

The NARAS Foundation

(dba The GRAMMY Foundation)

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
The NARAS Foundation:

We have audited the accompanying statements of financial position of The NARAS Foundation (dba The GRAMMY Foundation) ("The GRAMMY 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 The GRAMMY 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 The GRAMMY 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 The GRAMMY 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

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)
STATEMENTS OF FINANCIAL POSITION
AS OF JULY 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 945,502	\$ 520,383
Other receivables	333,118	309,471
Prepaid expenses and other current assets	<u>45,621</u>	<u>37,568</u>
Total current assets	1,324,241	867,422
PROPERTY — Net (Note 3)	30,385	51,058
BOARD-DESIGNATED INVESTMENTS (Notes 4 and 5)	3,456,601	3,091,672
DEFERRED COMPENSATION ASSET (Note 9)	<u>22,079</u>	<u>13,829</u>
TOTAL	<u>\$4,833,306</u>	<u>\$4,023,981</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 203,017	\$ 331,838
Payable to the National Academy of Recording Arts & Sciences, Inc. (Note 7)	311,073	307,005
Payable to MusiCares Foundation, Inc. (Note 7)	166,405	162,577
Deferred revenue (Note 2)	<u>258,625</u>	<u>60,964</u>
Total current liabilities	939,120	862,384
DEFERRED COMPENSATION LIABILITY (Note 9)	<u>22,079</u>	<u>13,829</u>
Total liabilities	<u>961,199</u>	<u>876,213</u>
NET ASSETS (Note 2):		
Unrestricted net assets:		
Board-designated (Note 4)	3,456,601	3,091,672
Other unrestricted net assets (deficit)	<u>213,069</u>	<u>(11,254)</u>
Total unrestricted net assets	3,669,670	3,080,418
Temporarily restricted net assets (Note 8)	<u>202,437</u>	<u>67,350</u>
Total net assets	<u>3,872,107</u>	<u>3,147,768</u>
TOTAL	<u>\$4,833,306</u>	<u>\$4,023,981</u>

See notes to financial statements.

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES:						
A Starry Night (Note 7)	\$ 194,427	\$ -	\$ 194,427	\$ -	\$ -	\$ -
Entertainment Law Initiative (Note 7)	168,150		168,150	180,775		180,775
GRAMMY Career Day		165,584	165,584		201,250	201,250
GRAMMY Jazz Ensembles		44,325	44,325		13,141	13,141
GRAMMY Signature Schools		61,290	61,290		105,000	105,000
GRAMMY Camp (Notes 6 and 7)		291,132	291,132		214,824	214,824
GRAMMY Sound Checks					2,372	2,372
GRAMMY Foundation Grants (Note 7)		100,000	100,000		150,000	150,000
Music on Film	24,894		24,894	5,531		5,531
Living Histories		3,000	3,000		5,517	5,517
Contributions from The National Academy of Recording Arts & Sciences, Inc. (Note 7)	1,445,562	15,500	1,461,062	1,467,739		1,467,739
Interest and dividend income	98,751		98,751	192,954		192,954
Unrealized gain (loss) on investments — net	382,063		382,063	(556,864)		(556,864)
Realized loss on investments — net	(95,396)		(95,396)	(30,838)		(30,838)
Other income	1,221,492		1,221,492	1,014,781		1,014,781
Total support and revenues	3,439,943	680,831	4,120,774	2,274,078	692,104	2,966,182
NET ASSETS RELEASED FROM RESTRICTIONS — Satisfaction of program restrictions						
	545,744	(545,744)	-	710,593	(710,593)	-
PROGRAM SERVICES AND SUPPORTING EXPENSES:						
Program services:						
GRAMMY Camp	372,635		372,635	418,690		418,690
GRAMMY Career Day	231,097		231,097	309,714		309,714
GRAMMY Foundation Grants	188,905		188,905	259,359		259,359
GRAMMY Jazz Ensembles	267,668		267,668	246,667		246,667
Entertainment Law Initiative	194,069		194,069	227,398		227,398
GRAMMY Signature Schools	204,960		204,960	183,304		183,304
Music on Film	170,298		170,298	146,652		146,652
GITS.com Web site	58,992		58,992	107,671		107,671
GRAMMY Sound Checks	72,796		72,796	79,886		79,886
Living Histories	28,682		28,682	72,598		72,598
Other programs				1,484		1,484
Total program services	1,790,102	-	1,790,102	2,053,423	-	2,053,423
Supporting expenses:						
Fundraising	960,428		960,428	1,253,974		1,253,974
Administrative expenses	545,778		545,778	644,826		644,826
A Starry Night	100,127		100,127	21,987		21,987
Total supporting expenses	1,606,333	-	1,606,333	1,920,787	-	1,920,787
Total program services and supporting expenses	3,396,435	-	3,396,435	3,974,210	-	3,974,210

