

MusiCares Foundation, Inc.

Financial Statements as of and for the
Years Ended July 31, 2023 and 2022, and
Independent Auditor's Report

MUSICARES FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of MusiCares Foundation, Inc. ("MusiCares Foundation"), which comprise the statements of financial position as of July 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively, referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MusiCares Foundation as of July 31, 2023 and 2022, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MusiCares Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MusiCares Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will

always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MusiCares Foundation's ability to continue as a going concern for a reasonable period.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

January 24, 2024

MUSICARES FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,408,257	\$ 3,933,812
Receivables	1,803,685	419,006
Receivable from GRAMMY Museum	424	282
Receivable from The Latin Recording Academy	406	-
Board-designated investments (Note 4)	23,555,094	22,565,714
Prepaid expenses and other current assets	<u>222,624</u>	<u>307,948</u>
Total current assets	29,990,490	27,226,762
PROPERTY—Net (Note 8)	<u>62,470</u>	<u>73,258</u>
TOTAL	<u>\$ 30,052,960</u>	<u>\$ 27,300,020</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 668,286	\$ 694,199
Deferred revenue	106,733	631,085
Payable to The Recording Academy	<u>116,167</u>	<u>121,212</u>
Total current liabilities	<u>891,186</u>	<u>1,446,496</u>
COMMITMENTS AND CONTINGENCIES (Note 2)		
NET ASSETS (Note 2):		
Net assets without donor restrictions:		
General	5,123,131	3,287,810
Board-designated (Notes 2 and 4)	<u>23,555,094</u>	<u>22,565,714</u>
Total net assets without donor restrictions	28,678,225	25,853,524
Net assets with donor restrictions	<u>483,549</u>	<u>-</u>
Total net assets	<u>29,161,774</u>	<u>25,853,524</u>
TOTAL	<u>\$ 30,052,960</u>	<u>\$ 27,300,020</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JULY 31, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Person of the Year Dinner/Auction	\$ 7,688,256	\$ -	\$ 7,688,256	\$ 6,716,840	\$ -	\$ 6,716,840
Contributions and grants	5,911,971	628,665	6,540,636	3,592,507	186,771	3,779,278
Contributions from The Recording Academy	2,504,365	31,364	2,535,729	2,500,000	20,476	2,520,476
Other fundraising auctions	947,480	-	947,480	803,299	-	803,299
In-kind donations (Note 9)	830,294	-	830,294	442,198	-	442,198
Natural Disaster Fund	-	3,000	3,000	-	300,150	300,150
COVID-19 Relief Fund	-	-	-	-	123,347	123,347
Music on a Mission	-	-	-	30,599	-	30,599
Other income	692,090	-	692,090	288,162	-	288,162
Interest and dividend income	1,588,856	-	1,588,856	1,802,486	-	1,802,486
Unrealized gain (loss) on investments—net	751,696	-	751,696	(4,519,288)	-	(4,519,288)
Realized (loss) gain on investments—net	(1,159,153)	-	(1,159,153)	56,212	-	56,212
Total support and revenue	<u>19,755,855</u>	<u>663,029</u>	<u>20,418,884</u>	<u>11,713,015</u>	<u>630,744</u>	<u>12,343,759</u>
NET ASSETS RELEASED FROM RESTRICTIONS (Note 7)—						
Satisfaction of purpose/time restrictions	<u>179,480</u>	<u>(179,480)</u>	<u>-</u>	<u>663,155</u>	<u>(663,155)</u>	<u>-</u>
PROGRAM SERVICES AND SUPPORTING EXPENSES:						
Program services:						
Financial assistance program	7,761,644	-	7,761,644	6,593,777	-	6,593,777
Mental Health and Addiction Recovery (formerly MAP Fund)	1,594,876	-	1,594,876	1,741,023	-	1,741,023
Natural Disaster Fund	31,898	-	31,898	333,659	-	333,659
COVID-19 Relief Fund	-	-	-	234,530	-	234,530
The Day That Music Cares	<u>315,798</u>	<u>-</u>	<u>315,798</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total program services	<u>9,704,216</u>	<u>-</u>	<u>9,704,216</u>	<u>8,902,989</u>	<u>-</u>	<u>8,902,989</u>

(Continued)

