits of growth in international, large-cap, and small-cap investments while diversifying the risk (see Notes 3 and 4).

Fixed income investments are mutual funds composed of investment-grade bonds, corporate bonds, and marketable equity securities (see Notes 3 and 4).

Broad commodities are invested in natural resource commodity mutual funds (see Notes 3 and 4).

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 change 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 the 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 are recognized as revenue when the events take place. Auction revenue is recognized at the time in which 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.

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 approximately \$86,853 and \$160,600 in 2010 and 2009, 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 \$1,602,418 in 2010 and were included in Person of the Year Dinner/Auction revenue of \$1,593,185, MAP Benefit Concert of \$6,411, and general fundraising of \$2,822. Donated goods and services received were estimated to have a fair value of \$3,032,335 in 2009 and were included in Person of the Year Dinner/Auction revenue of \$3,018,979, MAP Benefit Concert of \$6,406, and general fundraising of \$6,950.

In-kind donations from The Recording Academy relate to discount on rental expenses, airline tickets, and event tickets contributed in the amounts of \$216,148 and \$48,988 for the years ended July 31, 2010 and 2009, respectively.

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 8).

Funded Status of the Defined Benefit Plan — In accordance with FASB ASC 715, *Compensation — Retirement Benefits* (formerly, FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*), MusiCares Foundation recognized the overfunded or underfunded status of its single-employer defined benefit postretirement plan as an asset or liability, respectively, in the statements of financial position. Changes in the funded status of the defined benefit plan is recognized in unrestricted net assets in the year in which the change occurs. Changes in the funded status are measured based on the projected benefit obligation for pension plans. The provisions of FASB ASC 715 were applied prospectively as of July 31, 2008. Because the plan has been terminated (see Note 7), the adoption of FASB ASC 715 did not have a material impact as MusiCares Foundation had already recognized the plan's unfunded status as a liability in its statements of financial position effective July 31, 2008.

Recent Accounting Pronouncements — For the year ended July 31, 2009, MusiCares Foundation adopted FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly, FASB Statement No. 157, *Fair Value Measurements*). This statement defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. FASB ASC 820 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The adoption of this pronouncement resulted in additional disclosures as set forth in Note 4.

For the year ended July 31, 2009, MusiCares Foundation also adopted FASB ASC 825, *Financial Instruments* (formerly, FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*). FASB ASC 825 permits entities to choose to measure many financial instruments and certain other items at fair value. The MusiCares Foundation did not elect the fair value option for any additional financial instruments. Accordingly, the adoption of FASB ASC 825 did not have a material impact on the MusiCares Foundation's financial statements.

Financial instruments for MusiCares Foundation consist of restricted cash, investment, accounts receivable, pledge receivable, deferred compensation asset and liability, deferred revenue, and accounts payable. Investments are carried at fair value as described in Note 2. All other assets and liabilities 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.

Effective August 1, 2009, MusiCares Foundation adopted the provisions of FASB ASC 740, *Income Taxes* (formerly, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*). FASB ASC 740 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The adoption of FASB ASC 740 did not have a material impact on MusiCares Foundation's financial statements as MusiCares Foundation does not believe it had any uncertain tax positions as of July 31, 2010.

MusiCares Foundation adopted the provisions of FASB ASC 855, *Subsequent Events* (formerly, FASB Statement No. 165, *Subsequent Events*) beginning in the year ended July 31, 2009. FASB ASC 855 establishes principles and requirements for evaluating and reporting subsequent events and distinguishes which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the notes to the financial statements. FASB ASC 855 also requires disclosure of the date through which subsequent events are evaluated by management. For the year ended July 31, 2010, subsequent events were evaluated by management through May 9, 2011, the date the financial statements were available to be issued.

3. INVESTMENTS

Investments represent mutual funds that are specifically designated by the MusiCares Foundation's Board of Directors (the "Board") or for the Board-designated 20th Anniversary Campaign as of July 31, 2010 and 2009, and are maintained in the following investment categories:

	2010	2009
Investments:		
Board-designated investments:		
Cash and cash equivalents	\$ 15,496	\$ 32,213
Equity securities	1,294,226	410,475
Fixed income	1,154,198	472,684
Broad commodities	166,756	42,491
Board-designated 20th Anniversary Campaign investments:		
Equity securities	<u>20,404</u>	<u> </u>
Total investments	<u>\$2,651,080</u>	<u>\$957,863</u>

4. FAIR VALUE MEASUREMENTS

The MusiCares Foundation implemented FASB ASC 820 beginning the year ended July 31, 2009. FASB ASC 820 requires characterizing holdings as Level 1, Level 2, or Level 3 based upon the various inputs or methodologies used to value the holdings as summarized below:

Level 1 — Quoted prices in active markets for identical holdings

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

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

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.

