

# MusiCares Foundation, Inc.

Financial Statements as of and for the  
Years Ended July 31, 2018 and 2017, and  
Independent Auditors' Report

# **MUSICARES FOUNDATION, INC.**

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## **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, 2018 and 2017, 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 audits 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, 2018 and 2017, 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*

March 8, 2021

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2018 AND 2017

	2018	2017
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,691,295	\$ 3,840,972
Board-designated 20th Anniversary Campaign cash and cash equivalents (Note 8)	<u>440,469</u>	<u>350</u>
Total cash and cash equivalents	2,131,764	3,841,322
Receivables from The NARAS Foundation	179,222	174,222
Receivables from GRAMMY Museum	93,582	55,867
20th Anniversary Campaign pledges receivable (Note 7)	-	83,000
Other receivables	275,771	355,843
Investments (Note 3)	21,356,601	20,582,500
Prepaid expenses and other current assets	<u>117,404</u>	<u>96,903</u>
Total current assets	24,154,344	25,189,657
PROPERTY (Note 9)	<u>139,300</u>	<u>162,535</u>
TOTAL	<u>\$24,293,644</u>	<u>\$25,352,192</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 377,256	\$ 531,121
Deferred revenue	79,195	136,369
Payable to The Recording Academy	<u>889,697</u>	<u>236,907</u>
Total current liabilities	<u>1,346,148</u>	<u>904,397</u>
COMMITMENTS AND CONTINGENCIES (Note 2)		
NET ASSETS (Note 2):		
Unrestricted net assets:		
General	12,350,564	13,799,697
Board-designated 20th Anniversary Campaign (Notes 7 and 8)	<u>10,569,442</u>	<u>10,565,098</u>
Total unrestricted net assets	22,920,006	24,364,795
Temporarily restricted net assets:		
Purpose restricted (Note 6)	27,490	-
Time restricted—20th Anniversary Campaign (Notes 7 and 8)	<u>-</u>	<u>83,000</u>
Total net assets	<u>22,947,496</u>	<u>24,447,795</u>
TOTAL	<u>\$24,293,644</u>	<u>\$25,352,192</u>

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JULY 31, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted Purpose	Time	Total	Unrestricted	Temporarily Restricted Purpose	Time	Total
SUPPORT AND REVENUE:								
Person of the Year Dinner/Auction	\$ 7,968,286	\$ -	\$ -	\$ 7,968,286	\$13,890,001	\$ -	\$ -	\$13,890,001
Contributions from The Recording Academy (Note 4)	2,956,083	118,699	-	3,074,782	2,610,685	108,439	-	2,719,124
20th Anniversary Campaign (Note 8)	-	-	-	-	120,000	-	-	120,000
Concert for Recovery (formerly MAP Benefit Concert)	-	374,719	-	374,719	-	449,362	-	449,362
Natural Disaster Fund (formerly Hurricane/Flood Relief)	-	861,621	-	861,621	-	9,148	-	9,148
Other fund-raising auctions	429,481	-	-	429,481	260,431	-	-	260,431
Other income—net	1,398,198	99,683	-	1,497,881	1,818,974	510,646	-	2,329,620
Interest and dividend income	1,146,531	-	-	1,146,531	880,179	-	-	880,179
Unrealized gain on investments—net	83,832	-	-	83,832	810,020	-	-	810,020
Realized gain on investments—net	32,933	-	-	32,933	65,253	-	-	65,253
Total support and revenue	<u>14,015,344</u>	<u>1,454,722</u>	<u>-</u>	<u>15,470,066</u>	<u>20,455,543</u>	<u>1,077,595</u>	<u>-</u>	<u>21,533,138</u>
NET ASSETS RELEASED FROM RESTRICTIONS								
(Note 6)—Satisfaction of purpose/time restrictions	<u>1,510,232</u>	<u>(1,427,232)</u>	<u>(83,000)</u>	<u>-</u>	<u>1,183,135</u>	<u>(1,077,595)</u>	<u>(105,540)</u>	<u>-</u>
PROGRAM SERVICES AND SUPPORTING EXPENSES:								
Program services:								
Financial assistance program	5,792,861	-	-	5,792,861	6,301,079	-	-	6,301,079
MAP Fund	2,022,849	-	-	2,022,849	1,733,231	-	-	1,733,231
Hurricane Relief/Flood Relief	<u>834,132</u>	<u>-</u>	<u>-</u>	<u>834,132</u>	<u>84,465</u>	<u>-</u>	<u>-</u>	<u>84,465</u>
Total program services	<u>8,649,842</u>	<u>-</u>	<u>-</u>	<u>8,649,842</u>	<u>8,118,775</u>	<u>-</u>	<u>-</u>	<u>8,118,775</u>

