

# MusiCares Foundation, Inc.

Financial Statements as of and for the  
Years Ended July 31, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2012

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2011 AND 2010

	2011	2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,797,807	\$2,285,078
Board-designated 20th Anniversary Campaign cash and cash equivalents (Note 9)	<u>2,579,888</u>	<u>686,308</u>
Total cash and cash equivalents	5,377,695	2,971,386
Receivable from The NARAS Foundation (Note 5)	183,826	166,405
20th Anniversary Campaign pledges receivable — current (Note 8)	623,000	354,000
Other receivables	206,706	404,660
Investments (Note 3)	5,312,435	2,651,080
Prepaid expenses and other current assets	<u>73,217</u>	<u>127,484</u>
Total current assets	<u>11,776,879</u>	<u>6,675,015</u>
RESTRICTED CASH (Note 7)	91,027	475,598
20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE — Net — noncurrent (Note 8)	1,491,176	931,540
PROPERTY — Net (Note 4)	8,271	25,378
DEFERRED COMPENSATION ASSET (Note 6)	<u>33,086</u>	<u>22,079</u>
TOTAL	<u>\$13,400,439</u>	<u>\$8,129,610</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 238,718	\$ 217,100
Deferred revenue (Note 2)	101,930	36,099
Payable to National Academy of Recording Arts & Sciences, Inc.	<u>63,171</u>	<u>51,398</u>
Total current liabilities	403,819	304,597
DEFERRED COMPENSATION LIABILITY (Note 6)	<u>33,086</u>	<u>22,079</u>
Total liabilities	<u>436,905</u>	<u>326,676</u>
<b>NET ASSETS (Note 2):</b>		
Unrestricted net assets:		
General	5,880,802	5,335,084
Board-designated 20th Anniversary Campaign (Notes 8 and 9)	<u>4,877,529</u>	<u>706,712</u>
Total unrestricted net assets	<u>10,758,331</u>	<u>6,041,796</u>
Temporarily restricted net assets:		
Purpose restricted (Note 7)	91,027	475,598
Time restricted — 20th Anniversary Campaign (Notes 8 and 9)	<u>2,114,176</u>	<u>1,285,540</u>
Total temporarily restricted net assets	<u>2,205,203</u>	<u>1,761,138</u>
Total net assets	<u>12,963,534</u>	<u>7,802,934</u>
TOTAL	<u>\$13,400,439</u>	<u>\$8,129,610</u>

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Purpose	Time			Purpose	Time	
SUPPORT AND REVENUES:								
Person of the Year Dinner/Auction (Note 2)	\$ 7,267,167	\$ -	\$ -	\$ 7,267,167	\$5,509,859	\$ -	\$ -	\$ 5,509,859
Contributions from National Academy of Recording Arts & Sciences, Inc. (Note 5)	1,279,004	513,536		1,792,540	1,308,837	695,146		2,003,983
20th Anniversary Campaign (Note 9)	4,348,052		1,150,636	5,498,688	388,295		1,009,230	1,397,525
MAP Benefit Concert (Note 2)		256,845		256,845		101,955		101,955
Hurricane Relief/Music Rising/Flood Relief		198,641		198,641		772,070		772,070
Other fundraising auctions (Note 2)	222,924			222,924	338,127			338,127
Other income	532,520	29,167		561,687	570,325	86,590		656,915
Interest and dividend income	107,312			107,312	96,637			96,637
Unrealized gain on investments — net	307,931			307,931	98,711			98,711
Realized gain (loss) on investments — net	5,072			5,072	(396)			(396)
Total support and revenues	14,069,982	998,189	1,150,636	16,218,807	8,310,395	1,655,761	1,009,230	10,975,386
NET ASSETS RELEASED FROM RESTRICTIONS/ RECLASSIFICATION — Satisfaction of purpose/time restrictions	1,704,760	(1,382,760)	(322,000)	-	1,601,819	(1,313,138)	(288,681)	-
PROGRAM SERVICES AND SUPPORTING EXPENSES:								
Program services:								
Financial assistance program	2,473,801			2,473,801	2,165,059			2,165,059
MAP Fund	1,263,596			1,263,596	1,077,032			1,077,032
Hurricane Relief/Music Rising/Flood Relief	611,682			611,682	431,300			431,300
Encore Hall Project				-	25,000			25,000
Total program services	4,349,079	-	-	4,349,079	3,698,391	-	-	3,698,391

(Continued)