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JULY 31, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORTING EXPENSES:						
Person of the Year Dinner/Auction	\$ 4,697,501	\$ -	\$ 4,697,501	\$ 4,485,153	\$ -	\$ 4,485,153
General fundraising	609,988	-	609,988	1,162,828	-	1,162,828
Administration	1,739,676	-	1,739,676	1,394,565	-	1,394,565
Other fundraising auctions	293,669	-	293,669	123,045	-	123,045
Music on a Mission	65,584	-	65,584	93,797	-	93,797
	<u>7,406,418</u>	<u>-</u>	<u>7,406,418</u>	<u>7,259,388</u>	<u>-</u>	<u>7,259,388</u>
Total supporting expenses						
Total program services and supporting expenses	<u>17,110,634</u>	<u>-</u>	<u>17,110,634</u>	<u>16,162,377</u>	<u>-</u>	<u>16,162,377</u>
INCREASE (DECREASE) IN NET ASSETS	2,824,701	483,549	3,308,250	(3,786,207)	(32,411)	(3,818,618)
NET ASSETS:						
Beginning of year	<u>25,853,524</u>	<u>-</u>	<u>25,853,524</u>	<u>29,639,731</u>	<u>32,411</u>	<u>29,672,142</u>
End of year	<u>\$28,678,225</u>	<u>\$483,549</u>	<u>\$29,161,774</u>	<u>\$25,853,524</u>	<u>\$ -</u>	<u>\$25,853,524</u>

See notes to financial statements.

(Concluded)

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2023

	Program Services						Supporting Services						Total
	Financial Assistance Program	Mental Health and Addiction Recovery	Natural Disaster Relief	COVID-19 Relief Fund	The Day That Music Cares	Total Program Services	Person of the Year Dinner/Auction	General Fundraising	Administration	Other Fundraising Auctions	Music on a Mission	Total Supporting Expenses	
Event expenses	\$ -	\$ 1,297	\$ -	\$ -	\$ 1,100	\$ 2,397	\$ 2,833,927	\$ 24,326	\$ 1,236	\$ 31,665	\$ -	\$ 2,891,154	\$ 2,893,551
Financial grants and assistance	6,094,094	1,015,658	106	-	-	7,109,858	-	-	9,275	-	-	9,275	7,119,133
Professional fees	168,222	110,288	1,624	-	222,757	502,891	357,135	64,571	421,618	178,063	2,919	1,024,306	1,527,197
Salaries and benefits	1,205,357	378,717	25,734	-	75,132	1,684,940	599,365	400,743	842,081	60,216	54,240	1,956,645	3,641,585
Administration	174,262	44,946	2,903	-	9,422	231,533	528,007	83,866	359,734	11,059	5,402	988,068	1,219,601
Depreciation	-	-	-	-	-	-	-	-	10,788	-	-	10,788	10,788
Travel and entertainment	16,139	7,872	16	-	48	24,075	299,577	5,819	9,240	4,726	217	319,579	343,654
Computer, video, and other expenses	103,570	36,098	1,515	-	7,339	148,522	79,490	30,663	85,704	7,940	2,806	206,603	355,125
Total	\$ 7,761,644	\$ 1,594,876	\$ 31,898	\$ -	\$ 315,798	\$ 9,704,216	\$ 4,697,501	\$ 609,988	\$ 1,739,676	\$ 293,669	\$ 65,584	\$ 7,406,418	\$ 17,110,634