(Continued)

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER COMPREHENSIVE LOSS	\$ 589,252	\$135,087	\$ 724,339	\$ (989,539)	\$(18,489)	\$(1,008,028)
OTHER COMPREHENSIVE LOSS			-	(10,893)		(10,893)
INCREASE (DECREASE) IN NET ASSETS	589,252	135,087	724,339	(1,000,432)	(18,489)	(1,018,921)
NET ASSETS:						
Beginning of year	<u>3,080,418</u>	<u>67,350</u>	<u>3,147,768</u>	<u>4,080,850</u>	<u>85,839</u>	<u>4,166,689</u>
End of year	<u>\$3,669,670</u>	<u>\$202,437</u>	<u>\$3,872,107</u>	<u>\$ 3,080,418</u>	<u>\$ 67,350</u>	<u>\$ 3,147,768</u>

See notes to financial statements.

(Concluded)

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 724,339	\$(1,018,921)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	20,673	13,294
Unrealized (gain) loss on investments — net	(382,063)	556,864
Realized loss on investments — net	95,396	30,838
Changes in operating assets and liabilities:		
Other receivables	(23,647)	(41,622)
Prepaid expenses and other current assets	(8,053)	65,759
Pension asset		22,504
Accounts payable and accrued liabilities	(128,821)	(229,102)
Payable to National Academy of Recording Arts & Sciences, Inc.	4,068	227,744
Payable to MusiCares Foundation, Inc.	3,828	53,865
Deferred revenue	<u>197,661</u>	<u>(47,075)</u>
Net cash provided by (used in) operating activities	<u>503,381</u>	<u>(365,852)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(386,547)	(222,290)
Proceeds from maturities of investments	308,285	55,000
Purchases of property		<u>(21,780)</u>
Net cash used in investing activities	<u>(78,262)</u>	<u>(189,070)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	425,119	(554,922)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>520,383</u>	<u>1,075,305</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 945,502</u>	<u>\$ 520,383</u>

See notes to financial statements.

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	GRAMMY Camp	GRAMMY Career Day	GRAMMY Foundation Grants	GRAMMY Jazz Ensembles	Entertainment Law Initiative	GRAMMY Signature Schools	Music on Film	GITS.com Web site	GRAMMY Sound Checks	Living Histories	Total Program Services	Fundraising	Administrative Expenses	A Starry Night	Total Supporting Expenses	Total
ADMINISTRATION	\$ 61,660	\$ 44,721	\$ 16,134	\$ 36,652	\$ 46,948	\$ 29,714	\$ 34,623	\$ 7,814	\$11,374	\$ 2,772	\$ 292,412	\$156,107	\$129,895	\$ 21,773	\$ 307,775	\$ 600,187
COMPUTER EXPENSES	2,149	1,070	914	934	932	1,172	506	4,295	689	305	12,966	6,306	5,507	1,190	13,003	25,969
CONTRIBUTIONS/ GRANTS			99,898		1,000						100,898	(10,729)	700		(10,029)	90,869
EVENT EXPENSES	17,055	50,024		25,864	44,146	50,640	48,117			41	235,887	59,536	6,112		65,648	301,535
PROFESSIONAL FEES	87,981	18,429	11,038	35,401	6,964	17,435	11,543	5,763	8,105	2,220	204,879	210,644	131,052	14,241	355,937	560,816
SALARIES AND BENEFITS	130,798	109,011	60,904	112,833	71,061	100,716	59,752	41,120	52,558	21,932	760,685	390,201	237,240	49,819	677,260	1,437,945
TRAVEL AND ENTERTAINMENT	72,446	7,842	17	55,984	21,148	4,783	11,607		70	212	174,109	139,081	23,881	13,104	176,066	350,175
VIDEO SERVICES	<u>546</u>				<u>1,870</u>	<u>500</u>	<u>4,150</u>			<u>1,200</u>	<u>8,266</u>				<u>-</u>	<u>8,266</u>
Subtotal	372,635	231,097	188,905	267,668	194,069	204,960	170,298	58,992	72,796	28,682	1,790,102	951,146	534,387	100,127	1,585,660	3,375,762
DEPRECIATION												<u>9,282</u>	<u>11,391</u>		<u>20,673</u>	<u>20,673</u>
TOTAL	<u>\$372,635</u>	<u>\$231,097</u>	<u>\$188,905</u>	<u>\$267,668</u>	<u>\$194,069</u>	<u>\$204,960</u>	<u>\$170,298</u>	<u>\$58,992</u>	<u>\$72,796</u>	<u>\$28,682</u>	<u>\$1,790,102</u>	<u>\$960,428</u>	<u>\$545,778</u>	<u>\$100,127</u>	<u>\$1,606,333</u>	<u>\$3,396,435</u>

