

MusiCares Foundation, Inc.

Financial Statements as of and for the
Years Ended July 31, 2012 and 2011, 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, 2012 and 2011, 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 audits 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, 2012 and 2011, 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

January 31, 2013

MUSICARES FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,171,944	\$ 2,797,807
Board-designated 20th Anniversary Campaign cash and cash equivalents (Note 9)	<u>7,341,299</u>	<u>2,579,888</u>
Total cash and cash equivalents	10,513,243	5,377,695
Receivable from The NARAS Foundation (Note 5)	213,035	183,826
Receivable from The National Academy of Recording Arts & Sciences, Inc.	183,280	
20th Anniversary Campaign pledges receivable — current (Note 8)	837,316	623,000
Other receivables	114,418	206,706
Investments (Note 3)	2,985,331	5,312,435
Prepaid expenses and other current assets	<u>92,892</u>	<u>73,217</u>
Total current assets	14,939,515	11,776,879
RESTRICTED CASH (Note 7)		91,027
20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE — net — noncurrent (Note 8)	1,189,523	1,491,176
PROPERTY — Net (Note 4)		8,271
DEFERRED COMPENSATION ASSET (Note 6)	<u>39,864</u>	<u>33,086</u>
TOTAL	<u>\$16,168,902</u>	<u>\$13,400,439</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 238,376	\$ 238,718
Deferred revenue (Note 2)	31,225	101,930
Payable to The National Academy of Recording Arts & Sciences, Inc.	<u></u>	<u>63,171</u>
Total current liabilities	269,601	403,819
DEFERRED COMPENSATION LIABILITY (Note 6)	<u>39,864</u>	<u>33,086</u>
Total liabilities	<u>309,465</u>	<u>436,905</u>
NET ASSETS (Note 2):		
Unrestricted net assets:		
General	6,875,558	5,880,802
Board-designated 20th Anniversary Campaign (Notes 8 and 9)	<u>6,951,436</u>	<u>4,877,529</u>
Total unrestricted net assets	<u>13,826,994</u>	<u>10,758,331</u>
Temporarily restricted net assets:		
Purpose restricted (Note 7)	5,604	91,027
Time restricted — 20th Anniversary Campaign (Notes 8 and 9)	<u>2,026,839</u>	<u>2,114,176</u>
Total temporarily restricted net assets	<u>2,032,443</u>	<u>2,205,203</u>
Total net assets	<u>15,859,437</u>	<u>12,963,534</u>
TOTAL	<u>\$16,168,902</u>	<u>\$13,400,439</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Purpose	Time			Purpose	Time	
SUPPORT AND REVENUES:								
Person of the Year Dinner/Auction (Note 2)	\$ 9,177,590	\$ -	\$ -	\$ 9,177,590	\$ 7,267,167	\$ -	\$ -	\$ 7,267,167
Contributions from The National Academy of Recording Arts & Sciences, Inc. (Note 5)	1,618,518	171,735		1,790,253	1,279,004	513,536		1,792,540
20th Anniversary Campaign (Note 9)	1,834,961		568,663	2,403,624	4,348,052		1,150,636	5,498,688
MAP Benefit Concert (Note 2)		185,845		185,845		256,845		256,845
Hurricane Relief/Music Rising/Flood Relief				-		198,641		198,641
Other fundraising auctions (Note 2)	330,245			330,245	222,924			222,924
Other income	574,622	162,849		737,471	532,520	29,167		561,687
Interest and dividend income	112,246			112,246	107,312			107,312
Unrealized (loss) gain on investments — net	(38,705)			(38,705)	307,931			307,931
Realized (loss) gain on investments — net	(75,130)			(75,130)	5,072			5,072
Total support and revenues	13,534,347	520,429	568,663	14,623,439	14,069,982	998,189	1,150,636	16,218,807
NET ASSETS RELEASED FROM RESTRICTIONS/ RECLASSIFICATION — Satisfaction of purpose/time restrictions	1,261,852	(605,852)	(656,000)	-	1,704,760	(1,382,760)	(322,000)	-
PROGRAM SERVICES AND SUPPORTING EXPENSES:								
Program services:								
Financial assistance program	3,049,554			3,049,554	2,473,801			2,473,801
MAP Fund	1,484,667			1,484,667	1,263,596			1,263,596
Hurricane Relief/Music Rising/Flood Relief	38,169			38,169	611,682			611,682
Encore Hall Project	100,000			100,000				-
Total program services	4,672,390	-	-	4,672,390	4,349,079	-	-	4,349,079