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2022

	Program Services					Total Program Services	Supporting Services					Total Supporting Expenses	Total
	Financial Assistance Program	Mental Health and Addiction Recovery	Natural Disaster Relief	COVID-19 Relief Fund	The Day That Music Cares		Person of the Year Dinner/ Auction	General Fundraising	Administration	Other Fundraising Auctions	Music on a Mission		
Event expenses	\$ -	\$ 46	\$ -	\$ -	\$ -	\$ 46	\$ 3,082,870	\$ 96,499	\$ 963	\$ 4,000	\$ -	\$ 3,184,332	\$ 3,184,378
Financial grants and assistance	5,283,658	888,522	287,741	186,785	-	6,646,706	-	-	500	-	-	500	6,647,206
Professional fees	207,925	172,569	7,068	6,231	-	393,793	315,973	278,502	358,652	65,856	11,177	1,030,160	1,423,953
Salaries and benefits	891,334	565,744	33,227	36,374	-	1,526,679	407,870	610,313	596,436	46,158	44,369	1,705,146	3,231,825
Administration	148,902	63,963	3,762	3,453	-	220,080	317,785	123,639	373,067	4,868	20,707	840,066	1,060,146
Depreciation	-	-	-	-	-	-	-	-	1,263	-	-	1,263	1,263
Travel and entertainment	6,708	22,297	5	6	-	29,016	315,242	20,657	13,041	9	83	349,032	378,048
Computer, video, and other expenses	55,250	27,882	1,856	1,681	-	86,669	45,413	33,218	50,643	2,154	17,461	148,889	235,558
Total	<u>\$ 6,593,777</u>	<u>\$ 1,741,023</u>	<u>\$ 333,659</u>	<u>\$ 234,530</u>	<u>\$ -</u>	<u>\$ 8,902,989</u>	<u>\$ 4,485,153</u>	<u>\$ 1,162,828</u>	<u>\$ 1,394,565</u>	<u>\$ 123,045</u>	<u>\$ 93,797</u>	<u>\$ 7,259,388</u>	<u>\$ 16,162,377</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 3,308,250	\$ (3,818,618)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	10,788	1,263
Net unrealized (gain) loss on investments	(751,696)	4,519,288
Net realized loss (gain) on investments	1,159,153	(56,212)
Contributed securities	(11,937)	-
Proceeds from sale of contributed securities	11,586	-
Changes in operating assets and liabilities:		
Receivables	(1,384,679)	(146,571)
Receivable from GRAMMY Museum	(142)	(1,072)
Receivable from The Latin Recording Academy	(406)	-
Prepaid expenses and other current assets	85,324	(229,225)
Accounts payable and accrued liabilities	(25,913)	(121,311)
Deferred revenue	(524,352)	279,959
Payable to The Recording Academy	(5,045)	11,857
	<u>1,870,931</u>	<u>439,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(7,282,188)	(3,041,837)
Proceeds from sales and maturities of investments	<u>5,885,702</u>	<u>1,409,415</u>
	<u>(1,396,486)</u>	<u>(1,632,422)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	474,445	(1,193,064)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>3,933,812</u>	<u>5,126,876</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 4,408,257</u>	<u>\$ 3,933,812</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—		
In-kind donations (Note 9)	<u>\$ 830,294</u>	<u>\$ 442,198</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JULY 31, 2023 AND 2022

1. ORGANIZATION

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

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. MusiCares Foundation and The Recording Academy established the COVID-19 Relief Fund on March 17, 2020, in response to the cancellation of many live music events and festivals. The fund was intended to help the music community during this crisis with financial aid of \$1,000 per grantee and additional support was provided as needed. MusiCares Foundation closed out the COVID-19 Relief Fund as of July 31, 2022, and does not expect to raise additional funds nor distribute additional grants for the COVID-19 Relief Fund. Refer to Note 7 for current and prior-period activity.

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 that is subject to tax. MusiCares Foundation holds public charity status pursuant to IRC Section 509(a)(1) and IRC Section 170(b)(1)(A)(vi).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The financial statements of MusiCares Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require MusiCares Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions—Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of MusiCares Foundation’s management and the board of directors (the “Board”).

Net Assets with Donor Restrictions—Net assets are subject to stipulations imposed by donors and grantors. Contributions initially recorded as net assets with donor restrictions are reclassified to net assets without donor restrictions when restrictions have been met. Contributions whose restrictions are met in the same year as the contributions are made are initially classified as net assets with donor restrictions and reclassified to net assets without donor restrictions in the same year. There are no net assets with restrictions that are required to be maintained in perpetuity.

Board-Designated Investments—MusiCares Foundation’s Board-designated investments maintain a reserve for operational funding. The Board-designated investments may be used for any expenses related to the purpose of MusiCares Foundation upon approval by the Board in accordance with MusiCares Foundation’s investment policy. As specified by the Board, the earnings on the Board-designated investments remain as part of the Board-designated investments.

Management and the Board of MusiCares Foundation established investment policies, return objectives, and risk parameters, as well as determined how those objectives relate to the spending policy and the strategies employed for achieving those objectives when the funds are received.

