

MusiCares Foundation, Inc.

Financial Statements as of and for the
Years Ended July 31, 2014 and 2013, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of MusiCares Foundation, Inc. ("MusiCares Foundation"), which comprise the statements of financial position as of July 31, 2014 and 2013, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MusiCares Foundation's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of MusiCares Foundation as of July 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte Touche LP

April 20, 2015

MUSICARES FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2014 AND 2013

| | 2014 | 2013 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,999,289 | \$ 2,924,166 |
| Board-designated 20th Anniversary Campaign cash and cash equivalents (Note 9) | <u>500,021</u> | <u>2,875,604</u> |
| Total cash and cash equivalents | 4,499,310 | 5,799,770 |
| Receivable from The NARAS Foundation (Note 5) | 289,572 | 239,552 |
| Receivable from National Academy of Recording Arts & Sciences, Inc. | | 133,530 |
| 20th Anniversary Campaign pledges receivable—current (Note 8) | 461,684 | 569,984 |
| Other receivables | 297,863 | 410,539 |
| Investments (Note 3) | 14,711,579 | 10,625,725 |
| Prepaid expenses and other current assets | <u>56,252</u> | <u>85,929</u> |
| Total current assets | 20,316,260 | 17,865,029 |
| 20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE—Net—noncurrent (Note 8) | 349,634 | 588,687 |
| DEFERRED COMPENSATION ASSET (Note 6) | <u>76,404</u> | <u>59,324</u> |
| TOTAL | <u>\$ 20,742,298</u> | <u>\$ 18,513,040</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | \$ 436,395 | \$ 365,904 |
| Deferred revenue | 86,276 | 7,700 |
| Payable to National Academy of Recording Arts & Sciences, Inc. | <u>8,660</u> | <u> </u> |
| Total current liabilities | 531,331 | 373,604 |
| DEFERRED COMPENSATION LIABILITY (Note 6) | <u>76,404</u> | <u>59,324</u> |
| Total liabilities | <u>607,735</u> | <u>432,928</u> |
| NET ASSETS (Note 2): | | |
| Unrestricted net assets: | | |
| General | 10,039,159 | 8,377,160 |
| Board-designated 20th Anniversary Campaign (Notes 8 and 9) | <u>9,284,086</u> | <u>8,544,281</u> |
| Total unrestricted net assets | 19,323,245 | 16,921,441 |
| Temporarily restricted net assets: | | |
| Time restricted—20th Anniversary Campaign (Notes 8 and 9) | <u>811,318</u> | <u>1,158,671</u> |
| Total net assets | <u>20,134,563</u> | <u>18,080,112</u> |
| TOTAL | <u>\$ 20,742,298</u> | <u>\$ 18,513,040</u> |