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Purpose	Time			Purpose	Time	
Supporting expenses:								
Person of the Year Dinner/Auction (Note 2)	\$ 4,821,018	\$ -	\$ -	\$ 4,821,018	\$3,428,949	\$ -	\$ -	\$3,428,949
General fundraising (Note 2)	450,816			450,816	610,075			610,075
Administration	513,941			513,941	615,723			615,723
20th Anniversary Campaign	499,235			499,235	302,534			302,534
Other fundraising auctions	227,634			227,634	246,522			246,522
MAP Benefit Concert	196,484			196,484	200,960			200,960
Total supporting expenses	6,709,128	-	-	6,709,128	5,404,763	-	-	5,404,763
Total program services and supporting expenses	11,058,207	-	-	11,058,207	9,103,154	-	-	9,103,154
INCREASE (DECREASE) IN NET ASSETS	4,716,535	(384,571)	828,636	5,160,600	809,060	342,623	720,549	1,872,232
NET ASSETS:								
Beginning of year	6,041,796	475,598	1,285,540	7,802,934	5,232,736	132,975	564,991	5,930,702
End of year	\$10,758,331	\$ 91,027	\$2,114,176	\$12,963,534	\$6,041,796	\$475,598	\$1,285,540	\$7,802,934

See notes to financial statements.

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# MUSICARES FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2011 AND 2010

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	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 5,160,600	\$ 1,872,232
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	17,107	19,976
Net unrealized gain on investments	(307,931)	(98,711)
Net realized (gain) loss on investments	(5,072)	396
Changes in operating assets and liabilities:		
Receivable from The NARAS Foundation	(17,421)	(3,828)
20th Anniversary Campaign pledge receivable	(828,636)	(690,813)
Other receivables	197,954	(294,950)
Prepaid expenses and other current assets	54,267	(41,014)
Accounts payable and accrued liabilities	21,618	(81,367)
Deferred revenue	65,831	6,898
Payable to National Academy of Recording Arts & Sciences, Inc.	<u>11,773</u>	<u>(304,033)</u>
Net cash provided by operating activities	<u>4,370,090</u>	<u>384,786</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,472,377)	(2,915,787)
Proceeds from sales of investments	124,025	1,320,885
Increase in restricted cash	(234,891)	(778,320)
Decrease in restricted cash	<u>619,462</u>	<u>435,697</u>
Net cash used in investing activities	<u>(1,963,781)</u>	<u>(1,937,525)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,406,309	(1,552,739)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>2,971,386</u>	<u>4,524,125</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 5,377,695</u>	<u>\$ 2,971,386</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.

## 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	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.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JULY 31, 2011 AND 2010

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### 1. ORGANIZATION

MusiCares Foundation, Inc. ("MusiCares Foundation"), was established by 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 generally exempt from federal and state income taxes as an 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.

**Restricted Cash** — Restricted cash consists of amounts received for Encore Hall, 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 7).

**20th Anniversary Campaign pledges receivable** — Pledges due in fiscal year 2012 are included as current assets and pledges due after fiscal year 2012 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 fiscal year 2011 and 1.6% and 2.9% in fiscal year 2010 (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 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 \$147,128 and \$86,853 in 2011 and 2010, 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 \$2,839,651 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. 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 other income of \$2,822.

In-kind donations from The Recording Academy relate to discount on rental expenses, airline tickets, and event tickets contributed in the amounts of \$175,717 and \$216,148 for the years ended July 31, 2011 and 2010, 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, 2011 and 2010, 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 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 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 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 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, 2012, the date the financial statements were available to be issued.

### 3. INVESTMENTS

Investments at July 31, 2011 and 2010, are maintained in cash equivalents, Certificates of Deposit (CDs), and mutual funds primarily invested in equity securities, fixed income investments, and broad commodity investments.

Cash equivalents included in investments represent cash held by MusiCares Foundation's investment managers that will be invested based on MusiCares Foundation's investment strategy.

CDs included in investments represent time deposits that bear a maturity date and a fixed interest rate.

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 are invested in natural resource commodity mutual funds.

MusiCares Foundation presents its investments in accordance with FASB ASC 820. FASB ASC 820 requires characterizing 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

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, 2011, MusiCares Foundation's holdings applying FASB ASC 820 are as follows:

	Fair Value Measurements — 40755	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Market Based Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	232,562	232,562		
Total investments	<u>\$5,312,435</u>	<u>\$3,019,875</u>	<u>\$2,292,560</u>	<u>\$ -</u>

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

	Fair Value Measurements — 40390	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Market Based Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 15,496	\$ 15,496	\$ -	\$ -
Mutual funds:				
U.S. equity funds	221,633	221,633		
Global equity funds	1,092,997	1,092,997		
U.S. fixed income bond funds	734,610	734,610		
Global fixed income bond funds	419,588	419,588		
Broad commodities	<u>166,756</u>	<u>166,756</u>		
Total investments	<u>\$2,651,080</u>	<u>\$2,651,080</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 Level 1 and Level 2 during 2011 or 2010.