Activity in the Board-designated investments for the years ended July 31, 2023 and 2022, were as follows:

	2023	2022
Balance—beginning of year	\$ 22,565,714	\$ 25,396,368
Investment earnings (losses)—net	<u>989,380</u>	<u>(2,830,654)</u>
Balance—end of year	<u>\$ 23,555,094</u>	<u>\$ 22,565,714</u>

Use of Estimates—The preparation of financial statements in conformity with U.S. 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. Throughout the year, MusiCares Foundation maintains amounts on deposit at financial institutions that exceed federally insured limits; as of July 31, 2023 and 2022, such amounts totaled \$4,158,257 and \$3,683,812, respectively. MusiCares Foundation has not experienced any losses as a result of these deposits and does not expect to incur any losses in the future.

Depreciation and Amortization—Depreciation and amortization of property are provided for over the estimated useful lives of the assets on a straight-line basis. Acquisitions greater than \$5,000 are capitalized. The estimated useful lives are as follows:

Furniture and fixtures	7 years
Office equipment	5 years
Computer equipment	3 years

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 the specific costs of acquisitions 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 risks. 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 and 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 winners.

Support and Revenue—Revenues consist mainly of funds received related to the Person of the Year Dinner/Auction, contributions and grants, and other fund-raising auctions. Person of the Year Dinner/Auction sales are recognized when the events take place or auction lots are delivered. Contributions and grants are recognized at the time the donation is made by the donor. Other fund-raising auction revenue is recognized at the time the goods and/or services are provided to the auction winners.

Person of the Year Dinner/Auction—The MusiCares Person of the Year is an award presented annually by MusiCares Foundation, to commend musicians for their artistic achievement in the music industry and dedication to philanthropy. The Person of the Year Dinner and concert experience raises funds for MusiCares Foundation’s vital programs and relief efforts and takes place prior to the Annual GRAMMY Awards. MusiCares Foundation recognizes revenue from ticket sales for the Person of the Year Dinner/Auction at the time of the event/auction. For the year ended July 31, 2023, Berry Gordy and Smokey Robinson were honored and the event/auction raised \$7,688,256 through sales and sponsorships and \$471,646 of in-kind donations (refer to Note 9). For the year ended July 31, 2022, Joni Mitchell was honored and the event/auction raised \$6,716,840 through sales and sponsorships and \$145,735 of in-kind donations (refer to Note 9).

Contributions and Grants—Conditional contributions or intentions to give are not recognized until they become unconditional, that is, when the conditions on which they depend are met. Conditional amounts received in advance are reported as deferred revenue in the statements of financial position. Contributions that are unconditional, including funds from The Recording Academy, are recognized in the period they are received. MusiCares Foundation has no conditional contributions as of July 31, 2023 and 2022.

COVID-19 Relief Fund—MusiCares Foundation established the COVID-19 Relief Fund to help the music community affected by the COVID-19 pandemic. Initial grant requests could be made up to \$1,000 to compensate for canceled work that was scheduled and lost. For the years ended July 31, 2023 and 2022, MusiCares Foundation recognized \$0 and \$123,347, respectively, as COVID-19 Relief Fund contributions with donor restrictions in the statements of activities.

In-Kind Donations—Contributed goods are reflected in the statements of activities at their fair values. Contributed services are also reflected in the statements of activities at the fair values of the services received if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided. In-kind donations are recognized on the date of donation for the contributed goods and over the course of the service period for contributed services provided. For the years ended July 31, 2023 and 2022, MusiCares Foundation recognized \$830,294 and \$442,198, respectively, in contributed goods and services, which are reflected in in-kind donations in the statements of activities (refer to Note 9).

Other Fundraising Auctions—Other fund-raising auction sales include one-of-a-kind memorabilia and experiences. Revenue is recognized at fair value at the time the goods are delivered or experiences are fulfilled. For the years ended July 31, 2023 and 2022, MusiCares Foundation recognized \$947,480 and \$803,299, respectively, in sales and contributions to other fund-raising auctions.

Functional Expenses—The costs of providing program and other activities have been summarized in the statements of functional expenses. Accordingly, certain costs have been allocated among program and supporting services expenses. Such allocations are determined by management on an equitable basis based on time and effort.