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2014 AND 2013

| | 2014 | | | 2013 | | | | |
|--|-------------------|------------------------|------------------|-------------------|-------------------|------------------------|------------------|-------------------|
| | Unrestricted | Temporarily Restricted | | Total | Unrestricted | Temporarily Restricted | | Total |
| | | Purpose | Time | | | Purpose | Time | |
| SUPPORT AND REVENUES: | | | | | | | | |
| Person of the Year Dinner/Auction | \$10,966,998 | \$ - | \$ - | \$10,966,998 | \$ 8,783,947 | \$ - | \$ - | \$ 8,783,947 |
| Contributions from National Academy of Recording Arts & Sciences, Inc. (Note 5) | 2,127,478 | 214,401 | | 2,341,879 | 1,833,997 | 250,542 | | 2,084,539 |
| 20th Anniversary Campaign (Note 9) | 398,333 | | 12,330 | 410,663 | 795,000 | | 46,899 | 841,899 |
| MAP Benefit Concert | | 325,788 | | 325,788 | | 226,030 | | 226,030 |
| Hurricane Relief/Flood Relief | | 4,562 | | 4,562 | | 29,397 | | 29,397 |
| Other fundraising auctions | 345,808 | | | 345,808 | 340,466 | | | 340,466 |
| Other income | 935,144 | 221,439 | | 1,156,583 | 897,164 | 187,074 | | 1,084,238 |
| Interest and dividend income | 460,649 | | | 460,649 | 227,150 | | | 227,150 |
| Unrealized gain on investments—net | 566,961 | | | 566,961 | 420,423 | | | 420,423 |
| Realized gain (loss) on investments—net | 2,244 | | | 2,244 | (9,981) | | | (9,981) |
| Total support and revenues | <u>15,803,615</u> | <u>766,190</u> | <u>12,330</u> | <u>16,582,135</u> | <u>13,288,166</u> | <u>693,043</u> | <u>46,899</u> | <u>14,028,108</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS/ RECLASSIFICATION—Satisfaction of purpose/ time restrictions | | | | | | | | |
| | <u>1,125,873</u> | <u>(766,190)</u> | <u>(359,683)</u> | <u>-</u> | <u>1,613,714</u> | <u>(698,647)</u> | <u>(915,067)</u> | <u>-</u> |
| PROGRAM SERVICES AND SUPPORTING EXPENSES: | | | | | | | | |
| Program services: | | | | | | | | |
| Financial assistance program | 4,289,681 | | | 4,289,681 | 3,873,214 | | | 3,873,214 |
| MAP Fund | 1,443,848 | | | 1,443,848 | 1,466,502 | | | 1,466,502 |
| Hurricane/Flood Relief | 48,103 | | | 48,103 | 177,603 | | | 177,603 |
| Total program services | <u>5,781,632</u> | <u>-</u> | <u>-</u> | <u>5,781,632</u> | <u>5,517,319</u> | <u>-</u> | <u>-</u> | <u>5,517,319</u> |

(Continued)

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2014 AND 2013

| | 2014 | | | | 2013 | | | |
|--|---------------------|------------------------|-------------------|---------------------|---------------------|------------------------|--------------------|---------------------|
| | Unrestricted | Temporarily Restricted | | Total | Unrestricted | Temporarily Restricted | | Total |
| | | Purpose | Time | | | Purpose | Time | |
| Supporting expenses: | | | | | | | | |
| Person of the Year Dinner/Auction | \$ 7,072,932 | \$ - | \$ - | \$ 7,072,932 | \$ 4,649,374 | \$ - | \$ - | \$ 4,649,374 |
| General fundraising | 459,013 | | | 459,013 | 415,024 | | | 415,024 |
| Administration | 659,957 | | | 659,957 | 627,215 | | | 627,215 |
| 20th Anniversary Campaign | 18,211 | | | 18,211 | 117,222 | | | 117,222 |
| Other fundraising auctions | 226,411 | | | 226,411 | 217,637 | | | 217,637 |
| MAP Benefit Concert | 309,528 | | | 309,528 | 263,642 | | | 263,642 |
| Total supporting expenses | <u>8,746,052</u> | <u>-</u> | <u>-</u> | <u>8,746,052</u> | <u>6,290,114</u> | <u>-</u> | <u>-</u> | <u>6,290,114</u> |
| Total program services and supporting expenses | <u>14,527,684</u> | <u>-</u> | <u>-</u> | <u>14,527,684</u> | <u>11,807,433</u> | <u>-</u> | <u>-</u> | <u>11,807,433</u> |
| INCREASE (DECREASE) IN NET ASSETS | 2,401,804 | - | (347,353) | 2,054,451 | 3,094,447 | (5,604) | (868,168) | 2,220,675 |
| NET ASSETS: | | | | | | | | |
| Beginning of year | <u>16,921,441</u> | <u>-</u> | <u>1,158,671</u> | <u>18,080,112</u> | <u>13,826,994</u> | <u>5,604</u> | <u>2,026,839</u> | <u>15,859,437</u> |
| End of year | <u>\$19,323,245</u> | <u>\$ -</u> | <u>\$ 811,318</u> | <u>\$20,134,563</u> | <u>\$16,921,441</u> | <u>\$ -</u> | <u>\$1,158,671</u> | <u>\$18,080,112</u> |

See notes to financial statements.

