

MusiCares Foundation, Inc.

Financial Statements as of and for the
Years Ended July 31, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, 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 LLP

April 29, 2016

MUSICARES FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,113,145	\$ 3,999,289
Board-designated 20th Anniversary Campaign cash and cash equivalents (Note 8)	<u>500,630</u>	<u>500,021</u>
Total cash and cash equivalents	5,613,775	4,499,310
Receivable from The NARAS Foundation (Note 4)	319,549	289,572
20th Anniversary Campaign pledges receivable—current (Note 7)	345,916	461,684
Other receivables	108,629	297,863
Investments (Note 3)	15,470,686	14,711,579
Prepaid expenses and other current assets	<u>47,434</u>	<u>56,252</u>
Total current assets	21,905,989	20,316,260
20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE—Net—noncurrent (Note 7)	135,422	349,634
DEFERRED COMPENSATION ASSET (Note 5)	<u>88,975</u>	<u>76,404</u>
TOTAL	<u>\$ 22,130,386</u>	<u>\$ 20,742,298</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 403,564	\$ 436,395
Deferred revenue	121,600	86,276
Payable to National Academy of Recording Arts & Sciences, Inc.	<u>19,596</u>	<u>8,660</u>
Total current liabilities	544,760	531,331
DEFERRED COMPENSATION LIABILITY (Note 5)	<u>88,975</u>	<u>76,404</u>
Total liabilities	<u>633,735</u>	<u>607,735</u>
NET ASSETS (Note 2):		
Unrestricted net assets:		
General	11,117,986	10,039,159
Board-designated 20th Anniversary Campaign (Notes 7 and 8)	<u>9,897,327</u>	<u>9,284,086</u>
Total unrestricted net assets	21,015,313	19,323,245
Temporarily restricted net assets:		
Time restricted—20th Anniversary Campaign (Notes 7 and 8)	<u>481,338</u>	<u>811,318</u>
Total net assets	<u>21,496,651</u>	<u>20,134,563</u>
TOTAL	<u>\$ 22,130,386</u>	<u>\$ 20,742,298</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Purpose	Time			Purpose	Time	
SUPPORT AND REVENUES:								
Person of the Year Dinner/Auction	\$ 10,905,184	\$ -	\$ -	\$ 10,905,184	\$ 10,966,998	\$ -	\$ -	\$ 10,966,998
Contributions from National Academy of Recording Arts & Sciences, Inc. (Note 4)	2,315,578	267,905	-	2,583,483	2,127,478	214,401	-	2,341,879
20th Anniversary Campaign (Note 8)	290,100	-	16,454	306,554	398,333	-	12,330	410,663
MAP Benefit Concert	-	508,655	-	508,655	-	325,788	-	325,788
Hurricane Relief/Flood Relief	-	-	-	-	-	4,562	-	4,562
Other fundraising auctions	218,650	-	-	218,650	345,808	-	-	345,808
Other income	1,111,994	403,735	-	1,515,729	935,144	221,439	-	1,156,583
Interest and dividend income	725,835	-	-	725,835	460,649	-	-	460,649
Unrealized (loss) gain on investments—net	(505,041)	-	-	(505,041)	566,961	-	-	566,961
Realized gain on investments—net	132,738	-	-	132,738	2,244	-	-	2,244
Total support and revenues	15,195,038	1,180,295	16,454	16,391,787	15,803,615	766,190	12,330	16,582,135
NET ASSETS RELEASED FROM RESTRICTIONS/ RECLASSIFICATION—Satisfaction of purpose/ time restrictions								
	1,526,729	(1,180,295)	(346,434)	-	1,125,873	(766,190)	(359,683)	-
PROGRAM SERVICES AND SUPPORTING EXPENSES:								
Program services:								
Financial assistance program	5,097,163	-	-	5,097,163	4,289,681	-	-	4,289,681
MAP Fund	1,614,510	-	-	1,614,510	1,443,848	-	-	1,443,848
Hurricane/Flood Relief	-	-	-	-	48,103	-	-	48,103
Total program services	6,711,673	-	-	6,711,673	5,781,632	-	-	5,781,632

(Continued)

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted		Total	Unrestricted	Temporarily Restricted		Total
		Purpose	Time			Purpose	Time	
Supporting expenses:								
Person of the Year Dinner/Auction	\$ 6,484,262	\$ -	\$ -	\$ 6,484,262	\$ 7,072,932	\$ -	\$ -	\$ 7,072,932
General fundraising	425,454	-	-	425,454	459,013	-	-	459,013
Administration	839,931	-	-	839,931	659,957	-	-	659,957
20th Anniversary Campaign	23,293	-	-	23,293	18,211	-	-	18,211
Other fundraising auctions	211,171	-	-	211,171	226,411	-	-	226,411
MAP Benefit Concert	333,915	-	-	333,915	309,528	-	-	309,528
Total supporting expenses	8,318,026	-	-	8,318,026	8,746,052	-	-	8,746,052
Total program services and supporting expenses	15,029,699	-	-	15,029,699	14,527,684	-	-	14,527,684
INCREASE (DECREASE) IN NET ASSETS	1,692,068	-	(329,980)	1,362,088	2,401,804	-	(347,353)	2,054,451
NET ASSETS:								
Beginning of year	19,323,245	-	811,318	20,134,563	16,921,441	-	1,158,671	18,080,112
End of year	\$ 21,015,313	\$ -	\$ 481,338	\$ 21,496,651	\$ 19,323,245	\$ -	\$ 811,318	\$ 20,134,563

See notes to financial statements.

