

The NARAS Foundation

(dba The GRAMMY Foundation)

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
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, 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 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, 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

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 1,503,891	\$ 945,502
Other receivables	28,208	333,118
Prepaid expenses and other current assets	<u>133,472</u>	<u>45,621</u>
Total current assets	1,665,571	1,324,241
PROPERTY — Net (Note 3)	11,393	30,385
BOARD-DESIGNATED INVESTMENTS (Note 4)	3,966,948	3,456,601
DEFERRED COMPENSATION ASSET (Note 8)	<u>33,086</u>	<u>22,079</u>
TOTAL	<u>\$ 5,676,998</u>	<u>\$ 4,833,306</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 342,086	\$ 203,017
Payable to National Academy of Recording Arts & Sciences, Inc.	440,530	311,073
Payable to MusiCares Foundation, Inc.	183,826	166,405
Deferred revenue (Note 2)	<u>340,728</u>	<u>258,625</u>
Total current liabilities	1,307,170	939,120
DEFERRED COMPENSATION LIABILITY (Note 8)	<u>33,086</u>	<u>22,079</u>
Total liabilities	<u>1,340,256</u>	<u>961,199</u>
NET ASSETS (Note 2):		
Unrestricted net assets:		
Board-designated (Note 4)	3,966,948	3,456,601
Other unrestricted net assets	<u>140,557</u>	<u>213,069</u>
Total unrestricted net assets	4,107,505	3,669,670
Temporarily restricted net assets (Note 7)	<u>229,237</u>	<u>202,437</u>
Total net assets	<u>4,336,742</u>	<u>3,872,107</u>
TOTAL	<u>\$ 5,676,998</u>	<u>\$ 4,833,306</u>

See notes to financial statements.

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES:						
Entertainment Law Initiative (Note 6)	\$ 201,559	\$ -	\$ 201,559	\$ 168,150	\$ -	\$ 168,150
GRAMMY Career Day		106,711	106,711		165,584	165,584
GRAMMY Jazz Ensembles		163,937	163,937		44,325	44,325
GRAMMY Signature Schools		393,686	393,686		61,290	61,290
GRAMMY Camp (Notes 5 and 6)		187,850	187,850		291,132	291,132
GRAMMY Sound Checks		11,862	11,862			
GRAMMY Foundation Grants (Note 6)		100,000	100,000		100,000	100,000
Music Preservation (formerly Music on Film)	43,991		43,991	24,894		24,894
Living Histories					3,000	3,000
A Starry Night (Note 6)				194,427		194,427
Contributions from National Academy of Recording Arts & Sciences, Inc. (Note 6)	1,376,965		1,376,965	1,445,562	15,500	1,461,062
Interest and dividend income	124,315		124,315	98,751		98,751
Unrealized gain on investments — net	416,622		416,622	382,063		382,063
Realized loss on investments — net	(7,179)		(7,179)	(95,396)		(95,396)
Other income	1,346,392	83,692	1,430,084	1,221,492		1,221,492
Total support and revenues	3,502,665	1,047,738	4,550,403	3,439,943	680,831	4,120,774
NET ASSETS RELEASED FROM RESTRICTION — Satisfaction of program restrictions						
	1,020,938	(1,020,938)	-	545,744	(545,744)	-
PROGRAM SERVICES AND SUPPORTING EXPENSES:						
Program services:						
GRAMMY Camp	393,801		393,801	372,635		372,635
GRAMMY Career Day	208,996		208,996	231,097		231,097
GRAMMY Foundation Grants	296,481		296,481	188,905		188,905
GRAMMY Jazz Ensembles	284,495		284,495	267,668		267,668
Entertainment Law Initiative	184,405		184,405	194,069		194,069
GRAMMY Signature Schools	597,347		597,347	204,960		204,960
Music Preservation (formerly Music on Film)	221,419		221,419	170,298		170,298
GITS.com Web site	109,962		109,962	58,992		58,992
GRAMMY Sound Checks	65,912		65,912	72,796		72,796
Living Histories	16,732		16,732	28,682		28,682
Outreach and Other Programs	257,994		257,994			
Total program services	2,637,544	-	2,637,544	1,790,102	-	1,790,102
Supporting expenses:						
Fundraising	771,493		771,493	960,428		960,428
Administrative expenses	597,236		597,236	545,778		545,778
A Starry Night	79,495		79,495	100,127		100,127
Total supporting expenses	1,448,224	-	1,448,224	1,606,333	-	1,606,333
Total program services and supporting expenses	4,085,768	-	4,085,768	3,396,435	-	3,396,435
INCREASE IN NET ASSETS	437,835	26,800	464,635	589,252	135,087	724,339
NET ASSETS:						
Beginning of year	3,669,670	202,437	3,872,107	3,080,418	67,350	3,147,768
End of year	\$4,107,505	\$ 229,237	\$4,336,742	\$3,669,670	\$ 202,437	\$3,872,107

See notes to financial statements.