(Concluded)

MUSICARES FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 2,054,451 | \$ 2,220,675 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Net unrealized gain on investments | (566,961) | (420,423) |
| Net realized (gain) loss on investments | (2,244) | 9,981 |
| Changes in operating assets and liabilities: | | |
| Receivable from The NARAS Foundation | (50,021) | (26,517) |
| Receivable from/payable to National Academy of Recording Arts & Sciences, Inc. | 142,190 | 49,750 |
| 20th Anniversary Campaign pledges receivable | 347,353 | 868,168 |
| Other receivables | 112,677 | (296,121) |
| Prepaid expenses and other current assets | 29,678 | 6,963 |
| Accounts payable and accrued liabilities | 70,491 | 127,528 |
| Deferred revenue | <u>78,575</u> | <u>(23,525)</u> |
| Net cash provided by operating activities | <u>2,216,189</u> | <u>2,516,479</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (4,469,426) | (7,504,979) |
| Proceeds from sales and maturities of investments | <u>952,777</u> | <u>275,027</u> |
| Net cash used in investing activities | <u>(3,516,649)</u> | <u>(7,229,952)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (1,300,460) | (4,713,473) |
| CASH AND CASH EQUIVALENTS—Beginning of year | <u>5,799,770</u> | <u>10,513,243</u> |
| CASH AND CASH EQUIVALENTS—End of year | <u>\$ 4,499,310</u> | <u>\$ 5,799,770</u> |

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2014

| | Program Services | | | | Supporting Services | | | | | | | | Total |
|-------------------------------------|------------------------------|--------------------|------------------------|------------------------|-----------------------------------|---------------------|------------------|---------------------------|----------------------------|---------------------|---------------------------|---------------------|-------|
| | Financial Assistance Program | MAP Fund | Hurricane/Flood Relief | Total Program Services | Person of the Year Dinner/Auction | General Fundraising | Administration | 20th Anniversary Campaign | Other Fundraising Auctions | MAP Benefit Concert | Total Supporting Expenses | | |
| Event expenses | \$ 214,702 | \$ 8,259 | \$ - | \$ 222,961 | \$6,047,385 | \$ 9,030 | \$ 8,944 | \$ 5,200 | \$ 7,019 | \$121,173 | \$6,198,751 | \$ 6,421,712 | |
| Financial grants and assistance | 2,701,055 | 1,014,034 | 39,191 | 3,754,280 | | | 16,910 | | | | 16,910 | 3,771,190 | |
| Professional fees | 148,584 | 63,649 | 460 | 212,693 | 238,048 | 63,921 | 37,566 | 1,327 | 82,222 | 29,694 | 452,778 | 665,471 | |
| Salaries and benefits | 913,291 | 287,297 | 7,308 | 1,207,896 | 193,795 | 275,097 | 393,827 | 8,975 | 84,041 | 71,751 | 1,027,486 | 2,235,382 | |
| Administration | 223,606 | 31,408 | 895 | 255,909 | 295,914 | 89,868 | 154,246 | 2,460 | 26,562 | 57,855 | 626,905 | 882,814 | |
| Travel and entertainment | 69,976 | 34,404 | | 104,380 | 273,735 | 3,577 | 36,051 | | 22,788 | 25,282 | 361,433 | 465,813 | |
| Computer, video, and other expenses | 18,467 | 4,797 | 249 | 23,513 | 24,055 | 17,520 | 12,413 | 249 | 3,779 | 3,773 | 61,789 | 85,302 | |
| Total | <u>\$4,289,681</u> | <u>\$1,443,848</u> | <u>\$48,103</u> | <u>\$5,781,632</u> | <u>\$7,072,932</u> | <u>\$459,013</u> | <u>\$659,957</u> | <u>\$18,211</u> | <u>\$226,411</u> | <u>\$309,528</u> | <u>\$8,746,052</u> | <u>\$14,527,684</u> | |