See notes to financial statements.

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	GRAMMY Camp	GRAMMY Career Day	GRAMMY Foundation Grants	GRAMMY Jazz Ensembles	Entertainment Law Initiative	GRAMMY Signature Schools	Music on Film	GITS.com Web site	GRAMMY Sound Checks	Living Histories	Other Programs	Total Program Services	Fundraising	Administrative Expenses	A Starry Night	Total Supporting Expenses	Total
ADMINISTRATION	\$ 63,983	\$ 77,240	\$ 12,662	\$ 34,545	\$ 42,903	\$ 28,919	\$ 42,553	\$ 6,261	\$ 9,290	\$ 5,479	\$ -	\$ 323,835	\$ 170,898	\$ 71,040	\$ 1,575	\$ 243,513	\$ 567,348
COMPUTER EXPENSES	1,536	575	551	687	889	667	541	3,890	488	260		10,084	10,694	14,545	88	25,327	35,411
CONTRIBUTIONS/ GRANTS			174,495		1,500			25,000				200,995	3,600	207		3,807	204,802
EVENT EXPENSES	14,898	136,096	25	27,215	54,167	57,749	28,309			1,225		319,684	211,249	3,638		214,887	534,571
PROFESSIONAL FEES	116,297	23,373	11,361	38,942	11,341	20,560	16,804	15,885	17,764	22,339		294,666	234,871	138,470	11,659	385,000	679,666
SALARIES AND BENEFITS	159,997	59,855	56,204	70,749	90,494	69,123	53,590	52,616	49,630	26,897	1,484	690,639	487,464	388,548	8,836	884,848	1,575,487
TRAVEL AND ENTERTAINMENT	60,429	12,575	3,313	74,529	26,104	6,286	4,355	3,271	714	1,143		192,719	134,598	15,084	(171)	149,511	342,230
VIDEO SERVICES	<u>1,550</u>	<u> </u>	<u>748</u>	<u> </u>	<u> </u>	<u> </u>	<u>500</u>	<u>748</u>	<u>2,000</u>	<u>15,255</u>	<u> </u>	<u>20,801</u>	<u>600</u>	<u> </u>	<u> </u>	<u>600</u>	<u>21,401</u>
Subtotal	418,690	309,714	259,359	246,667	227,398	183,304	146,652	107,671	79,886	72,598	1,484	2,053,423	1,253,974	631,532	21,987	1,907,493	3,960,916
DEPRECIATION	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>13,294</u>	<u> </u>	<u>13,294</u>	<u>13,294</u>
TOTAL	<u>\$418,690</u>	<u>\$309,714</u>	<u>\$259,359</u>	<u>\$246,667</u>	<u>\$227,398</u>	<u>\$183,304</u>	<u>\$146,652</u>	<u>\$107,671</u>	<u>\$79,886</u>	<u>\$72,598</u>	<u>\$1,484</u>	<u>\$2,053,423</u>	<u>\$1,253,974</u>	<u>\$644,826</u>	<u>\$21,987</u>	<u>\$1,920,787</u>	<u>\$3,974,210</u>

See notes to financial statements.