Income Taxes—MusiCares Foundation accounts for income taxes in accordance with 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, 2023 and 2022, MusiCares Foundation did not record any liability for unrecognized tax benefits.

Financial Instruments—Financial instruments consist of cash equivalents, receivables, investments, accounts payable and accrued liabilities, and payables to The Recording Academy, GRAMMY Museum, and The Latin Academy of Recording Arts & Sciences (“The Latin Recording Academy”). Assets and liabilities, other than investments, are stated at cost, which closely approximates their carrying values 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 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, and similar expenses. Payments 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.

MusiCares Foundation is, from time to time, the subject of litigation, claims, and assessments arising out of matters occurring in its normal business operations. In the opinion of management, resolution of these matters will not have a material adverse effect on MusiCares Foundation’s financial position or changes in net assets.

Recently Adopted Accounting Pronouncements—On August 1, 2022, MusiCares Foundation adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and related subsequent amendments (collectively, “ASC 842”). ASC 842 establishes a right-of-use (ROU) model that requires a lessee to record ROU asset and a lease liability in the statements of financial position for all leases with terms longer than 12 months and also expands disclosure requirements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. MusiCares Foundation adopted ASC 842 on August 1, 2022, using the Comparative Under 840 Option and elected not to recast the prior year. Financial information related to periods prior to adoption are as originally reported under ASC 840, *Leases*. For adoption, MusiCares Foundation elected the package of three practical expedients permitted under the transition guidance, which eliminates the requirement to reassess whether a contract contains a lease, lease classification of any expired or existing leases, and initial direct cost of any existing leases. MusiCares Foundation has also made accounting policy elections, including a short-term lease exception policy permitting MusiCares Foundation to not apply the recognition requirements of this standard to short-term leases (i.e., leases with expected terms of 12 months or less). There were no lessee arrangements that required MusiCares Foundation to record a ROU asset or lease liability as of August 1, 2022, or July 31, 2023. The adoption of ASC 842 had no impact on MusiCares Foundation’s financial statements.

New Accounting Pronouncements—In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which, as amended, changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities, and loans, from the incurred loss methodology under current U.S. GAAP to a new, forward-looking current expected credit loss model that would generally result in the earlier recognition of credit losses. This guidance is effective for MusiCares Foundation’s fiscal year ending July 31, 2024. Adoption of this update will be applied using a modified retrospective approach through a cumulative-effect adjustment to net assets as of the effective date to align its credit loss methodology with the new update. MusiCares Foundation does not expect the adoption of this guidance to have a material impact on its financial statements.

Restatement— Subsequent to the issuance of the MusiCares Foundation’s 2022 financial statements, the MusiCares Foundation’s management determined that \$12.0M of board-designated assets without donor restrictions were incorrectly classified as general assets without donor restrictions. As a result, the MusiCares Foundation has restated the accompanying financial statements as of and for the year ended July 31, 2022 from amounts previously reported to present the assets as board-designated assets. A summary of the effects of the restatement are presented in the following table. Additionally, the applicable disclosures in Note 3 have been restated to reflect the corrected 2022 net assets without donor restrictions amounts that is to be included in financial assets available within one year for general expenditure. Management does not believe this disclosure misstatement is material to the previously issued financial statements.

Statement of Financial Position	As Reported 2022	Correction	As Restated 2022
Net assets (Note 2):			
Net assets without donor restrictions:			
General	\$ 15,246,408	\$ (11,958,598)	\$ 3,287,810
Board-designated	<u>10,607,116</u>	<u>11,958,598</u>	<u>22,565,714</u>
Total net assets without donor restrictions	25,853,524	-	25,853,524
Net assets with donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ 25,853,524</u>	<u>\$ -</u>	<u>\$ 25,853,524</u>

3. AVAILABILITY AND LIQUIDITY

The following represents MusiCares Foundation’s financial assets available within one year for general expenditure at July 31, 2023 and 2022:

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	\$ 4,408,257	\$ 3,933,812
Receivables	<u>1,803,685</u>	<u>419,288</u>
Total financial assets	<u>\$ 6,211,942</u>	<u>\$ 4,353,100</u>

MusiCares Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of its liquidity plan, excess cash is invested in short-term investments.