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2013

| | Program Services | | | | Supporting Services | | | | | | | | Total |
|------------------------------------|------------------------------|--------------------|-------------------------|------------------------|------------------------------------|---------------------|------------------|---------------------------|----------------------------|---------------------|---------------------------|---------------------|-------|
| | Financial Assistance Program | MAP Fund | Hurricane/ Flood Relief | Total Program Services | Person of the Year Dinner/ Auction | General Fundraising | Administration | 20th Anniversary Campaign | Other Fundraising Auctions | MAP Benefit Concert | Total Supporting Expenses | | |
| Event expenses | \$ 184,736 | \$ 5,753 | \$ - | \$ 190,489 | \$3,737,731 | \$ 3,563 | \$ 8,062 | \$ 25,666 | \$ 23,543 | \$ 93,938 | \$3,892,503 | \$ 4,082,992 | |
| Financial grants and assistance | 2,313,272 | 1,090,434 | 158,391 | 3,562,097 | | 2,475 | 19,010 | | | | 21,485 | 3,583,582 | |
| Professional fees | 178,418 | 55,155 | 1,311 | 234,884 | 177,303 | 107,310 | 104,916 | 43,181 | 67,677 | 19,673 | 520,060 | 754,944 | |
| Salaries and benefits | 878,974 | 238,161 | 16,818 | 1,133,953 | 233,906 | 216,839 | 308,392 | 36,788 | 74,189 | 70,720 | 940,834 | 2,074,787 | |
| Administration | 212,315 | 30,772 | 906 | 243,993 | 257,628 | 54,930 | 116,169 | 9,319 | 28,786 | 67,256 | 534,088 | 778,081 | |
| Travel and entertainment | 68,755 | 37,646 | 15 | 106,416 | 218,794 | 6,941 | 52,073 | 255 | 17,344 | 5,753 | 301,160 | 407,576 | |
| Computer, video and other expenses | 36,744 | 8,581 | 162 | 45,487 | 24,012 | 22,966 | 18,593 | 2,013 | 6,098 | 6,302 | 79,984 | 125,471 | |
| Total | <u>\$3,873,214</u> | <u>\$1,466,502</u> | <u>\$177,603</u> | <u>\$5,517,319</u> | <u>\$4,649,374</u> | <u>\$415,024</u> | <u>\$627,215</u> | <u>\$117,222</u> | <u>\$217,637</u> | <u>\$263,642</u> | <u>\$6,290,114</u> | <u>\$11,807,433</u> | |

See notes to financial statements.

MUSICARES FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JULY 31, 2014 AND 2013

1. ORGANIZATION

MusiCares Foundation, Inc. (“MusiCares Foundation”) was established by National Academy of Recording Arts & Sciences, Inc. (“The Recording Academy”) to provide assistance to music people in need and to focus the resources of the music industry on human service issues that directly affect the health and welfare of the community. MusiCares Foundation provides such services as financial assistance grants and addiction recovery services. MusiCares Foundation, along with The NARAS Foundation (“The GRAMMY Foundation”), a related party, supports the charitable goals of The Recording Academy.

Federal and State Income Taxes—MusiCares Foundation is generally exempt from federal and state income taxes as an Internal Revenue Code (IRC) Section 501(c)(3) organization and corresponding state provisions, except for unrelated business income, which is subject to tax. MusiCares Foundation holds a nonprivate foundation status pursuant to IRC Section 509(a)(1), specifically under IRC Section 170(b)(1)(A)(vi).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include demand deposits and short-term investments with maturities of 90 days or less from the purchase date.