THE NARAS FOUNDATION (dba The GRAMMY Foundation)

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JULY 31, 2010 AND 2009

1. ORGANIZATION

The NARAS Foundation (dba The GRAMMY Foundation) (“The GRAMMY Foundation”) was incorporated in 1988 to cultivate the understanding, appreciation, and advancement of the contribution of recorded music on American culture — from the artistic and technical legends of the past to the still unimagined musical breakthroughs of the future generations of music professionals. The GRAMMY Foundation accomplishes this mission through programs and activities designed to engage the music industry and cultural community as well as the general public. The GRAMMY Foundation works year round with the National Academy of Recording Arts & Sciences, Inc. (“The Recording Academy”), and its regional offices to bring national attention to important issues, such as the value and impact of music and arts education, and the urgency of preserving our rich cultural legacy.

Federal and State Income Taxes — The GRAMMY Foundation is incorporated as a nonprofit support organization pursuant to Internal Revenue Code (IRC) Section 509(a)(3) and corresponding state provisions. The GRAMMY Foundation is generally exempt from federal and state income taxes, except for unrelated business income, which is subject to tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards — The GRAMMY Foundation has adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the “Codification” or ASC) 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, The GRAMMY 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. The GRAMMY 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, The GRAMMY Foundation maintained balances in excess of insured amounts.

Board-Designated 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 the 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 4 and 5).

Fixed income investments are mutual funds composed of investment-grade bonds, corporate bonds, and marketable equity securities (see Notes 4 and 5).

Broad commodities are invested in natural resource commodity mutual funds (see Notes 4 and 5).

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 the straight-line basis.

Deferred Revenue — Deferred revenue results from advance payments for The GRAMMY Foundation programs 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 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. The Board of Directors (the "Board") has allocated certain net assets of The GRAMMY Foundation to specific purposes, which are presented as Board-designated in the financial statements.

In-Kind Donations — In-kind donations primarily relate to goods and services that are donated by vendors and are given to The GRAMMY Foundation participants or are used for other fundraising and program purposes. Donated goods and services received were estimated to have a fair value of \$18,639 in 2010 and were included in Music on Film, A Starry Night, and other income. Donated goods and services received were estimated to have a fair value of \$6,950 in 2009 and were included in other income.

In-kind donations from The Recording Academy relate to discount on rental expenses, airline tickets, and event tickets contributed in the amount of \$250,551 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.

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)*), The GRAMMY 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 plan. The provisions of FASB ASC 715 were applied prospectively as of July 31, 2008. Because the plan has been terminated (see Note 9), the adoption of FASB ASC 715 did not have a material impact as The GRAMMY Foundation had already recognized the plan's funded status as an asset in its statements of financial position.

Recent Accounting Pronouncements — For the year ended July 31, 2009, The GRAMMY 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 5.

For the year ended July 31, 2009, The GRAMMY 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 GRAMMY 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 GRAMMY Foundation's financial statements.

Financial instruments for The GRAMMY Foundation consist of investments, other receivables, 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, The GRAMMY 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 The GRAMMY Foundation's financial statements. The GRAMMY Foundation does not believe it had any uncertain tax positions as of July 31, 2010.

The GRAMMY 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 these financial statements were available to be issued.

3. PROPERTY

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

	2010	2009
Office equipment	\$ 8,040	\$ 8,040
Computer equipment and software	68,630	68,630
Furniture and fixtures	<u>21,370</u>	<u>21,370</u>
Total property	98,040	98,040
Accumulated depreciation	<u>(67,655)</u>	<u>(46,982)</u>
Property — net	<u>\$ 30,385</u>	<u>\$ 51,058</u>

Depreciation expense amounted to \$20,673 and \$13,294 in 2010 and 2009, respectively.

4. INVESTMENTS

Board-designated mutual fund investments at July 31, 2010 and 2009, represent funds that are specifically designated by the Board for an endowment and are maintained in the following investment categories:

	2010	2009
Board-designated investments:		
Cash and cash equivalents	\$ 511	\$ 8,608
Equity securities	1,645,050	1,343,601
Fixed income	1,605,814	1,584,737
Broad commodities	<u>205,226</u>	<u>154,726</u>
Total Board-designated investments	<u>\$3,456,601</u>	<u>\$3,091,672</u>

5. FAIR VALUE MEASUREMENTS

The GRAMMY 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 The GRAMMY 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 The GRAMMY 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 GRAMMY 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 The GRAMMY 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.