As of July 31, 2011 and 2010, investments of \$2,297,641 and \$20,404, 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, 2011 and 2010, consists of the following:

	2011	2010
Office equipment	\$ 8,696	\$ 8,696
Computer equipment and software	65,091	65,091
Furniture and fixtures	<u>65,381</u>	<u>65,381</u>
Total property	139,168	139,168
Accumulated depreciation	<u>(130,897)</u>	<u>(113,790)</u>
Property — net	<u>\$ 8,271</u>	<u>\$ 25,378</u>

Depreciation expense amounted to \$17,107 and \$19,976 in 2011 and 2010, respectively.

## 5. AFFILIATED ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions and contributions of services from The Recording Academy amounting to \$2,145,340 and \$2,308,103 in 2011 and 2010, respectively. The details are described below:

	2011	2010
Cash contributions:		
General contributions	\$ 1,374,970	\$ 1,509,195
Flood Relief	30,000	
Person of the Year Dinner/Auction	341,500	292,520
Musicians Assistance Program Fund	211,853	278,640
MAP Benefit Concert	<u>11,300</u>	<u>11,600</u>
Subtotal cash contributions	<u>1,969,623</u>	<u>2,091,955</u>
Noncash contributions:		
Discounted rent	156,917	181,055
GRAMMY show tickets	16,800	16,800
Special Merit Awards Ceremony	2,000	9,500
Airlines barter tickets	<u></u>	<u>8,793</u>
Subtotal noncash contributions	<u>175,717</u>	<u>216,148</u>
Total cash and noncash contributions	<u>\$ 2,145,340</u>	<u>\$ 2,308,103</u>

Total contributions from The Recording Academy provided for 13% and 21% of total support and revenues in 2011 and 2010, 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 \$1,443,952 for the fiscal year ending July 31, 2012. 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 \$338,696 and \$357,631 in 2011 and 2010, respectively, as follows:

	2011	2010
Salary and benefits	\$ 108,026	\$ 116,817
401(k) administration expenses	2,216	2,794
Rent expense	48,368	108,723
Other operating expenses (shared services)	<u>180,086</u>	<u>129,297</u>
Total expenses billed by The Recording Academy	<u>\$ 338,696</u>	<u>\$ 357,631</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 2011 and 2010 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 \$24,250 and \$20,600 in 2011 and 2010, 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. MusiCares Foundation makes a contribution match of 25% of the employee's elective deferral contributions, which amounted to \$31,281 and \$29,531 in 2011 and 2010, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. No discretionary match was made in 2011 and 2010.

**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, 2011 and 2010, was \$33,086 and \$22,079, respectively.

## 7. TEMPORARILY PURPOSE RESTRICTED NET ASSETS

Temporarily purpose restricted net assets as of July 31, 2011 and 2010, are available for the following purposes:

	2011	2010
Encore Hall	\$48,364	\$ 48,364
Financial Assistance — Agua Fund	4,190	5,720
Nashville Flood Relief Fund	<u>38,473</u>	<u>421,514</u>
Total	<u>\$91,027</u>	<u>\$475,598</u>

Net assets during the fiscal years ended July 31, 2011 and 2010, were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	2011	2010
Purpose restrictions accomplished:		
Encore Hall	\$ -	\$ 25,000
MAP Fund/Benefit Concert	762,607	810,391
Hurricane Relief/Music Rising		54,510
Financial assistance program	691	67,050
Financial Assistance — Agua Fund	7,780	6,131
Nashville Flood Relief	<u>611,682</u>	<u>350,056</u>
Total net assets released from purpose restriction	<u>\$1,382,760</u>	<u>\$1,313,138</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, 2011 and 2010, the remaining funds raised for this project totaled \$48,364, 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, 2011 and 2010, 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, 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. 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.



## 8. 20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE

The pledge receivables as of July 31, 2011 and 2010, consist of the following:

	2011	2010
Gross pledge receivable amounts due in:		
Less than one year	\$ 623,000	\$ 354,000
Two to five years	<u>1,598,000</u>	<u>946,000</u>
Total gross pledge receivable	2,221,000	1,300,000
Less unamortized discount	<u>(106,824)</u>	<u>(14,460)</u>
Net 20th Anniversary Campaign pledges receivable	<u>\$2,114,176</u>	<u>\$1,285,540</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 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, 2011 and 2010, \$322,000 and \$288,681, 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.

For fiscal year ended July 31, 2011, 20th Anniversary Campaign administrative costs were spent from the current year campaign activities. For fiscal year ended July 31, 2010, Board-designated 20th Anniversary Campaign administrative costs were spent from MusiCares Foundation general cash.

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