(Continued)

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted Purpose	Temporarily Restricted Time	Total	Unrestricted	Temporarily Restricted Purpose	Temporarily Restricted Time	Total
Supporting expenses:								
Person of the Year Dinner/Auction	\$ 6,032,806	\$ -	\$ -	\$ 6,032,806	\$ 8,890,681	\$ -	\$ -	\$ 8,890,681
General fund-raising	270,586	-	-	270,586	454,328	-	-	454,328
Administration	1,327,747	-	-	1,327,747	870,812	-	-	870,812
20th Anniversary Campaign	88,258	-	-	88,258	18,421	-	-	18,421
Other fund-raising auctions	318,516	-	-	318,516	244,949	-	-	244,949
MAP Benefit Concert	<u>282,610</u>	<u>-</u>	<u>-</u>	<u>282,610</u>	<u>502,472</u>	<u>-</u>	<u>-</u>	<u>502,472</u>
Total supporting expenses	<u>8,320,523</u>	<u>-</u>	<u>-</u>	<u>8,320,523</u>	<u>10,981,663</u>	<u>-</u>	<u>-</u>	<u>10,981,663</u>
Total program services and supporting expenses	<u>16,970,365</u>	<u>-</u>	<u>-</u>	<u>16,970,365</u>	<u>19,100,438</u>	<u>-</u>	<u>-</u>	<u>19,100,438</u>
(DECREASE) INCREASE IN NET ASSETS	(1,444,789)	27,490	(83,000)	(1,500,299)	2,538,240	-	(105,540)	2,432,700
NET ASSETS:								
Beginning of year	<u>24,364,795</u>	<u>-</u>	<u>83,000</u>	<u>24,447,795</u>	<u>21,826,555</u>	<u>-</u>	<u>188,540</u>	<u>22,015,095</u>
End of year	<u>\$22,920,006</u>	<u>\$ 27,490</u>	<u>\$ -</u>	<u>\$22,947,496</u>	<u>\$24,364,795</u>	<u>\$ -</u>	<u>\$ 83,000</u>	<u>\$24,447,795</u>

See notes to financial statements.

(Concluded)

# MUSICARES FOUNDATION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2018

	Program Services				Supporting Services							
	Financial Assistance Program	MAP Fund	Hurricane Relief/ Flood Relief	Total Program Services	Person of the Year Dinner/ Auction	General Fund-raising	Administration	20th Anniversary Campaign	Other Fund-raising Auctions	MAP Benefit Concert	Total Supporting Expenses	Total
Event expenses	\$ 3,461	\$ 11,096	\$ -	\$ 14,557	\$ 4,729,983	\$ 65,814	\$ 1,070	\$ -	\$ 42,842	\$ 72,622	\$ 4,912,331	\$ 4,926,888
Financial grants and assistance	4,290,448	1,459,598	777,487	6,527,533	-	-	1,000	-	-	-	1,000	6,528,533
Professional fees	172,007	87,485	2,280	261,772	284,405	32,672	453,466	5,258	116,295	31,521	923,617	1,185,389
Salaries and benefits	960,389	343,402	51,134	1,354,925	323,194	55,659	591,660	-	81,041	87,670	1,139,224	2,494,149
Administration	192,368	47,048	3,009	242,425	409,698	46,089	248,761	83,000	53,888	58,721	900,157	1,142,582
Depreciation	41,563	22,381	-	63,944	-	-	4,225	-	-	-	4,225	68,169
Travel and entertainment	105,340	45,301	-	150,641	272,582	16,239	15,615	-	18,778	29,601	352,815	503,456
Computer, video, and other expenses	27,285	6,538	222	34,045	12,944	54,113	11,950	-	5,672	2,475	87,154	121,199
Total	<u>\$ 5,792,861</u>	<u>\$ 2,022,849</u>	<u>\$ 834,132</u>	<u>\$ 8,649,842</u>	<u>\$ 6,032,806</u>	<u>\$ 270,586</u>	<u>\$ 1,327,747</u>	<u>\$ 88,258</u>	<u>\$ 318,516</u>	<u>\$ 282,610</u>	<u>\$ 8,320,523</u>	<u>\$ 16,970,365</u>