20th Anniversary Campaign Pledges Receivable—Pledges due within 12 months after year-end are included as current assets and pledges due in longer than 12 months after year-end are included in noncurrent assets. The pledges due in greater than one year are reported at net present value using risk-free interest rates at the date of such pledges, which vary between 0.19% and 2.9% in both fiscal years (see Note 8).

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.

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 for events 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.

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 \$198,140 and \$192,800 in 2014 and 2013, 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 in 2014 were estimated to have a fair value of \$4,546,855 and were included in Person of the Year Dinner/Auction revenue of \$4,494,259 and MAP Benefit Concert of \$52,596. Donated goods and services received in 2013 were estimated to have a fair value of \$2,140,344 and were included in Person of the Year Dinner/Auction revenue of \$2,088,469, MAP Benefit Concert of \$49,950, and other income of \$1,925.

In-kind donations from The Recording Academy relate to discounts on rental expenses and event tickets contributed in the amounts of \$209,156 and \$168,867 for the years ended July 31, 2014 and 2013, 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, 2014 and 2013, MusiCares Foundation did not record any liability for unrecognized tax benefits.

Financial Instruments—Financial instruments consist of cash equivalents, other receivables, 20th Anniversary Campaign pledges receivable, investments, deferred compensation asset and liability, accounts payable and accrued liabilities, and net receivables/payables to The Recording Academy and The GRAMMY Foundation. Assets and liabilities, other than 20th Anniversary Campaign pledges receivables 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. 20th Anniversary Campaign pledges receivable are reported at their net present value which approximates fair value. Refer to Note 3 for information related to the fair value of investments.

Commitments and Contingencies—MusiCares Foundation provides financial grants to eligible music people struggling with financial, medical, or personal crises. Grants awarded range in value and can be used for past due, current or future basic living costs, medical bills, etc. Grants are distributed to third-party creditors on behalf of the grantee at the time the grantee makes them available. A grantee's personal circumstances may change, thus a portion of the awarded grant may never be drawn upon.

Subsequent Events—MusiCares Foundation has evaluated subsequent events through April 20, 2015, the date the financial statements were available to be issued.

3. INVESTMENTS

Investments at July 31, 2014 and 2013, are maintained in Certificates of Deposit (CDs), and mutual funds primarily invested in equity securities, fixed-income investments, and broad commodity investments.

MusiCares Foundation presents its investments in accordance with FASB ASC 820—*Investments*. ASC 820 requires classifying holdings as Level 1, Level 2, or Level 3 based upon various inputs or methodologies used to value the holdings as summarized below:

Level 1—Quoted prices in active markets for identical assets.

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.

Cash equivalents represent cash held by MusiCares Foundation's investment managers that will be invested based on MusiCares Foundation's investment strategy and are reflected within cash and cash equivalents in the statements of financial position.

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

As of July 31, 2014, MusiCares Foundation's Level 2 investments include CDs, which represent time deposits that bear a maturity date and a fixed-interest rate. 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 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, 2014, MusiCares Foundation's holdings applying FASB ASC 820 hierarchy are as follows:

| | Fair Value Measurements— July 31, 2014 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Market-Based Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------------|---|---|---|--|
| Total cash equivalents | <u>\$ 1,417,293</u> | <u>\$ 1,417,293</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments: | | | | |
| Certificates of deposit | \$ 2,338,126 | \$ - | \$ 2,338,126 | \$ - |
| Mutual funds: | | | | |
| US equity funds | 5,427,904 | 5,427,904 | | |
| Global equity funds | 1,890,581 | 1,890,581 | | |
| US fixed-income bond funds | 4,830,451 | 4,830,451 | | |
| Global fixed-income bond funds | <u>224,517</u> | <u>224,517</u> | | |
| Total investments | <u>\$ 14,711,579</u> | <u>\$ 12,373,453</u> | <u>\$ 2,338,126</u> | <u>\$ -</u> |