(Continued)

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Purpose	Time			Purpose	Time	
Supporting expenses:								
Person of the Year Dinner/Auction (Note 2)	\$ 5,271,683	\$ -	\$ -	\$ 5,271,683	\$ 4,821,018	\$ -	\$ -	\$ 4,821,018
General fundraising (Note 2)	422,161			422,161	450,816			450,816
Administration	490,216			490,216	513,941			513,941
20th Anniversary Campaign	418,234			418,234	499,235			499,235
Other fundraising auctions	220,396			220,396	227,634			227,634
MAP Benefit Concert	232,456			232,456	196,484			196,484
Total supporting expenses	7,055,146	-	-	7,055,146	6,709,128	-	-	6,709,128
Total program services and supporting expenses	11,727,536	-	-	11,727,536	11,058,207	-	-	11,058,207
INCREASE (DECREASE) IN NET ASSETS	3,068,663	(85,423)	(87,337)	2,895,903	4,716,535	(384,571)	828,636	5,160,600
NET ASSETS:								
Beginning of year	10,758,331	91,027	2,114,176	12,963,534	6,041,796	475,598	1,285,540	7,802,934
End of year	\$13,826,994	\$ 5,604	\$2,026,839	\$15,859,437	\$10,758,331	\$ 91,027	\$2,114,176	\$12,963,534

See notes to financial statements.

(Concluded)

MUSICARES FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,895,903	\$ 5,160,600
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	8,271	17,107
Net unrealized loss (gain) on investments	38,705	(307,931)
Net realized loss (gain) on investments	75,130	(5,072)
Changes in operating assets and liabilities:		
Receivable from The NARAS Foundation	(29,209)	(17,421)
Receivable from National Academy of Recording Arts & Sciences, Inc.	(183,280)	
20th Anniversary Campaign pledges receivable	87,337	(828,636)
Other receivables	92,288	197,954
Prepaid expenses and other current assets	(19,675)	54,267
Accounts payable and accrued liabilities	(342)	21,618
Deferred revenue	(70,705)	65,831
Payable to National Academy of Recording Arts & Sciences, Inc.	(63,171)	11,773
Net cash provided by operating activities	<u>2,831,252</u>	<u>4,370,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,345,906)	(2,472,377)
Proceeds from sales of investments and maturities	3,559,175	124,025
Increase in restricted cash		(234,891)
Decrease in restricted cash	<u>91,027</u>	<u>619,462</u>
Net cash provided by (used in) investing activities	<u>2,304,296</u>	<u>(1,963,781)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,135,548	2,406,309
CASH AND CASH EQUIVALENTS — Beginning of year	<u>5,377,695</u>	<u>2,971,386</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 10,513,243</u>	<u>\$ 5,377,695</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