(Concluded)

MUSICARES FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,362,088	\$ 2,054,451
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net unrealized loss (gain) on investments	505,041	(566,961)
Net realized (gain) on investments	(132,738)	(2,244)
Changes in operating assets and liabilities:		
Receivable from The NARAS Foundation	(29,977)	(50,021)
Payable to National Academy of Recording Arts & Sciences, Inc.	10,936	142,190
20th Anniversary Campaign pledges receivable—Net	329,980	347,353
Other receivables	189,234	112,677
Prepaid expenses and other current assets	8,818	29,678
Accounts payable and accrued liabilities	(32,831)	70,491
Deferred revenue	<u>35,324</u>	<u>78,575</u>
Net cash provided by operating activities	<u>2,245,875</u>	<u>2,216,189</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,520,740)	(4,469,426)
Proceeds from sales and maturities of investments	<u>2,389,330</u>	<u>952,777</u>
Net cash used in investing activities	<u>(1,131,410)</u>	<u>(3,516,649)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,114,465	(1,300,460)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>4,499,310</u>	<u>5,799,770</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,613,775</u>	<u>\$ 4,499,310</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2015

	Program Services				Supporting Services							
	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	Total
Event expenses	\$ 357,145	\$ 13,791	\$ -	\$ 370,936	\$5,570,868	\$ 13,152	\$ 2,686	\$ 4,800	\$ 18,512	\$102,322	\$5,712,340	\$ 6,083,276
Financial grants and assistance	3,307,751	1,174,070	-	4,481,821	2,260	-	10,810	-	-	-	13,070	4,494,891
Professional fees	172,371	67,477	-	239,848	197,387	55,140	134,575	2,034	81,530	44,140	514,806	754,654
Salaries and benefits	945,947	279,332	-	1,225,279	214,684	255,981	430,345	12,934	78,494	63,236	1,055,674	2,280,953
Administration	214,847	40,795	-	255,642	266,530	80,081	204,762	3,302	26,685	88,334	669,694	925,336
Travel and entertainment	86,611	36,281	-	122,892	218,644	8,698	34,564	-	4,062	32,327	298,295	421,187
Computer, video, and other expenses	12,491	2,764	-	15,255	13,889	12,402	22,189	223	1,888	3,556	54,147	69,402
Total	<u>\$5,097,163</u>	<u>\$1,614,510</u>	<u>\$ -</u>	<u>\$6,711,673</u>	<u>\$6,484,262</u>	<u>\$425,454</u>	<u>\$839,931</u>	<u>\$23,293</u>	<u>\$211,171</u>	<u>\$333,915</u>	<u>\$8,318,026</u>	<u>\$15,029,699</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

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

	Program Services				Supporting Services							
	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	Total
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	\$4,289,681	\$1,443,848	\$48,103	\$5,781,632	\$7,072,932	\$459,013	\$659,957	\$18,211	\$226,411	\$309,528	\$8,746,052	\$14,527,684

See notes to financial statements.

MUSICARES FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JULY 31, 2015 AND 2014

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 7).

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 \$152,950 and \$198,140 in 2015 and 2014, 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 2015 were estimated to have a fair value of \$3,688,434 and were included in Person of the Year Dinner/Auction revenue of \$3,675,714, MAP Benefit Concert of \$10,450, and House Concerts of \$2,270. 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.

In-kind donations from The Recording Academy relate to discounts on rental expenses and event tickets contributed in the amounts of \$225,369 and \$209,156 for the years ended July 31, 2015 and 2014, respectively (see Note 4).

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 6).

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, 2015 and 2014, 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 receivables/payables with 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 provides supporting documentation. 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 29, 2016, the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure in these audited financial statements.

3. INVESTMENTS

Investments at July 31, 2015 and 2014, 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, 2015, 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, 2015, MusiCares Foundation's holdings applying FASB ASC 820 hierarchy are as follows:

	Fair Value Measurements— July 31, 2015	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>\$ 1,541,084</u>	<u>\$ 1,541,084</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:				
Certificates of deposit	\$ 2,343,281	\$ -	\$2,343,281	\$ -
Mutual funds:				
US equity funds	5,076,632	5,076,632	-	-
Global equity funds	2,826,688	2,826,688	-	-
US fixed-income bond funds	5,006,054	5,006,054	-	-
Global fixed-income bond funds	<u>218,031</u>	<u>218,031</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$15,470,686</u>	<u>\$13,127,405</u>	<u>\$2,343,281</u>	<u>\$ -</u>

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>	<u>-</u>	<u>-</u>
Total investments	<u>\$14,711,579</u>	<u>\$12,373,453</u>	<u>\$2,338,126</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 2015 or 2014.