The following section describes the valuation methodologies used by MusiCares Foundation to measure its investments at fair value:

Level 1 — Investments include cash and cash equivalents and all investments listed on major exchanges or liquid public markets. Fair values are based on quoted market prices provided by the custodians or other market based sources for identical instruments at or near the measurement date. As required by FASB ASC 820, quoted prices are not adjusted for investments deemed large relative to that investment's market, even when a sale could reasonably affect the quoted price.

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. Management's assessment of the significance of each input in relationship to all inputs in their entirety requires judgment specific to each investment.

As of July 31, 2010, MusiCares Foundation's holdings applying FASB ASC 820 are as follows:

	Fair Value Measurements — July 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and cash equivalents	\$ 15,496	\$ 15,496
Equity securities	1,314,630	1,314,630
Fixed income	1,154,198	1,154,198
Broad commodities	<u>166,756</u>	<u>166,756</u>
Total	<u>\$2,651,080</u>	<u>\$2,651,080</u>

As of July 31, 2009, MusiCares Foundation's holdings applying FASB ASC 820 are as follows:

	Fair Value Measurements — July 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)
Cash and cash equivalents	\$ 32,213	\$ 32,213
Equity securities	410,475	410,475
Fixed income	472,684	472,684
Broad commodities	<u>42,491</u>	<u>42,491</u>
Total	<u>\$957,863</u>	<u>\$957,863</u>

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

5. PROPERTY

Property as of July 31, 2010 and 2009, consists of the following:

	2010	2009
Office equipment	\$ 8,696	\$ 9,545
Computer equipment and software	65,091	67,554
Furniture and fixtures	<u>65,381</u>	<u>65,381</u>
Total property	139,168	142,480
Accumulated depreciation	<u>(113,790)</u>	<u>(97,126)</u>
Property — net	<u>\$ 25,378</u>	<u>\$ 45,354</u>

Depreciation expense amounted to \$19,976 and \$14,993 in 2010 and 2009, respectively.

6. AFFILIATED ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions and contributions of services from The Recording Academy amounting to \$2,308,103 and \$2,598,082 in 2010 and 2009, respectively. The details are described below:

	2010	2009
Cash contributions:		
General contributions	\$ 1,509,195	\$ 1,800,055
Person of the Year Dinner/Auction	292,520	534,830
MAP Fund	278,640	202,909
MAP Benefit Concert	<u>11,600</u>	<u>11,300</u>
Total cash contributions	<u>2,091,955</u>	<u>2,549,094</u>
Noncash contributions:		
Discount on rental expenses	181,055	32,188
GRAMMY show tickets	16,800	16,800
Special Merit Awards Ceremony	9,500	
Airline barter tickets	<u>8,793</u>	<u></u>
Total noncash contributions	<u>216,148</u>	<u>48,988</u>
Total cash and noncash contributions	<u>\$ 2,308,103</u>	<u>\$ 2,598,082</u>

Total contributions from The Recording Academy provided for 21% and 24% of total support and revenues in 2010 and 2009, respectively. Program-related contributions from The Recording Academy for Person of the Year and the MAP Benefit Concert are included in those program revenues in the statements of activities for the years ended July 31, 2010 and 2009. Contributions from The Recording Academy include general contributions, the MAP Fund, discount on rental expenses, airline tickets, and event tickets totaling \$2,003,983 and \$2,051,952 for the years ended July 31, 2010 and 2009 respectively.

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 \$1,374,971 for the fiscal year ending July 31, 2011. 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. For the fiscal year ended July 31, 2010, the Board of Trustees made a discretionary general cash contribution payment of \$1,509,195.

MusiCares Foundation was billed by The Recording Academy for certain operating expenses incurred on its behalf amounting to \$357,631 and \$513,249 in 2010 and 2009, respectively, as follows:

Operating Expenses	2010	2009
Salary and benefits	\$ 116,817	\$ 166,145
Pension and 401(k) administration expenses	2,794	9,959
Rent expense	108,723	153,390
Other operating expenses (shared services)	<u>129,297</u>	<u>183,755</u>
Total expenses billed by The Recording Academy	<u>\$ 357,631</u>	<u>\$ 513,249</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 2010 and 2009 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 \$20,600 and \$13,750 in 2010 and 2009, respectively.

7. BENEFIT PLANS

MusiCares Foundation established a defined benefit pension plan covering substantially all of its employees. MusiCares Foundation's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA).

On August 1, 2003, the MusiCares Foundation defined benefit plan and The GRAMMY Foundation defined benefit plan merged into The Recording Academy defined benefit plan (the "Plan"). The plans were merged to provide a single uniform retirement benefit formula for all employees of MusiCares Foundation, The Recording Academy, The GRAMMY Foundation, and The Latin Academy of Recording Arts & Sciences, Inc. ("The Latin Recording Academy"). The Plan is a single-employer plan, whereby each employer's accounting is based on its respective interest in the Plan.