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

	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	20th Anniversary Campaign	Other Fundraising Auctions	MAP Benefit Concert	Total Supporting Expenses	Total
Event expenses	\$ 20,524	\$ 7,227	\$ -	\$ -	\$ 27,751	\$4,101,361	\$ 23,615	\$ 8,072	\$ 5,625	\$ 22,461	\$ 78,208	\$4,239,342	\$ 4,267,093
Financial grants and assistance	1,957,063	1,062,498	26,439	100,000	3,146,000			16,278				16,278	3,162,278
Professional fees	94,155	43,082	352		137,589	226,295	123,582	101,874	295,477	87,571	22,255	857,054	994,643
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	1,929,050
Administration	150,435	32,896	575		183,906	511,053	49,385	88,261	21,784	26,142	30,721	727,346	911,252
Travel and entertainment	49,813	36,442			86,255	205,623	6,468	19,700	2,603	5,715	20,261	260,370	346,625
Video services	540				540	21,710					2,025	23,735	24,275
Taxes and licenses	10,138	4,035			14,173		8,860	11,462	2,729	3,464	1,389	27,904	42,077
Computer expenses	8,875	2,945	55		11,875	10,987	5,210	8,313	1,993	2,533	1,061	30,097	41,972
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	11,719,265
Depreciation					-			8,271				8,271	8,271
TOTAL	<u>\$3,049,554</u>	<u>\$1,484,667</u>	<u>\$38,169</u>	<u>\$100,000</u>	<u>\$4,672,390</u>	<u>\$5,271,683</u>	<u>\$422,161</u>	<u>\$490,216</u>	<u>\$418,234</u>	<u>\$220,396</u>	<u>\$232,456</u>	<u>\$7,055,146</u>	<u>\$11,727,536</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2011

	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	20th Anniversary Campaign	Other Fundraising Auctions	MAP Benefit Concert	Total Supporting Expenses	Total
Event expenses	\$ 50,036	\$ 5,292	\$ -	\$ -	\$ 55,328	\$3,655,668	\$ 20,269	\$ 6,245	\$ 20,933	\$ 23,328	\$107,717	\$3,834,160	\$ 3,889,488
Financial grants and assistance	1,459,490	907,007	553,429		2,919,926		23,525	9,850				33,375	2,953,301
Professional fees	128,470	32,178	1,094		161,742	147,094	145,664	110,725	348,802	72,353	13,908	838,546	1,000,288
Salaries and benefits	631,611	254,901	53,963		940,475	208,386	179,359	250,871	97,381	64,033	27,729	827,759	1,768,234
Administration	145,391	29,145	2,376		176,912	663,315	61,506	89,393	22,236	25,485	35,926	897,861	1,074,773
Travel and entertainment	37,873	26,693	41		64,607	132,700	7,242	11,066	4,677	36,122	6,121	197,928	262,535
Video services		560			560	885					2,025	2,910	3,470
Taxes and licenses	10,092	3,806	390		14,288	7,116	7,642	10,256	2,926	3,442	1,813	33,195	47,483
Computer expenses	10,838	4,014	389		15,241	5,854	5,609	8,428	2,280	2,871	1,245	26,287	41,528
Subtotal	2,473,801	1,263,596	611,682	-	4,349,079	4,821,018	450,816	496,834	499,235	227,634	196,484	6,692,021	11,041,100
Depreciation					-			17,107				17,107	17,107
TOTAL	<u>\$2,473,801</u>	<u>\$1,263,596</u>	<u>\$611,682</u>	<u>\$ -</u>	<u>\$4,349,079</u>	<u>\$4,821,018</u>	<u>\$450,816</u>	<u>\$513,941</u>	<u>\$499,235</u>	<u>\$227,634</u>	<u>\$196,484</u>	<u>\$6,709,128</u>	<u>\$11,058,207</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JULY 31, 2012 AND 2011

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, support 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 2013 are included as current assets and pledges due after fiscal year 2013 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).

Restricted Cash — Restricted cash consisted of amounts received for Encore Hall, Agua Funds, and Nashville Flood Relief programs. The cash consisted of amounts received from donations, fundraising activities, and The Recording Academy and was designated for those specific programs as of the year ended July 31, 2011 (see Note 7). Due to the improving cash position of MusiCares Foundation and the decrease in restricted funds held in the abovementioned programs, associated cash is not restricted as of the year ended July 31, 2012.