See notes to financial statements.



# MUSICARES FOUNDATION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2017

	Program Services				Supporting Services							
	Financial Assistance Program	MAP Fund	Hurricane Relief/ Flood Relief	Total Program Services	Person of the Year Dinner/ Auction	General Fund-raising	Administration	20th Anniversary Campaign	Other Fund-raising Auctions	MAP Benefit Concert	Total Supporting Expenses	Total
Event expenses	\$ 88,588	\$ 12,557	\$ -	\$ 101,145	\$7,907,391	\$ 29,498	\$ 2,346	\$ -	\$ 5,816	\$225,572	\$ 8,170,623	\$ 8,271,768
Financial grants and assistance	4,640,672	1,199,238	87,461	5,927,371	6,500	-	8,710	-	-	-	15,210	5,942,581
Professional fees	151,347	76,365	(3,313)	224,399	224,160	52,639	129,176	945	88,755	42,458	538,133	762,532
Salaries and benefits	999,455	322,884	175	1,322,514	236,333	267,948	428,097	10,224	81,790	81,039	1,105,431	2,427,945
Administration	224,678	53,485	130	278,293	275,415	73,902	261,910	7,158	52,176	102,957	773,518	1,051,811
Depreciation	30,962	16,672	-	47,634	-	-	-	-	-	-	-	47,634
Travel and entertainment	122,419	47,601	-	170,020	188,791	1,486	28,395	-	13,458	44,294	276,424	446,444
Computer, video, and other expenses	<u>42,958</u>	<u>4,429</u>	<u>12</u>	<u>47,399</u>	<u>52,091</u>	<u>28,855</u>	<u>12,178</u>	<u>94</u>	<u>2,954</u>	<u>6,152</u>	<u>102,324</u>	<u>149,723</u>
Total	<u>\$6,301,079</u>	<u>\$1,733,231</u>	<u>\$84,465</u>	<u>\$8,118,775</u>	<u>\$8,890,681</u>	<u>\$454,328</u>	<u>\$ 870,812</u>	<u>\$ 18,421</u>	<u>\$244,949</u>	<u>\$502,472</u>	<u>\$10,981,663</u>	<u>\$19,100,438</u>

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) Increase in net assets	\$ (1,500,299)	\$ 2,432,700
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation	68,169	47,634
Net unrealized gain on investments	(83,832)	(810,020)
Net realized gain on investments	(32,933)	(65,253)
Loss on disposal of equipment	-	25,000
Changes in operating assets and liabilities:		
Receivables from The NARAS Foundation	(5,000)	300,640
Receivables from GRAMMY Museum	(37,715)	(55,867)
Payable to The Recording Academy	652,790	13,528
20th Anniversary Campaign pledges receivable	83,000	105,540
Other receivables	80,072	(254,547)
Prepaid expenses and other current assets	(20,501)	(27,643)
Accounts payable and accrued liabilities	(153,865)	(117,363)
Deferred revenue	(57,174)	64,369
Net cash (used in) provided by operating activities	(1,007,288)	1,658,718
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,889,243)	(2,691,143)
Proceeds from sales and maturities of investments	1,231,907	1,315,897
Purchases of property	(44,934)	(156,858)
Net cash used in investing activities	(702,270)	(1,532,104)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,709,558)	126,614
CASH AND CASH EQUIVALENTS—Beginning of year	3,841,322	3,714,708
CASH AND CASH EQUIVALENTS—End of year	\$ 2,131,764	\$ 3,841,322
SUPPLEMENTAL CASH FLOW INFORMATION—		
In-Kind donations (Note 2)	\$ 1,117,330	\$ -