In November 2006, the Board of Trustees of The Recording Academy resolved to terminate the Plan effective April 30, 2007, resulting in the recognition of a curtailment gain of \$77,733 during the year ended July 31, 2008, which was included in administrative expenses in the statements of activities. The accumulated benefits of \$187,504 (nonvested benefits became vested upon termination of the Plan) were distributed to the Plan participants during the year ended July 31, 2009. Defined benefits were not provided under any successor plan. The benefits paid to the MusiCares Foundation's employees in

excess of the fair value of MusiCares Foundation's plan assets of \$187,504 were transferred from The Recording Academy's overfunded portion of the Plan. There were no accumulated benefits to be paid during the year ended July 31, 2010.

The following sets forth the components of MusiCares Foundation net periodic benefit costs and benefit obligations and the funded status of the Plan. Valuations of assets and liabilities are determined using a measurement date of July 31.

Net periodic benefit cost for the years ended July 31, 2010 and 2009, is as follows:

	Defined Benefit Plan	
	2010	2009
Interest cost	\$ -	\$ -
Expected return on Plan assets		
Recognized actuarial loss		17,089
Curtailment gain		
	<u> </u>	<u> </u>
Net periodic benefit cost	<u>\$ -</u>	<u>\$ 17,089</u>
Obligations and Funded Status at July 31		
Changes in benefit obligation:		
Benefit obligation — beginning of year	\$ -	\$ 187,333
Interest cost		
Benefits paid		(187,504)
Actuarial loss		171
	<u> </u>	<u> </u>
Benefit obligation — end of year	<u>\$ -</u>	<u>\$ -</u>
Changes in plan assets:		
Fair value of Plan assets — beginning of year	\$ -	\$ -
Transfer		187,504
Actual return on Plan assets		
Benefits paid		(187,504)
	<u> </u>	<u> </u>
Fair value of Plan assets — end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u>\$ -</u>	<u>\$ -</u>
Net amount recognized — end of year	<u>\$ -</u>	<u>\$ -</u>

Investment holdings were liquidated during the year ended July 31, 2008, in anticipation of the Plan dissolution, and were maintained in cash and cash equivalents. All investment policies and procedures are designed to ensure that the Plan's investments are in compliance with ERISA. Guidelines are established defining permitted investments within each asset class.

Benefit payments resulting from the Plan termination for \$187,504 were distributed in the form of cash, annuities, transfer to the 401(k) plan, or transfer to another qualifying Individual Retirement Account, at the election of the Plan participant during the year ended July 31, 2009. There were no further benefits to be paid subsequent to July 31, 2009.

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 The Latin Recording Academy. Eligible employees can elect to defer compensation subject to Internal Revenue Service withholding rules. MusiCares Foundation makes a contribution match of 25% for 2010 and 50% for 2009 of the employee's elective deferral contributions, which amounted to \$29,531 and \$44,246 in 2010 and 2009, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. No discretionary match was made in 2010 and \$96,772 was made for the year ended July 31, 2009. There is no liability for the employer discretionary match at July 31, 2010 and \$73,866 at July 31, 2009 was included in accounts payable and accrued liabilities.

Executive Compensation Program — Effective December 13, 2006, MusiCares Foundation established 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, 2010 and 2009, was \$22,079 and \$13,829, respectively.

8. TEMPORARILY PURPOSE RESTRICTED NET ASSETS

Temporarily purpose restricted net assets as of July 31, 2010 and 2009, are available for the following purposes:

	2010	2009
Encore Hall	\$ 48,364	\$ 73,364
Hurricane Relief/Music Rising		54,011
Financial assistance — Agua Fund	5,720	5,600
Nashville Flood Relief	<u>421,514</u>	<u> </u>
Total	<u>\$ 475,598</u>	<u>\$ 132,975</u>

Net assets during the fiscal years ended July 31, 2010 and 2009, were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	2010	2009
Purpose restrictions accomplished:		
Encore Hall	\$ 25,000	\$ 2,565
MAP Fund/Benefit Concert	810,391	983,950
Hurricane Relief/Music Rising	54,510	127,086
Financial assistance Program	67,050	12,506
Agua Fund	6,131	
Nashville Flood Relief	<u>350,056</u>	<u> </u>
Total net assets released from purpose restriction	<u>\$ 1,313,138</u>	<u>\$ 1,126,107</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. At July 31, 2010 and 2009, the remaining funds raised for this project totaled \$48,364 and \$73,364, respectively, which were primarily contributed to MusiCares Foundation by The Recording Academy and are classified as temporarily restricted in the statements of financial position.