As of July 31, 2013, MusiCares Foundation's holdings applying FASB ASC 820 hierarchy are as follows:

| | Fair Value Measurements— July 31, 2013 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Market-Based Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------------|---|---|---|--|
| Total cash equivalents | <u>\$ 3,671,231</u> | <u>\$ 3,671,231</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments: | | | | |
| Certificates of deposit | \$ 3,110,030 | \$ - | \$ 3,110,030 | \$ - |
| Mutual funds: | | | | |
| US equity funds | 2,883,806 | 2,883,806 | | |
| Global equity funds | 1,221,118 | 1,221,118 | | |
| US fixed-income bond funds | 2,820,065 | 2,820,065 | | |
| Global fixed-income bond funds | 206,616 | 206,616 | | |
| Other | <u>384,090</u> | <u>384,090</u> | | |
| Total investments | <u>\$ 10,625,725</u> | <u>\$ 7,515,695</u> | <u>\$ 3,110,030</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 levels during 2014 or 2013.

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

4. PROPERTY

Property as of July 31, 2014 and 2013, consists of the following:

| | 2014 | 2013 |
|---------------------------------|------------------|------------------|
| Office equipment | \$ 6,316 | \$ 6,316 |
| Computer equipment and software | 61,597 | 63,234 |
| Furniture and fixtures | <u>35,009</u> | <u>65,381</u> |
| Total property | 102,922 | 134,931 |
| Accumulated depreciation | <u>(102,922)</u> | <u>(134,931)</u> |
| Property—net | <u>\$ -</u> | <u>\$ -</u> |

There was no depreciation expense recorded in 2014 and 2013 because all depreciable assets were fully depreciated.

5. AFFILIATED ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions and contributions of services from The Recording Academy amounting to \$2,976,429 and \$2,628,157 in 2014 and 2013, respectively. The details are described below:

| | 2014 | 2013 |
|--|-----------------------------|--------------------|
| Cash contributions—general cash contributions: | | |
| General contributions | \$ 1,771,322 | \$ 1,667,378 |
| Person of the Year Dinner/Auction | 770,250 | 529,750 |
| Musicians Assistance Program Fund (program) | 214,401 | 248,294 |
| MAP Benefit Concert (program) | 11,300 | 11,620 |
| Flood Relief (program) | <u> </u> | <u>2,248</u> |
| Subtotal cash contributions | <u>2,767,273</u> | <u>2,459,290</u> |
| Noncash contributions: | | |
| Discounted rent | 197,956 | 156,917 |
| GRAMMY show tickets | 11,200 | 11,200 |
| Special Merit Awards ceremony | <u> </u> | <u>750</u> |
| Subtotal noncash contributions | <u>209,156</u> | <u>168,867</u> |
| Total cash and noncash contributions | <u>\$2,976,429</u> | <u>\$2,628,157</u> |

Total contributions from The Recording Academy provided for approximately 18% and 19% of total support and revenues in 2014 and 2013, 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 \$2,089,709 for the fiscal year ending July 31, 2015. 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 \$400,804 and \$385,405 in 2014 and 2013, respectively, as follows:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Salary and benefits | \$ 167,975 | \$ 160,524 |
| Rent expense | 52,134 | 50,458 |
| Other operating expenses (shared services) | <u>180,695</u> | <u>174,423</u> |
| Total expenses billed by The Recording Academy | <u>\$ 400,804</u> | <u>\$ 385,405</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 2014 and 2013 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 \$39,000 and \$22,500 in 2014 and 2013, respectively.

MusiCares Foundation was billed \$100,940 and \$73,400 for 2014 and 2013, respectively, by The Recording Academy for the face value of the tickets purchased by MusiCares Foundation related to the GRAMMY show.