At July 31, 2010, The GRAMMY 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	\$ 511	\$ 511
Equity securities	1,645,050	1,645,050
Fixed income	1,605,814	1,605,814
Broad commodities	<u>205,226</u>	<u>205,226</u>
Total	<u>\$3,456,601</u>	<u>\$3,456,601</u>

At July 31, 2009, The GRAMMY 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	\$ 8,608	\$ 8,608
Equity securities	1,343,601	1,343,601
Fixed income	1,584,737	1,584,737
Broad commodities	<u>154,726</u>	<u>154,726</u>
Total	<u>\$3,091,672</u>	<u>\$3,091,672</u>

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

6. GRANT REVENUE

In 2010 and 2009, the GRAMMY Camp program was supplemented by private foundation grants which represented less than 2% of total support in 2010 and less than 1% in 2009. The detail of these grant funds is summarized by program as follows:

	2010	Percentage of Total Support and Revenues	2009	Percentage of Total Support and Revenues
GRAMMY Camp:				
ASCAP	\$ 5,000		\$ -	
Ella Fitzgerald Grant	10,000		10,000	
Hot Topic Foundation	<u>50,000</u>		<u> </u>	
Total grant revenue	<u>\$ 65,000</u>	<2%	<u>\$ 10,000</u>	<1%
Total support and revenues	<u>\$ 4,120,774</u>		<u>\$ 2,966,182</u>	

7. AFFILIATED ENTITY TRANSACTIONS

The GRAMMY Foundation received cash and noncash contributions and services from The Recording Academy amounting to \$1,565,112 and \$1,641,489 in 2010 and 2009, respectively. The details are described below:

	2010	2009
Cash contributions:		
General cash contribution	\$ 1,195,011	\$ 1,418,751
GRAMMY Foundation Grants	100,000	150,000
GRAMMY Camp	15,500	20,500
A Starry Night	1,375	
Entertainment Law Initiative	<u>2,675</u>	<u>3,250</u>
Total cash contributions	<u>1,314,561</u>	<u>1,592,501</u>
Noncash contributions:		
Discount on rental expenses	181,055	32,188
GRAMMY show tickets	16,800	16,800
Special Merit Awards Ceremony	10,750	
Airline barter tickets	<u>41,946</u>	<u> </u>
Total noncash contributions	<u>250,551</u>	<u>48,988</u>
Total cash and noncash contributions	<u>\$ 1,565,112</u>	<u>\$ 1,641,489</u>

Total contributions from The Recording Academy provided for 38% and 55% of total support and revenues in 2010 and 2009, respectively. Program-related contributions for The GRAMMY Foundation Grants, GRAMMY Camp, A Starry Night, and Entertainment Law Initiative are included in those program revenues in the statements of activities for the years ended July 31, 2010 and 2009. The remaining contributions from The Recording Academy for the year ended July 31, 2010 include general cash contributions, discount on rental expenses, airline tickets, and event tickets totaling \$1,445,562 and \$1,467,739 for the years ended July 31, 2010 and 2009 respectively.

The Recording Academy has historically made general cash contributions to The GRAMMY Foundation to support ongoing operations. Through The Recording Academy's budgetary process, its Board of Trustees voted to decrease the discretionary general cash contribution payment to \$1,192,869 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 \$1,195,011.

The GRAMMY Foundation was billed by The Recording Academy for certain expenses incurred on its behalf amounting to \$303,066 and \$446,898 in 2010 and 2009, respectively. The details are described below:

	2010	2009
Salaries and benefits	\$ 137,556	\$ 151,933
Pension and 401(k) administrative expense	2,188	7,850
Rent expense	60,355	129,214
Other operating expenses (shared services)	<u>102,967</u>	<u>157,901</u>
 Total expenses billed by The Recording Academy	 <u>\$ 303,066</u>	 <u>\$ 446,898</u>

At July 31, 2010 and 2009, The GRAMMY Foundation paid the affiliates face value for event tickets as follows:

	2010	2009
Tickets purchased from affiliates:		
The Recording Academy — GRAMMY Show and related tickets	\$ 67,300	\$ 65,300
MusiCares Foundation, Inc. — Person of the Year Tribute	<u>20,600</u>	<u>13,750</u>
 Total tickets purchased from affiliates	 <u>\$ 87,900</u>	 <u>\$ 79,050</u>

The GRAMMY Foundation and the MusiCares Foundation, Inc. ("MusiCares 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 to commensurate with the percentage of time worked for the respective Foundation.