In addition to financial assets available to meet general expenditures over the next 12 months, MusiCares Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Anticipated ongoing revenue includes, but is not limited to, event sales, sponsorships, auction proceeds, and contributions, as well as significant annual support from The Recording Academy, including \$2,375,000, over the next 12 months. Affiliate contributions are recognized at the time they are received.

As a fund-raising organization, MusiCares Foundation receives significant contributions each year from donors, which are available for current programmatic and operating expenditures. Therefore, no Board-designated funds were appropriated in 2023 and 2022. However, all Board-designated funds can be made available to meet operating needs, if necessary.

4. INVESTMENTS

Investments as of July 31, 2023 and 2022, are maintained in mutual funds that primarily invest in equity, fixed-income, and alternative investments.

MusiCares Foundation presents its investments in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures* ("FASB ASC 820"). FASB ASC 820 requires classifying holdings as Level 1, Level 2, or Level 3 in a fair value hierarchy 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, which will be invested based on MusiCares Foundation's investment strategy. Cash equivalents are included 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.

MusiCares Foundation does not hold any investments 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.

Alternative Investments—Alternative investments are valued based upon the net asset value (NAV) per share (or its equivalent) of the funds, as provided by MusiCares Foundation's investment managers. The NAV amounts are based on the fair values of the funds' various underlying investments, which are computed using limited quantitative and qualitative observations of activity for similar companies in the current market.

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 fair values of mutual funds included in Level 1 are determined by obtaining quoted prices on nationally recognized securities exchanges.

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.

If significant inputs used to measure the fair value of any investment fall into different levels of the fair value hierarchy, that investment is included in the lowest level that relates to any such input.

As of July 31, 2023, based on the fair value hierarchy outlined in FASB ASC 820, MusiCares Foundation's holdings are as follows:

	Fair Value Measurements— July 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	NAV as Practical Expedient
Total cash equivalents	<u>\$ 143,075</u>	<u>\$ 143,075</u>	<u>\$ -</u>
Investments—mutual funds:			
US equity funds	\$ 9,984,424	\$ 9,984,424	\$ -
Global equity funds	4,595,510	4,595,510	-
US fixed-income bond funds	6,731,161	6,731,161	-
Global fixed-income bond funds	443,354	443,354	-
Investments—alternatives:			
Private credit funds	898,393	-	898,393
Private equity funds	417,267	-	417,267
Hedge funds	236,036	-	236,036
Real estate income trusts	<u>248,949</u>	<u>-</u>	<u>248,949</u>
Total investments	<u>\$ 23,555,094</u>	<u>\$ 21,754,449</u>	<u>\$ 1,800,645</u>

As of July 31, 2022, based on the fair value hierarchy outlined in FASB ASC 820, MusiCares Foundation's holdings are as follows:

	Fair Value Measurements— July 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)
Total cash equivalents	<u>\$ 106,588</u>	<u>\$ 106,588</u>
Investments—mutual funds:		
US equity funds	\$ 9,776,509	\$ 9,776,509
Global equity funds	4,575,247	4,575,247
US fixed-income bond funds	7,755,076	7,755,076
Global fixed-income bond funds	<u>458,882</u>	<u>458,882</u>
Total investments	<u>\$ 22,565,714</u>	<u>\$ 22,565,714</u>

Transfers between levels of the fair value hierarchy 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 of the fair value hierarchy during 2023 or 2022.

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

5. AFFILIATED ENTITY TRANSACTIONS

The Recording Academy was organized in 1957 to advance the arts and sciences of recording and to foster creative leadership for artistic, cultural, educational, and technical progress in the recording field. A primary activity of The Recording Academy is the recognition of outstanding creative and technical achievements in the recording arts of those deemed to be most worthy by their peers through the annual presentation of the GRAMMY Awards.

Grammy Global Ventures was organized in 2022 by The Recording Academy to license its trademark and intellectual property.

The Recording Academy, with the collaboration and financial support of Anschutz Entertainment Group, created The GRAMMY Museum. The GRAMMY Museum operates the museum, which opened in December 2008.

The Latin Recording Academy was organized in 1997 by The Recording Academy to advance the arts and sciences of recording and to foster creative leadership for artistic, cultural, educational, and technical progress in the recording field of Latin music.