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

4. AFFILIATED ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions and contributions of services from The Recording Academy amounting to \$3,255,173 and \$2,976,429 in 2015 and 2014, respectively. The details are described below:

	2015	2014
Cash contributions—general cash contributions:		
General contributions	\$ 2,090,209	\$ 1,771,322
Person of the Year Dinner/Auction	660,900	770,250
Musicians Assistance Program Fund (program)	267,905	214,401
MAP Benefit Concert (program)	<u>10,790</u>	<u>11,300</u>
Subtotal cash contributions	<u>3,029,804</u>	<u>2,767,273</u>
Noncash contributions:		
Discounted rent	214,169	197,956
GRAMMY show tickets	<u>11,200</u>	<u>11,200</u>
Subtotal noncash contributions	<u>225,369</u>	<u>209,156</u>
Total cash and noncash contributions	<u>\$ 3,255,173</u>	<u>\$ 2,976,429</u>

Total contributions from The Recording Academy provided for approximately 20% and 18% of total support and revenues in 2015 and 2014, 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 \$2,008,325 for the fiscal year ending July 31, 2016. 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 \$420,442 and \$400,804 in 2015 and 2014, respectively, as follows:

	2015	2014
Salary and benefits	\$ 196,640	\$ 167,975
Rent expense	36,279	52,134
Other operating expenses (shared services)	<u>187,523</u>	<u>180,695</u>
Total expenses billed by The Recording Academy	<u>\$ 420,442</u>	<u>\$ 400,804</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 2015 and 2014 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 \$22,500 and \$39,000 in 2015 and 2014, respectively.

MusiCares Foundation was billed \$75,300 and \$100,940 for 2015 and 2014, respectively, by The Recording Academy for the face value of the tickets purchased by MusiCares Foundation related to the GRAMMY show.

5. 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, Latin Academy of Recording Arts & Sciences, and The Latin GRAMMY Cultural Foundation. Eligible employees can elect to defer compensation subject to Internal Revenue Service withholding rules. In 2015 and 2014, MusiCares Foundation made a contribution match of 50% of the employee’s elective deferral contributions, which amounted to \$59,030 in 2015 and \$57,086 in 2014. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. A discretionary match was made in 2015 and 2014 of \$71,518 and \$59,669, 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, 2015 and 2014, was \$88,975 and \$76,404, respectively.

6. TEMPORARILY PURPOSE RESTRICTED NET ASSETS

Net assets during the fiscal years ended July 31, 2015 and 2014, were released from donor restriction by incurring expenses satisfying the restricted purposes specified by the donors:

	2015	2014
Purpose restrictions accomplished:		
MAP Fund/Benefit Concert	\$ 1,083,045	\$ 668,191
Financial assistance program	91,250	87,187
Financial assistance—Agua Fund	6,000	6,250
Sandy Relief	-	2,867
Colorado Flood Relief	-	1,695
	<u> </u>	<u> </u>
Total net assets released from purpose restriction	<u>\$ 1,180,295</u>	<u>\$ 766,190</u>

There were no net assets temporarily restricted for purposes designated by the donor as of July 31, 2015 or 2014.

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, 2015 and 2014, the total grant received was \$6,000 and \$6,250, 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.

Since 2005, MusiCares has established several funds to support members of the music community affected by natural disasters including Hurricane Katrina, Music Rising, Nashville Flood Relief, Hurricane Sandy, and Colorado Relief. MusiCares Foundation’s assistance provides basic living expenses such as food, clothing and shelter, medical costs, relocation fees, cleanup efforts, and other critical supplies. All temporarily restricted contributions have been transferred to unrestricted revenues due to satisfaction of the program restriction.

7. 20TH ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE

The pledges receivable as of July 31, 2015 and 2014, consist of the following:

	2015	2014
Gross pledge receivable amounts due in:		
Less than one year	\$ 345,916	\$ 461,684
Two to five years	<u>162,850</u>	<u>393,416</u>
Total gross pledge receivable	508,766	855,100
Less unamortized discount	<u>(27,428)</u>	<u>(43,782)</u>
Net 20th Anniversary Campaign pledges receivable	<u>\$ 481,338</u>	<u>\$ 811,318</u>

8. 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 years ended July 31, 2015 and 2014, \$346,434 and \$359,683, 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 7). MusiCares Foundation management and the Board established campaign investment policies, return objectives, and 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, 2015 and 2014, 20th Anniversary Campaign administrative costs were paid from the current-year campaign funds.

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