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 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 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 \$144,560 and \$147,128 in 2012 and 2011, 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 \$2,537,901 in 2012 and were included in Person of the Year Dinner/Auction revenues. Donated goods and services received were estimated to have a fair value of \$2,839,651 in 2011 and were included in Person of the Year Dinner/Auction revenue of \$2,748,827, MAP Benefit Concert of \$16,862, other income of \$70,125, and other fundraising auction revenues of \$3,837.

In-kind donations from The Recording Academy relate to discounts on rental expenses and event tickets contributed in the amounts of \$174,467 and \$175,717 for the years ended July 31, 2012 and 2011, 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, 2012 and 2011, the 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 National Academy of Recording Arts & Sciences, Inc. and The GRAMMY Foundation. Assets and liabilities, other than cash equivalents 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 cash equivalents and 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 is effective for MusiCares Foundation beginning August 1, 2012. The adoption of ASU No. 2011-04 is not expected to have a material impact on MusiCares Foundation's financial statements.

Subsequent Events — The MusiCares Foundation has evaluated subsequent events through January 31, 2013, the date the financial statements were available to be issued.

3. INVESTMENTS

Investments at July 31, 2012 and 2011, 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.

CDs included in investments represent time deposits that bear a maturity date and a fixed interest rate. CDs held at July 31, 2011 matured in the fiscal year ended July 31, 2012.

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.

Fixed-income investments are mutual funds composed of investment-grade bonds and corporate bonds.

Broad commodities and other investments are invested in natural resource commodity and income driven mutual funds.

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 holdings.

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, 2011, MusiCares Foundation's Level 2 investments include CDs. 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, 2012, MusiCares Foundation's holdings applying the FASB ASC 820 hierarchy are as follows:

	Fair Value Measurements — July 31, 2012	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>

As of July 31, 2011, MusiCares Foundation's holdings applying FASB ASC 820 are as follows:

	Fair Value Measurements — July 31, 2011	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>\$ 3,727,972</u>	<u>\$ 3,727,972</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:				
Certificates of deposit	\$ 2,292,560	\$ -	\$ 2,292,560	\$ -
Mutual funds:				
U.S. equity funds	273,773	273,773		
Global equity funds	1,269,103	1,269,103		
U.S. fixed-income bond funds	774,943	774,943		
Global fixed-income bond funds	469,494	469,494		
Broad commodities	<u>232,562</u>	<u>232,562</u>		
Total investments	<u>\$ 5,312,435</u>	<u>\$ 3,019,875</u>	<u>\$ 2,292,560</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 Level 1 and Level 2 during 2012 or 2011.

As of July 31, 2012 and 2011, investments of \$0 and \$2,297,641, respectively, are Board-designated for purposes of the 20th Anniversary Campaign (see Note 9).

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

4. PROPERTY

Property as of July 31, 2012 and 2011, consists of the following:

	2012	2011
Office equipment	\$ 6,316	\$ 8,696
Computer equipment and software	64,162	65,091
Furniture and fixtures	<u>65,381</u>	<u>65,381</u>
Total property	135,859	139,168
Accumulated depreciation	<u>(135,859)</u>	<u>(130,897)</u>
Property — net	<u>\$ -</u>	<u>\$ 8,271</u>

Depreciation expense amounted to \$8,271 and \$17,107 in 2012 and 2011, respectively.

5. AFFILIATED ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions and contributions of services from The Recording Academy amounting to \$2,371,303 and \$2,145,340 in 2012 and 2011, respectively. The details are described below:

	2012	2011
Cash contributions:		
General contributions	\$ 1,444,051	\$ 1,374,970
Flood Relief		30,000
Person of the Year Dinner/Auction	569,750	341,500
Musicians Assistance Program Fund	171,735	211,853
MAP Benefit Concert	<u>11,300</u>	<u>11,300</u>
Subtotal cash contributions	<u>2,196,836</u>	<u>1,969,623</u>
Noncash contributions:		
Discounted rent	156,917	156,917
GRAMMY show tickets	16,800	16,800
Special Merit Awards Ceremony	<u>750</u>	<u>2,000</u>
Subtotal noncash contributions	<u>174,467</u>	<u>175,717</u>
Total cash and noncash contributions	<u>\$ 2,371,303</u>	<u>\$ 2,145,340</u>