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 464,635	\$ 724,339
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	18,992	20,673
Unrealized gain on investments — net	(416,622)	(382,063)
Realized loss on investments — net	7,179	95,396
Changes in operating assets and liabilities:		
Other receivables	304,910	(23,647)
Prepaid expenses and other current assets	(87,851)	(8,053)
Accounts payable and accrued liabilities	139,069	(128,821)
Payable to National Academy of Recording Arts & Sciences, Inc.	129,457	4,068
Payable to MusiCares Foundation, Inc.	17,421	3,828
Deferred revenue	82,103	197,661
	<u>659,293</u>	<u>503,381</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(304,132)	(386,547)
Proceeds from sale of investments	203,228	308,285
	<u>(100,904)</u>	<u>(78,262)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	558,389	425,119
CASH AND CASH EQUIVALENTS — Beginning of year	<u>945,502</u>	<u>520,383</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$1,503,891</u>	<u>\$ 945,502</u>

See notes to financial statements.

THE NARAS FOUNDATION
(dba The GRAMMY Foundation)

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

	GRAMMY Camp	GRAMMY Career Day	GRAMMY Foundation Grants	GRAMMY Jazz Ensembles	Entertainment Law Initiative	GRAMMY Signature Schools	Music Preservation (Music on Film)	GITS.com Web site	GRAMMY Sound Checks	Living Histories	Outreach & Other Programs	Total Program Services	Fundraising	Administrative Expenses	A Starry Night	Total Supporting Expenses	Total
ADMINISTRATION	\$ 71,208	\$ 33,674	\$ 13,009	\$ 40,369	\$ 41,301	\$ 38,539	\$ 29,281	\$ 8,136	\$ 9,608	\$ 2,089	\$ 55,814	\$ 343,028	\$ 76,619	\$120,230	\$10,971	\$ 207,820	\$ 550,848
COMPUTER EXPENSES	2,520	1,920	1,613	2,817	1,441	2,526	1,413	1,259	1,142	253	3,396	20,300	7,514	9,469	1,004	17,987	38,287
CONTRIBUTIONS/ GRANTS			199,828			182,000					100	381,928	14,850	100		14,950	396,878
EVENT EXPENSES	16,830	63,380		39,360	47,394	208,591	63,201				4,942	443,698	1,653	3,340		4,993	448,691
PROFESSIONAL FEES	87,841	16,190	18,418	39,717	7,918	30,216	18,312	47,645	5,359	1,129	18,797	291,542	325,470	126,625	6,367	458,462	750,004
SALARIES AND BENEFITS	137,600	79,809	63,613	106,870	54,604	129,346	63,219	52,922	49,445	13,261	150,680	901,369	254,766	312,748	61,121	628,635	1,530,004
TRAVEL AND ENTERTAINMENT	75,727	14,023		54,662	31,747	5,029	45,940		358		24,265	251,751	81,277	15,014	32	96,323	348,074
VIDEO SERVICES	<u>2,075</u>	<u> </u>	<u> </u>	<u>700</u>	<u> </u>	<u>1,100</u>	<u>53</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>3,928</u>	<u>62</u>	<u> </u>	<u> </u>	<u>62</u>	<u>3,990</u>
Subtotal	393,801	208,996	296,481	284,495	184,405	597,347	221,419	109,962	65,912	16,732	257,994	2,637,544	762,211	587,526	79,495	1,429,232	4,066,776
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>9,282</u>	<u>9,710</u>	<u> </u>	<u>18,992</u>	<u>18,992</u>
TOTAL	<u>\$393,801</u>	<u>\$208,996</u>	<u>\$296,481</u>	<u>\$284,495</u>	<u>\$184,405</u>	<u>\$597,347</u>	<u>\$221,419</u>	<u>\$109,962</u>	<u>\$65,912</u>	<u>\$16,732</u>	<u>\$257,994</u>	<u>\$2,637,544</u>	<u>\$771,493</u>	<u>\$597,236</u>	<u>\$79,495</u>	<u>\$1,448,224</u>	<u>\$4,085,768</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 Preservation (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											-	9,282	11,391		20,673	20,673
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)