In September 2005, MusiCares Foundation and The Recording Academy established the MusiCares Hurricane Relief Fund to assist music people of the Gulf Coast region who were impacted by the 2005 hurricanes. As part of these Hurricane Relief efforts, MusiCares Foundation also partnered with the Guitar Center Music Foundation, Gibson Musical Instruments, and U2's "Edge" in the establishment of the Music Rising program. This program provides grants for music people of the Gulf Coast who lost their instruments and gear in the hurricanes. During the fiscal year ended July 31, 2007, MusiCares Foundation's role in the Music Rising program transitioned to the Gibson Foundation for a second phase of funding targeted to churches and schools. For the fiscal years ended July 31, 2010 and 2009, total contributions received for the two funds were \$500 and \$7,569, respectively.

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, 2010 and 2009, the total grant received was \$6,250 and \$12,500, respectively, and is included as temporarily restricted funds within other income in the statements of activities. During the years ended July 31, 2010 and 2009, \$6,130 and \$12,506, respectively, were transferred from temporarily restricted to unrestricted revenues due to the satisfaction of the program restrictions, and are shown as net assets released from restrictions in the accompanying 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 loss — homes, cars, equipment, and rehearsal space — ruined by the unprecedented flooding in several communities. It has been estimated that only a fraction of those who experienced significant loss have 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' 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, 2010, total contributions received were \$771,570, and \$350,056 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction.

9. BOARD-DESIGNATED 20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE

Pledges to give, that are expected to be collected within one year, are recorded at net realizable value. Pledges to give, that are expected to be collected in future years, are recorded at the present value of their estimated cash flows.

The pledge receivables as of July 31, 2010 and 2009, consist of the following:

	2010	2009
Total gross pledge receivable	\$ 1,300,000	\$ 600,000
Less unamortized discount	<u>(14,460)</u>	<u>(5,273)</u>
Net pledge receivable	<u>\$ 1,285,540</u>	<u>\$ 594,727</u>
Amounts due in:		
Less than one year	\$ 354,000	\$ 240,000
Two to five years	<u>946,000</u>	<u>360,000</u>
Gross pledge receivable	<u>\$ 1,300,000</u>	<u>\$ 600,000</u>

The fair value of these pledges was determined by calculating the net present value of the estimated future cash flows using a discount rate of approximately 0.92% and 0.81% as of July 31, 2010 and 2009, respectively. As of December 31, 2010, \$706,712 cash has been collected, \$686,308 is maintained in a money market cash account, and \$20,404 is maintained in mutual fund investments.

10. BOARD-DESIGNATED 20TH ANNIVERSARY CAMPAIGN TIME RESTRICTED NET ASSETS

In 2009, the MusiCares Foundation embarked on a Board-designated 20th Anniversary fundraising campaign (formerly, Board Campaign) to raise \$10,000,000. The donors have stipulated that the funds are to be used toward the current activities of MusiCares 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 Board of Directors. 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 fund. The distribution of the income of the fund shall be made in such amounts at such times and for such purposes as the Board determines from time to time in its sole discretion.

MusiCares Foundation classified the Board-designated 20th Anniversary Campaign pledges as time restricted campaign assets until those amounts have met the time restriction. The campaign funds include both donor-restricted campaign funds and funds designated by the Board to fund the campaign. Some donors have allocated 5% of each pledge to unrestricted use and the remaining funds are designated by the Board for the purpose of growing the campaign funds. As of July 31, 2010, the donor-imposed restrictions are the result of the pledge payment schedule as described in Note 9. Accordingly, these funds are classified as time restricted within temporarily restricted net assets.

As required by GAAP, net assets associated with campaign funds are classified and reported based on the existence or absence of donor-imposed restrictions.

As of July 31, 2010 and 2009, the Board-designated 20th Anniversary Campaign net assets composition by type of fund is as follows:

	2010	2009
Board-designated 20th Anniversary Campaign Net assets:		
Unrestricted	\$ 706,712	\$ 29,736
Time restricted	<u>1,285,540</u>	<u>564,991</u>
Total Board-designated 20th Anniversary Campaign Net assets	<u>\$ 1,992,252</u>	<u>\$ 594,727</u>
	2010	2009
Time restrictions accomplished by July 31:		
Board-designated 20th Anniversary Campaign	<u>\$ 288,681</u>	<u>\$ -</u>
Total net assets released from time restriction	<u>\$ 288,681</u>	<u>\$ -</u>

As of July 31, 2010 and 2009 respectively, the Board-designated 20th Anniversary Campaign funds have not yet been fully collected and are included in pledges receivable (see Note 9). MusiCares Foundation management and the Board intend to establish campaign investment policies, return objectives, risk parameters, and determine how those objectives relate to the campaign spending policy and the strategies employed for achieving those objectives when the funds are received. Board-designated 20th Anniversary Campaign administrative costs are spent from MusiCares Foundation general cash.

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