In 2023, MusiCares Foundation received cash and noncash contributions from The Recording Academy Grammy Global Ventures, and The Latin Recording Academy amounting to \$3,852,608, \$105,000, and \$57,000, respectively. In 2022, MusiCares Foundation received cash and noncash contributions from The Recording Academy, The GRAMMY Museum, and The Latin Recording Academy amounting to \$3,515,030, \$49,500, and \$10,500, respectively. Contributions received from Grammy Global Ventures, The Latin Recording Academy, and GRAMMY Museum are general cash contributions related to the Person of the Year Dinner/Auction. The details about the contributions received from The Recording Academy are described below:

	2023	2022
Cash contributions—general cash contributions:		
Contributions	\$ 2,504,365	\$ 2,500,000
Musicians Assistance Program Fund (program)	31,364	20,476
Person of the Year Dinner/Auction	<u>960,500</u>	<u>698,091</u>
Total cash contributions	<u>3,496,229</u>	<u>3,218,567</u>
Noncash contributions:		
Discounted rent	324,879	268,463
GRAMMY show tickets	<u>31,500</u>	<u>28,000</u>
Total noncash contributions	<u>356,379</u>	<u>296,463</u>
Total cash and noncash contributions	<u>\$ 3,852,608</u>	<u>\$ 3,515,030</u>

Total contributions from The Recording Academy provided for approximately 19% and 28% of total support and revenue in 2023 and 2022, respectively. Program-related contributions are shown as net assets with donor restrictions for the specific programs included 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 unconditional cash contribution payment of \$2,375,000 to MusiCares Foundation for the fiscal year ending July 31, 2024. This contribution is subject to approval by the Board of Trustees of The Recording Academy and will be recorded by MusiCares Foundation 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 \$1,044,129 and \$1,270,042 in 2023 and 2022, respectively. Details about the operating expenses are as follows:

	2023	2022
Salaries and benefits	\$ 205,323	\$ 426,688
Rent expense	324,879	268,463
Other operating expenses (shared services)	<u>513,927</u>	<u>574,891</u>
Total expenses billed by The Recording Academy	<u>\$ 1,044,129</u>	<u>\$ 1,270,042</u>

MusiCares Foundation billed certain affiliated entities during 2023 for the face value of tickets for events. The face value of the tickets purchased by The GRAMMY Museum, The Latin Recording Academy and Grammy Global Ventures, and The Recording Academy for the years July 31, 2023 and 2022, is as follows:

	2023	2022
The GRAMMY Museum	\$ -	\$ 55,500
The Latin Recording Academy	75,000	12,500
Grammy Global Ventures	118,500	-
The Recording Academy	1,104,500	809,500

MusiCares Foundation was billed \$13,500 and \$12,000 for the face value of tickets for the annual GRAMMY Awards telecast in 2023 and 2022, respectively.

6. BENEFIT PLANS

401(k) Plan—Eligible employees working for MusiCares Foundation who qualify as to age and length of service, participate in a multiemployer 401(k) plan sponsored by The Recording Academy. Each year, participants of the plan may elect to contribute a percentage of their wages, subject to Internal Revenue Service (IRS) limitations. MusiCares Foundation matched its employees' elective deferral contributions up to the IRS maximum by a match of 50% and 50% for 2023 and 2022, respectively. During the years ended July 31, 2023 and 2022, MusiCares Foundation's matching contribution was \$103,559 and \$94,341, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. No discretionary match was made in 2023 or 2022.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of July 31, 2023 and 2022, are restricted for the following purpose:

	2023	2022
Natural Disaster Fund (formerly Hurricane/Flood Relief)	\$ 3,000	\$ -
Humans of Hip Hop program	<u>480,549</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 483,549</u>	<u>\$ -</u>

During the fiscal years ended July 31, 2023 and 2022, MusiCares Foundation incurred expenses that satisfied the restricted purposes and time specified by donors. The net assets released from net assets with donor restrictions during the fiscal years ended July 31, 2023 and 2022, are as follows:

	2023	2022
Purpose/time restrictions accomplished:		
MAP Fund	\$ 76,635	\$ 132,791
Financial assistance program	33,394	74,456
Natural Disaster Fund (formerly Hurricane/Flood Relief)	-	332,561
COVID-19 Relief Fund	-	123,347
Humans of Hip Hop program	<u>69,451</u>	<u>-</u>
Total net assets released from purpose/time restrictions	<u>\$ 179,480</u>	<u>\$ 663,155</u>