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

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 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 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. Previously, The GRAMMY Foundation maintained its non-private foundation status as an IRC Section 509(a)(3) supporting organization. The GRAMMY Foundation had 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). The GRAMMY Foundation has been approved for this change in its non-private foundation status with the Internal Revenue Service as of February 4, 2011.

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.

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 dates 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 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 and reclassified to unrestricted net assets in the same year. 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 \$34,901 in 2011 and were included in Music Preservation (formerly Music on Film), GRAMMY Jazz Ensembles, and other income. Donated goods and services received were estimated to have a fair value of \$18,639 in 2010 and were included in Music Preservation (formerly Music on Film), A Starry Night, and 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 \$184,096 and \$250,551 for the years ended July 31, 2011 and 2010, respectively (see Note 6).

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.

Income Taxes — The GRAMMY 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 GRAMMY Foundation did not record any liability for unrecognized tax benefits.

Financial Instruments — Financial instruments consist of cash equivalents, other receivables, Board-designated investments, deferred compensation asset and liability, accounts payable and accrued liabilities, and payables to National Academy of Recording Arts & Sciences, Inc. and MusiCares Foundation, Inc. Assets and liabilities, other than cash equivalents and Board-designated 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 4 for information related to the fair value of cash equivalents and Board-designated 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 The GRAMMY Foundation beginning August 1, 2010, except for the new disclosures related to Level 3 fair value measurements, which do not affect The GRAMMY Foundation. See Note 4 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 The GRAMMY Foundation beginning August 1, 2012. The adoption of ASU 2011-04 is not expected to have a material impact on The GRAMMY Foundation’s financial statements.

Subsequent Events — The GRAMMY Foundation has evaluated subsequent events through January 31, 2012, the date the financial statements were available to be issued.

3. PROPERTY

Property as of July 31, 2011 and 2010, consists of the following:

	2011	2010
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>(86,647)</u>	<u>(67,655)</u>
Property — net	<u>\$ 11,393</u>	<u>\$ 30,385</u>

Depreciation expense amounted to \$18,992 and \$20,673 in 2011 and 2010, respectively.

4. BOARD-DESIGNATED INVESTMENTS

Board-designated investments at July 31, 2011 and 2010, represent funds that are specifically designated by the Board and are maintained in cash equivalents, and mutual funds primarily invested in equity securities, fixed income investments, and broad commodity investments.

Cash equivalents included in board-designated investments represent cash held by The GRAMMY Foundation’s investment managers that will be invested based on The GRAMMY Foundation’s investment strategy.

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.

The GRAMMY 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.

The GRAMMY Foundation's Level 1 board-designated 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.

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.

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.

At July 31, 2011, The GRAMMY 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)
Cash equivalents	\$ 513	\$ 513
Mutual funds:		
U.S. equity funds	565,012	565,012
Global equity funds	1,553,918	1,553,918
Broad commodities	286,214	286,214
U.S. fixed income bond funds	1,020,982	1,020,982
Global fixed income bond funds	<u>540,309</u>	<u>540,309</u>
Total board-designated investments	<u>\$ 3,966,948</u>	<u>\$ 3,966,948</u>

At July 31, 2010, The GRAMMY 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)
Cash equivalents	\$ 511	\$ 511
Mutual funds:		
U.S. equity funds	1,175,817	1,175,817
Global equity funds	469,233	469,233
Broad commodities	205,226	205,226
U.S. fixed income bond funds	1,064,894	1,064,894
Global fixed income bond funds	<u>540,920</u>	<u>540,920</u>
 Total board-designated investments	 <u>\$3,456,601</u>	 <u>\$3,456,601</u>

Transfers in or out are recognized based on the beginning fair value of the fiscal year in which they occurred. There were no transfers of investments between Level 1 and Level 2 during 2011 or 2010.