Total contributions from The Recording Academy provided for 16% and 13% of total support and revenues in 2012 and 2011, 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 \$1,666,211 for the fiscal year ending July 31, 2013. 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 \$356,422 and \$338,696 in 2012 and 2011, respectively, as follows:

	2012	2011
Salary and benefits	\$ 143,876	\$ 108,026
Rent expense	48,368	48,368
Other operating expenses (shared services)	<u>164,178</u>	<u>182,302</u>
Total expenses billed by the The Recording Academy	<u>\$ 356,422</u>	<u>\$ 338,696</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 2012 and 2011 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 \$31,500 and \$24,250 in 2012 and 2011, respectively.

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 The Latin Recording Academy. Eligible employees can elect to defer compensation subject to Internal Revenue Service withholding rules. In 2012 and 2011, MusiCares Foundation made a contribution match of 50% and 25%, respectively, of the employee's elective deferral contributions, which amounted to \$51,439 in 2012 \$31,281 in 2011, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. No discretionary match was made in 2012 and 2011.

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, 2012 and 2011, was \$39,864 and \$33,086, respectively.

7. TEMPORARILY PURPOSE RESTRICTED NET ASSETS

Temporarily purpose restricted net assets as of July 31, 2012 and 2011, are available for the following purposes:

	2012	2011
Encore Hall	\$ -	\$ 48,364
Financial assistance — Agua Fund	5,300	4,190
Nashville Flood Relief Fund	<u>304</u>	<u>38,473</u>
Total	<u>\$ 5,604</u>	<u>\$ 91,027</u>

Net assets during the fiscal years ended July 31, 2012 and 2011, were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	2012	2011
Purpose restrictions accomplished:		
Encore Hall	\$ 48,364	\$ -
MAP Fund/Benefit Concert	455,917	762,607
Financial assistance program	58,262	691
Financial assistance — Agua Fund	5,140	7,780
Nashville Flood Relief	<u>38,169</u>	<u>611,682</u>
Total net assets released from purpose restriction	<u>\$ 605,852</u>	<u>\$ 1,382,760</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, 2012 and 2011, the remaining funds raised for this project totaled \$0 and \$48,364, respectively, which were primarily contributed to MusiCares Foundation by The Recording Academy and are classified as temporarily restricted in the statements of financial position.

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, 2012 and 2011, 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 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 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, 2012, total contributions received were \$0 and \$38,169 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction. For the fiscal year ended July 31, 2011, total contributions received were \$228,641, of which \$30,000 was contributed from The Recording Academy, and \$611,682 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, 2012 and 2011, consist of the following:

	2012	2011
Gross pledge receivable amounts due in:		
Less than one year	\$ 837,316	\$ 623,000
Two to five years	<u>1,287,235</u>	<u>1,598,000</u>
Total gross pledge receivable	2,124,551	2,221,000
Less unamortized discount	<u>(97,712)</u>	<u>(106,824)</u>
Net 20th Anniversary Campaign pledges receivable	<u>\$2,026,839</u>	<u>\$2,114,176</u>

9. 20TH ANNIVERSARY CAMPAIGN

In 2009, the MusiCares Foundation embarked on a 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 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 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, 2012 and 2011, \$656,000 and \$322,000, 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 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.

Subsequent to the fiscal year ended July 31, 2012, the Board approved the investment strategy for the 20th Anniversary Campaign funds. The funds will be invested conservatively with investments laddered over several years, with \$2.3 million being invested into CD's maturing between 2016-2020 and another \$2.0 million being transferred for investing immediately based upon the approved pre-established investment guidelines. Future pledge payments, maturing CD's, and withdrawals from the investment account will fund 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, 2012 and 2011, 20th Anniversary Campaign administrative costs were spent from the current year campaign activities.

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