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 Latin Academy of Recording Arts & Sciences. Eligible employees can elect to defer compensation subject to Internal Revenue Service withholding rules. In 2014 and 2013, MusiCares Foundation made a contribution match of 50% of the employee's elective deferral contributions, which amounted to \$57,086 in 2014 and \$50,686 in 2013. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. A discretionary match was made in 2014 and 2013 of \$59,669 and \$55,586, respectively.

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, 2014 and 2013, was \$76,404 and \$59,324, respectively.

7. TEMPORARILY PURPOSE RESTRICTED NET ASSETS

Net assets during the fiscal years ended July 31, 2014 and 2013, were released from donor restriction by incurring expenses satisfying the restricted purposes specified by the donors:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Purpose restrictions accomplished: | | |
| MAP Fund/Benefit Concert | \$ 668,191 | \$ 530,368 |
| Financial assistance program | 87,187 | 124,780 |
| Financial assistance—Agua Fund | 6,250 | 11,550 |
| Sandy Relief | 2,867 | 24,014 |
| Nashville Flood Relief | | 7,935 |
| Colorado Flood Relief | <u>1,695</u> | <u> </u> |
| Total net assets released from purpose restriction | <u>\$ 766,190</u> | <u>\$ 698,647</u> |

There were no net assets temporarily restricted for purposes designated by the donor as of July 31, 2014 or 2013.

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, 2014 and 2013, the total grant received was \$6,250 and \$11,550, respectively, 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 had adequate flood insurance to cover their damages. MusiCares Foundation 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, 2013, total contributions received were \$7,631 and \$7,935 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction. There were no contributions received or transfers from temporary restrictions during the year ended July 31, 2014.

In November 2012, MusiCares Foundation established a fund to support members of the music community affected by Hurricane Sandy. MusiCares Foundation’s assistance will provide basic living expenses, such as shelter, food, utilities, and transportation; medical expenses, including doctor, dentist, hospital bills, and medications; clothing, instrument and recording equipment replacement; relocation costs; home repairs; and debris removal. For the fiscal year ended July 31, 2014, total contributions received were \$2,867 and \$2,867 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction. For the fiscal year ended July 31, 2013, total contributions received were \$21,766 and \$24,014 was transferred from temporarily restricted to unrestricted revenues due to satisfaction of the program restriction.

In October 2013, MusiCares established a fund to support members of the music community affected by the Colorado Floods. MusiCares Foundation's assistance would be similar to the Nashville Flood Relief fund. For the fiscal year ended July 31, 2014, total contributions received were \$1,695 and \$1,695 was transferred from temporarily restricted net assets to unrestricted revenues due to satisfaction of the program restriction.

8. 20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE

The pledges receivable as of July 31, 2014 and 2013, consist of the following:

| | 2014 | 2013 |
|--|-------------------|---------------------|
| Gross pledges receivable amounts due in: | | |
| Less than one year | \$ 461,684 | \$ 569,984 |
| Two to five years | <u>393,416</u> | <u>648,233</u> |
| Total gross pledges receivable | 855,100 | 1,218,217 |
| Less unamortized discount | <u>(43,782)</u> | <u>(59,546)</u> |
| Net 20th Anniversary Campaign pledges receivable | <u>\$ 811,318</u> | <u>\$ 1,158,671</u> |

9. 20TH ANNIVERSARY CAMPAIGN

In 2009, MusiCares Foundation embarked on a 20th Anniversary fundraising campaign to raise \$10,000,000. The donors have stipulated that the funds are to be used toward the current activities of MusiCares Foundation to support its ongoing efforts to provide a critical safety net of assistance to musicians and music people in times of crisis, as determined by MusiCares Foundation Board (the "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, 2014 and 2013, \$359,683 and \$915,067, 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 established campaign investment policies, return objectives, risk parameters, and determined how those objectives relate to the campaign spending policy and the strategies employed for achieving those objectives when the funds are received.

For fiscal years ended July 31, 2014 and 2013, 20th Anniversary Campaign administrative costs were paid from the current-year campaign funds.

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