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JULY 31, 2018 AND 2017

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### 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 music people in need and focus music industry resources on human service issues that directly affect the health and welfare of the musician community. MusiCares Foundation provides financial assistance grants and addiction recovery services. MusiCares Foundation, along with The GRAMMY Museum Foundation and The NARAS Foundation ("The GRAMMY Foundation"), a related party, support the charitable goals of The Recording Academy.

The GRAMMY Foundation was organized in 1987 by The Recording Academy to cultivate the understanding, appreciation, and advancement of the contribution of recorded music on American culture—from the artistic and technical legends of the past to the still unimagined musical breakthroughs of future generations of music professionals. Effective March 27, 2017, The GRAMMY Foundation ceased operations and contributed its remaining net assets to GRAMMY Museum Foundation, Inc. ("GRAMMY Museum") to be used for educational programs and the Music Educator Award.

**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 a nonprivate foundation status pursuant to IRC Section 509(a)(1) and 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 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 revenue 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, 2018 and 2017, such amounts totaled \$1,441,295 and \$3,840,972, 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.

**Net Assets**—All revenue 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 contributions are made are initially classified as temporarily restricted net assets and reclassified to unrestricted net assets in the same year.

**Sponsorships**—Certain services received in exchange for the right for affiliation with the MusiCares Foundation trademarks and official programs are included in Person of the Year Dinner/Auction, Concert for Recovery (formerly MAP Benefit Concert), and Other Income, net. In 2017, 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. Sponsorships received were estimated to have a fair value of \$75,000 in 2017. There were no such sponsorships in 2018.

**In-Kind Donations**—In-kind donations relate to goods and services that are donated by vendors and given to MusiCares Foundation Person of the Year participants or used for other fund-raising and program purposes. Donated goods and services received in 2018 were estimated to have a fair value of \$835,767 and were included in Person of the Year Dinner/Auction revenue. Donated goods and services received in 2017 were estimated to have a fair value of \$5,610,115 and were included in Person of the Year Dinner/Auction revenue of \$5,603,685, MAP Benefit Concert revenue of \$4,512, and fund-raising revenue of \$1,918.

In-kind donations from The Recording Academy relate to discounts on rental expenses and event tickets contributed in the amounts of \$281,563 and \$295,187 for the years ended July 31, 2018 and 2017, respectively (see Note 4).

Contributed goods and services are reported as contributions at their fair values if such goods and services create or enhance nonfinancial assets, would have been purchased if not provided by contribution or requiring 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 promises are 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**—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, 2018 and 2017, 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, accounts payable and accrued liabilities, and receivables and payables from The Recording Academy, The GRAMMY Foundation, and GRAMMY Museum. Assets and liabilities, other than 20th Anniversary Campaign pledges receivable and 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 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, 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.