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

5. GRANT REVENUE

In 2011 and 2010, the GRAMMY Education Programs were supplemented by private foundation grants. The detail of these grant funds is summarized by program as follows:

	2011	Percentage of Total Support and Revenues	2010	Percentage of Total Support and Revenues
GRAMMY Education Programs:				
ASCAP	\$ 5,000		\$ 5,000	
Ella Fitzgerald Grant	10,000		10,000	
California Community Foundation	10,000			
Hot Topic Foundation	<u>100,000</u>		<u>50,000</u>	
 Total grant revenue	 <u>\$ 125,000</u>	 <3%	 <u>\$ 65,000</u>	 <2%
 Total support and revenues	 <u>\$4,550,403</u>		 <u>\$4,120,774</u>	

6. AFFILIATED ENTITY TRANSACTIONS

The GRAMMY Foundation received cash and noncash contributions and services from The Recording Academy amounting to \$1,480,465 and \$1,565,112 in 2011 and 2010, respectively. The details are described below:

	2011	2010
Cash contributions:		
General cash contribution	\$ 1,192,869	\$ 1,195,011
GRAMMY Foundation Grants	100,000	100,000
GRAMMY Camp	3,500	15,500
A Starry Night		1,375
Entertainment Law Initiative		<u>2,675</u>
Total cash contributions	<u>1,296,369</u>	<u>1,314,561</u>
Noncash contributions:		
Discount on rental expenses	156,917	181,055
GRAMMY show tickets	16,800	16,800
Special Merit Awards Ceremony	4,500	10,750
Airline barter tickets	<u>5,879</u>	<u>41,946</u>
Total noncash contributions	<u>184,096</u>	<u>250,551</u>
Total cash and noncash contributions	<u>\$ 1,480,465</u>	<u>\$ 1,565,112</u>

Total contributions from The Recording Academy provided for 33% and 38% of total support and revenues in 2011 and 2010, respectively. Program-related contributions are shown as Temporarily restricted for those specific program revenues in the statement of activities.

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 increase the discretionary general cash contribution payment to \$1,224,151 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.

The GRAMMY Foundation was billed by The Recording Academy for certain expenses incurred on its behalf amounting to \$286,890 and \$303,066 in 2011 and 2010, respectively. The details are described below:

	2011	2010
Salaries and benefits	\$ 131,221	\$ 137,556
401(k) administrative expense	1,766	2,188
Rent expense		60,355
Other operating expenses (shared services)	<u>153,903</u>	<u>102,967</u>
Total expenses billed by The Recording Academy	<u>\$ 286,890</u>	<u>\$ 303,066</u>

At July 31, 2011 and 2010, The GRAMMY Foundation paid the affiliates face value for event tickets as follows:

	2011	2010
Tickets purchased from affiliates:		
The Recording Academy — GRAMMY Show and related tickets	\$ 72,500	\$ 67,300
MusiCares Foundation, Inc. — Person of the Year Tribute	<u>24,250</u>	<u>20,600</u>
 Total tickets purchased from affiliates	 <u>\$ 96,750</u>	 <u>\$ 87,900</u>

The GRAMMY Foundation and the 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 commensurate with the percentage of time worked for the respective Foundation.

7. TEMPORARILY RESTRICTED NET ASSETS

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

	2011	2010
GRAMMY Camp	\$ 17,678	\$ 87,504
GRAMMY Career Day	37,190	60,373
Signature Schools	123,589	
Living Histories	<u>50,780</u>	<u>54,560</u>
 Total	 <u>\$ 229,237</u>	 <u>\$ 202,437</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
Temporary restrictions accomplished:		
GRAMMY Camp	\$ 257,676	\$ 219,128
GRAMMY Career Day	129,894	105,211
GRAMMY Foundation Grants	100,000	100,000
GRAMMY Jazz Ensembles	163,937	44,325
GRAMMY Signature Schools	270,097	72,786
GITS.com Web site	57,587	
Outreach and Other Programs	26,105	
GRAMMY Sound Checks	11,862	
Living Histories	<u>3,780</u>	<u>4,294</u>
 Total net assets released from restriction	 <u>\$ 1,020,938</u>	 <u>\$ 545,744</u>

8. BENEFIT PLANS

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% of its employees' elective deferral contributions, which amounted to \$19,440 and \$21,028 in 2011 and 2010, respectively. Additionally, for each plan year, The GRAMMY Foundation has the option of making an employer discretionary match. No discretionary match was made in 2011 or 2010.

Executive Compensation Program — The GRAMMY 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.

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