8. TEMPORARILY RESTRICTED NET ASSETS

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

	2010	2009
GRAMMY Camp	\$ 87,504	\$ -
GRAMMY Career Day	60,373	
Signature Schools		11,496
Living Histories	<u>54,560</u>	<u>55,854</u>
Total	<u>\$ 202,437</u>	<u>\$ 67,350</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
Temporary restrictions accomplished:		
GRAMMY Camp	\$ 219,128	\$ 214,824
GRAMMY Career Day	105,211	201,250
GRAMMY Foundation Grants	100,000	150,000
GRAMMY Jazz Ensembles	44,325	13,141
GRAMMY Signature Schools	72,786	93,504
GRAMMY Sound Checks		2,372
Living Histories	<u>4,294</u>	<u>35,502</u>
Total net assets released from restriction	<u>\$ 545,744</u>	<u>\$ 710,593</u>

9. BENEFIT PLANS

The GRAMMY Foundation established a defined benefit pension plan covering substantially all of its employees. The GRAMMY 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 GRAMMY Foundation's defined benefit plan and the MusiCares Foundation's defined benefit plan merged into The Recording Academy's defined benefit plan (the "Plan"). The plans were merged to provide a single uniform retirement benefit formula for all employees of The GRAMMY Foundation, The Recording Academy, MusiCares Foundation, and 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 \$24,353 during the year ended July 31, 2008, which is included in administrative expenses in the statements of activities. The accumulated benefits of \$314,407 (nonvested benefits became vested upon termination of the Plan) was distributed to the Plan participants during the year ended July 31, 2009. Defined benefits were not provided under any successor plan. The fair value of the plan assets in excess of the benefits paid to The GRAMMY Foundation's employees of \$5,121 was transferred to The Recording Academy to cover the unfunded 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 The GRAMMY Foundation's net periodic benefit cost 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 components for the years ended July 31, 2010 and 2009, are as follows:

	Defined Benefit Plan	
	2010	2009
Interest cost	\$ -	\$ -
Expected return on Plan assets		
Curtailment gain		
Recognized net loss	<u> </u>	<u>6,490</u>
Net periodic benefit cost	<u>\$ -</u>	<u>\$ 6,490</u>

Obligations and funded status at July 31, 2010 and 2009, are as follows:

	2010	2009
Changes in benefit obligation:		
Benefit obligation — beginning of year	\$ -	\$ 299,551
Interest cost		
Benefits paid		(314,407)
Actuarial gain		14,856
	<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	\$ -	\$ 322,055
Actual return on Plan assets		(2,527)
Transfer		(5,121)
Benefits paid		(314,407)
	<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, in the amount of \$314,407, 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 The GRAMMY Foundation and certain affiliated entities, including The Recording Academy, MusiCares Foundation, and The Latin Recording Academy. Eligible employees can elect to defer compensation subject to Internal Revenue Service withholding rules. The GRAMMY Foundation makes a contribution match of 25% for 2010 and 50% for 2009 of its employees' elective deferral contributions, which amounted to \$21,028 and \$45,932 in 2010 and 2009, respectively. Additionally, for each plan year, The GRAMMY Foundation has the option of making an employer discretionary match. No discretionary match was made in 2010 and \$52,705 was made for the year ended July 31, 2009. There is no liability for the employer discretionary match at July 31, 2010 and \$32,607 at July 31, 2009 was included in accounts payable and accrued liabilities.

Executive Compensation Program — Effective December 13, 2006, The GRAMMY 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.

10. SUBSEQUENT EVENTS

The GRAMMY Foundation has been approved as a non-private foundation status with the Internal Revenue Service (IRS) as of February 4, 2011. Previously, The GRAMMY Foundation maintained its non-private foundation status as an IRC Section 509(a)(3) supporting organization. The GRAMMY Foundation has requested a reclassification for non-private foundation status to that of an IRC Section 509(a)(1) organization, specifically under IRC Section 170(b)(1)(A)(vi); that is, an organization that receives more than 33 1/3% of its revenue from a governmental unit or from contributions from the general public. The GRAMMY Foundation submitted its request to the IRS, and has been approved effective beginning the fiscal year ending July 31, 2011. Management does not expect there to be any negative impact on The GRAMMY Foundation's status as a tax exempt organization, nor as a non-private foundation.

* * * * *