**New Accounting Pronouncements**—On August 18, 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (NFPs)*. This ASU significantly changes the presentation requirements for financial statements of NFPs. The amendments are intended to improve the guidance on

net asset classification, as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for NFPs. Specifically, this ASU addresses (1) the complexity and understandability of net asset classifications, (2) the lack of consistency in the type of information provided about expenses, and (3) inconsistencies in the reporting of (a) operating information in the statement of activities and (b) operating cash flows in the statement of cash flows. ASU No. 2016-14 is effective for periods beginning after December 15, 2017. Early adoption is permitted. MusiCares Foundation has evaluated the impact of adoption of this guidance on its financial statements for the year ending July 30, 2019. Although the impact has resulted in the addition of new liquidity disclosures and minor financial statement presentation adjustments, the adoption did not have a material impact on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU No. 2014-09), as modified by ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*; ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*; and ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. ASU No. 2014-09 will supersede existing revenue recognition standards with a single model, unless contracts are within the scope of other standards. The revenue recognition principle in ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, new and enhanced disclosures will be required. Entities may adopt the new standard either using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. ASU No. 2014-09 is effective for periods beginning after December 15, 2019. Early adoption is permitted. MusiCares Foundation is currently evaluating the potential impact of adopting this guidance on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The objective of this update is to clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction and provides a more robust framework for the determination. This update also provides additional guidance on whether a contribution is conditional. The provisions of ASU No. 2018-08 are effective beginning August 1, 2019, for contributions received and effective beginning August 1, 2020, for contributions made. MusiCares Foundation is currently evaluating the effect this guidance will have on MusiCares Foundation's financial statements and related disclosures.

### **3. INVESTMENTS**

Investments as of July 31, 2018 and 2017, are maintained in certificates of deposit (CDs) and mutual funds that primarily invest in equity securities and fixed-income investments.

MusiCares Foundation presents its investments in accordance with FASB ASC 820, *Investments*. 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.

As of July 31, 2018 and 2017, MusiCares Foundation's Level 2 investments include CDs, which represent time deposits that bear maturity dates and fixed interest rates. 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 fair values of mutual funds included in Level 1 are determined by obtaining quoted prices on nationally recognized securities exchanges. The CDs included in Level 2 are valued utilizing inputs obtained from an independent pricing service. The fair value is determined by obtaining quoted prices for similar assets in active markets or through the use of pricing models supported with market data information.

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, 2018, based on the fair value hierarchy outlined in FASB ASC 820, MusiCares Foundation's holdings are as follows:

	<b>Fair Value Measurements— July 2018</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Market-Based Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Total cash equivalents	<u>\$ 1,258,622</u>	<u>\$ 1,258,622</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:				
CDs	\$ 985,858	\$ -	\$ 985,858	\$ -
Mutual funds:				
US equity funds	9,374,002	9,374,002	-	-
Global equity funds	4,185,315	4,185,315	-	-
US fixed-income bond funds	6,673,774	6,673,774	-	-
Global fixed-income bond funds	<u>137,652</u>	<u>137,652</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$21,356,601</u>	<u>\$ 20,370,743</u>	<u>\$ 985,858</u>	<u>\$ -</u>

As of July 31, 2017, based on the fair value hierarchy outlined in FASB ASC 820, MusiCares Foundation's holdings are as follows:

	<b>Fair Value Measurements— July 2017</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Market-Based Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Total cash equivalents	<u>\$ 804,089</u>	<u>\$ 804,089</u>	<u>\$ -</u>	<u>\$ -</u>
Investments:				
CDs	\$ 1,917,394	\$ -	\$ 1,917,394	\$ -
Mutual funds:				
US equity funds	8,182,973	8,182,973	-	-
Global equity funds	3,761,279	3,761,279	-	-
US fixed-income bond funds	6,561,981	6,561,981	-	-
Global fixed-income bond funds	<u>158,873</u>	<u>158,873</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$20,582,500</u>	<u>\$ 18,665,106</u>	<u>\$ 1,917,394</u>	<u>\$ -</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 2018 or 2017.