On March 17, 2020, MusiCares Foundation and The Recording Academy established the COVID-19 Relief Fund. Contributions received as part of the COVID-19 Relief Fund included \$1,004,000 from The Recording Academy. These donor-restricted contributions totaled \$0 and \$123,347 for the years ended July 31, 2023 and 2022, respectively. The satisfaction of these donor-restricted funds totaled \$0 and \$123,347 for the years ended July 31, 2023 and 2022, respectively.

In 2021, Hurricane Ida devastated communities in Louisiana, New Jersey, and New York. MusiCares Foundation worked quickly to provide disaster relief to those impacted. Assistance includes coverage of basic living expenses, such as shelter, food, utilities, and transportation; medical expenses, clothing, music instrument, and recording equipment replacement, relocation costs, home repairs, and more. These donor-restricted contributions totaled \$0 and \$300,150 for the years ended July 31, 2023 and 2022, respectively. The satisfaction of these donor-restricted funds totaled \$0 and \$332,561 for the years ended July 31, 2023 and 2022, respectively.

In June 2023, MusiCares Foundation established the Humans of Hip Hop program directed at providing resources tailored to the needs of the hip hop community nationwide. These donor-restricted contributions totaled \$550,000 for the year ended July 31, 2023. The satisfaction of these donor-restricted funds totaled \$69,451 for the year ended July 31, 2023.

8. PROPERTY—NET

Property as of July 31, 2023 and 2022, consisted of the following:

	2023	2022
Office equipment	\$ 909	\$ 909
Computer equipment and software	269,079	269,079
Furniture and fixtures	<u>104,096</u>	<u>104,096</u>
Total property	374,084	374,084
Accumulated depreciation	<u>(311,614)</u>	<u>(300,826)</u>
Property—net	<u>\$ 62,470</u>	<u>\$ 73,258</u>

Depreciation expenses amounted to \$10,788 and \$1,263 in 2023 and 2022, respectively.

There were no gains or losses on disposal of property during the years ended July 31, 2023 and 2022.

9. IN-KIND DONATIONS

For the years ended July 31, 2023 and 2022, MusiCares Foundation received the following contributions of nonfinancial assets:

	2023	2022
Person of the Year:		
Airfare	\$ 150,000	\$ 75,000
Equipment rental	181,420	53,915
Advertising	71,000	-
Catering	51,316	16,320
Merchandise and supplies	16,410	-
Other professional services	1,500	-
Event coordinator	<u>-</u>	<u>500</u>
Total Person of the Year	<u>471,646</u>	<u>145,735</u>
House Concerts:		
Equipment rental	1,894	-
Catering	<u>375</u>	<u>-</u>
Total House Concerts	<u>2,269</u>	<u>-</u>
Contributions from The Recording Academy:		
Discounted rent	324,879	268,463
GRAMMY show tickets	<u>31,500</u>	<u>28,000</u>
Total contributions from The Recording Academy	<u>356,379</u>	<u>296,463</u>
Total in-kind donations	<u>\$ 830,294</u>	<u>\$ 442,198</u>

Donated goods or services related to the Person of the Year Dinner/Auction event are made as contributions or in exchange for event tickets, tables, and sponsorships and are recognized when the event takes place. These contributed goods or services were used in hosting the event and have an estimated fair value of \$471,646 and \$145,735 in 2023 and 2022, respectively.

Donated goods or services related to House Concerts were made as contributions and were recognized when the event took place. These contributed goods or services include audio equipment and beverages.

In-kind donations from The Recording Academy relate to discounts on rental expenses and event tickets, contributed in the amounts of \$356,379 and \$296,463 for the years ended July 31, 2023 and 2022, respectively. GRAMMY Awards tickets are directly sold or sold at auction to raise money for MusiCares Foundation.

10. SUBSEQUENT EVENTS

MusiCares Foundation has evaluated subsequent events through January 24, 2024, the date the financial statements were available to be issued. No events or transactions occurred subsequent to July 31, 2023, that would require adjustment to, or disclosure in the financial statements.

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