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



#### 4. AFFILIATED-ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions from The Recording Academy amounting to \$3,818,732 and \$3,376,474 in 2018 and 2017, respectively. The details about these contributions are described below:

	<b>2018</b>	<b>2017</b>
Cash contributions—general cash contributions:		
General contributions	\$2,678,670	\$2,315,498
Person of the year Dinner/Auction	733,000	641,450
Musicians Assistance Program Fund (program)	118,699	108,439
MAP Benefit Concert (program)	<u>6,800</u>	<u>15,900</u>
Total cash contributions	<u>3,537,169</u>	<u>3,081,287</u>
Noncash contributions:		
Discounted rent	257,763	271,387
GRAMMY show tickets	<u>23,800</u>	<u>23,800</u>
Total noncash contributions	<u>281,563</u>	<u>295,187</u>
Total cash and noncash contributions	<u><u>\$3,818,732</u></u>	<u><u>\$3,376,474</u></u>

Total contributions from The Recording Academy provided for approximately 25% and 16% of total support and revenue in 2018 and 2017, respectively. Program-related contributions are shown as temporarily restricted 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 general cash contribution payment of \$2,353,100 to MusiCares Foundation for the fiscal year ended July 31, 2019. This contribution is subject to change 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. The Recording Academy contributed the full \$2,353,100 payment to MusiCares Foundation for the fiscal year ended July 31, 2019.

MusiCares Foundation was billed by The Recording Academy for certain operating expenses incurred on its behalf amounting to \$736,147 and \$798,035 in 2018 and 2017, respectively. Details about the operating expenses are as follows:

	<b>2018</b>	<b>2017</b>
Salaries and benefits	\$ 359,951	\$ 268,187
Rent expense	210,422	271,387
Other operating expenses (shared services)	<u>165,774</u>	<u>258,461</u>
Total expenses billed by The Recording Academy	<u><u>\$ 736,147</u></u>	<u><u>\$ 798,035</u></u>

MusiCares Foundation and The GRAMMY Foundation shared some executive staff and events department staff prior to the closure of The GRAMMY Foundation. The salaries and benefits for these shared staff members are either paid in equal parts by each respective foundation or 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. Staff shared between The GRAMMY Foundation and MusiCares Foundation were allocated to The GRAMMY Foundation through February 1, 2017. Subsequent to this time, the shared staff salaries were either borne by MusiCares Foundation or the employees and related salaries were transferred to GRAMMY Museum.

MusiCares Foundation billed certain affiliated entities during 2018 and 2017 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/Auction in the amounts of \$0 and \$38,500 in 2018 and 2017, respectively. GRAMMY Museum was billed for tickets related to the Person of the Year Dinner/Auction in the amount of \$5,250 and \$12,250 in 2018 and 2017, respectively.

MusiCares Foundation was billed \$12,200 and \$29,100 for 2018 and 2017, respectively, by The Recording Academy for the face value of tickets purchased by MusiCares Foundation related to the annual GRAMMY awards telecast.

## 5. BENEFIT PLANS

**401(k) Plan**— Eligible employees working for the 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 matches its employees' elective deferral contributions up to the IRS maximum by a match of 50%. During the years ended July 31, 2018 and 2017, MusiCares Foundation's matching contribution was \$71,397 and \$40,395, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. A discretionary match of \$0 and \$64,657 was made in 2018 and 2017, respectively.

**Executive Compensation Program**—MusiCares Foundation maintained a deferred compensation plan as described under Section 457(b) of the IRC (the "457(b) plan"). The 457(b) plan provides eligible executives with the opportunity to make voluntary contributions on a pretax basis. As of March 31, 2017, the deferred compensation plan assets and liabilities were transferred to GRAMMY Museum in connection with the employment of the eligible executives.

## 6. TEMPORARILY PURPOSE-RESTRICTED NET ASSETS

Temporarily restricted net assets as of July 31, 2018, are available for the following purposes:

	2018	2017
Natural Disaster Fund (formerly Hurricane/Flood Relief)	<u>\$27,490</u>	<u>\$ -</u>
Total	<u>\$27,490</u>	<u>\$ -</u>

During the fiscal years ended July 31, 2018 and 2017, MusiCares Foundation incurred expenses that satisfied the restricted purposes and time specified by donors. The net assets released from donor restrictions during the fiscal years ended July 31, 2018 and 2017, are as follows:

	<b>2018</b>	<b>2017</b>
Purpose/time restrictions accomplished:		
MAP Fund/Benefit Concert	\$ 555,382	\$ 905,746
Financial assistance program	37,718	171,849
Natural Disaster Fund (formerly Hurricane/Flood Relief)	834,132	-
20th Anniversary Campaign	<u>83,000</u>	<u>105,540</u>
Total net assets released from purpose/time restrictions	<u><u>\$1,510,232</u></u>	<u><u>\$1,183,135</u></u>

In 2018 three major hurricanes hit Texas, Florida, Puerto Rico and the US Virgin Islands. MusiCares once again announced a relief fund to support those in the music community that were 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 \$861,621. The satisfaction of these donor restricted funds totaled \$834,132.

## **7. 20th ANNIVERSARY CAMPAIGN PLEDGES RECEIVABLE**

The pledges receivable as of July 31, 2018 and 2017, consisted of the following:

	<b>2018</b>	<b>2017</b>
20th Anniversary Campaign gross pledges receivable amounts due in:		
Less than one year	<u>\$ -</u>	<u>\$83,000</u>
Total gross pledges receivable	<u>-</u>	<u>83,000</u>
20th Anniversary Campaign pledges receivable—net	<u><u>\$ -</u></u>	<u><u>\$83,000</u></u>

## **8. 20th ANNIVERSARY CAMPAIGN**

In 2009, MusiCares Foundation embarked on a 20th Anniversary Campaign to raise \$10,000,000. Donors have stipulated that the funds they donate are to be used toward MusiCares Foundation's current activities, such as supporting 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's board of directors (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 income from the funds 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 are due according to the payment terms of each agreement, at which time they are shown as net assets released from restrictions and reclassified in the accompanying statements of activities. For fiscal years ended July 31, 2018 and 2017, \$83,000 and \$105,540, respectively, were released from time restrictions. Outright contributions are recorded as unrestricted 20th Anniversary Campaign support and revenue 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). Management and the Board of MusiCares Foundation established campaign investment policies, return objectives, and risk parameters, as well as 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, 2018 and 2017, 20th Anniversary Campaign administrative costs were paid from campaign funds.

## 9. PROPERTY

Property as of July 31, 2018 and 2017, consisted of the following:

	<b>2018</b>	<b>2017</b>
Office equipment	\$ 3,555	\$ 3,555
Computer equipment and software	274,803	249,453
Furniture and fixtures	<u>82,165</u>	<u>62,581</u>
Total property	360,523	315,589
Accumulated depreciation	<u>(221,223)</u>	<u>(153,054)</u>
Property—net	<u><u>\$ 139,300</u></u>	<u><u>\$ 162,535</u></u>

Depreciation expense amounted to \$68,169 and \$47,634 in 2018 and 2017, respectively.

Losses on the disposal of property amounted to \$25,000 during the year ended July 31, 2017, and are included in other income, net in the statements of activities. There were no losses of this nature during the year ended July 31, 2018.

## 10. SUBSEQUENT EVENTS

MusiCares Foundation has evaluated subsequent events through March 8, 2021, the date the financial statements were available to be issued, and has determined there are subsequent events that require disclosure in these audited financial statements.

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. We cannot reasonably estimate the length or severity of this pandemic, nor the full impact on our combined statements of financial position, activities, and cash flows.

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 is intended to help the music community during this crisis with financial aid of \$1,000 per grantee and additional support will be provided as needed. As of December 31, 2020, funds raised for this effort totaled \$22,690,644 and \$19,228,297 in grants were issued.

On March 2, 2020, the Board of Trustees of the Recording Academy terminated President/CEO Deborah Dugan. Harvey Mason, Jr., Chair of the Recording Academy Board of Trustees, was appointed to serve as Interim President/CEO until a replacement is identified. The President/CEO of the Recording Academy also serves as the President/CEO of MusiCares. Prior to his appointment as President/CEO of the Recording Academy, Harvey Mason, Jr. also served as a Director on the MusiCares Board.

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