

# MusiCares Foundation, Inc.

Financial Statements as of and for the  
Years Ended July 31, 2022 and 2021, 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, 2022 and 2021, and the related statements of activities, 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, 2022 and 2021, and the results of its operations 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 Audits 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 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 the 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 the MusiCares Foundation's ability to continue as a going concern for a reasonable period of time.

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 27, 2023

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2022 AND 2021

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|   | 2022                 | 2021                 |
|---|----------------------|----------------------|
| <b>ASSETS</b>                                       |                      |                      |
| CURRENT ASSETS:                                     |                      |                      |
| Cash and cash equivalents                           | \$ 3,933,812         | \$ 5,126,876         |
| Receivables   | 419,006              | 272,435              |
| Receivable from GRAMMY Museum                       | 282                  | -                    |
| Investments (Note 4)                                | 22,565,714           | 25,396,368           |
| Prepaid expenses and other current assets           | <u>307,948</u>       | <u>78,723</u>        |
| Total current assets                                | 27,226,762           | 30,874,402           |
| PROPERTY (Note 8)                                   | <u>73,258</u>        | <u>74,521</u>        |
| TOTAL   | <u>\$ 27,300,020</u> | <u>\$ 30,948,923</u> |
| <b>LIABILITIES AND NET ASSETS</b>                   |                      |                      |
| CURRENT LIABILITIES:                                |                      |                      |
| Accounts payable and accrued liabilities            | \$ 694,199           | \$ 815,510           |
| Deferred revenue                                    | 631,085              | 351,126              |
| Payable to GRAMMY Museum                            | -                    | 790                  |
| Payable to The Recording Academy                    | <u>121,212</u>       | <u>109,355</u>       |
| Total current liabilities                           | <u>1,446,496</u>     | <u>1,276,781</u>     |
| COMMITMENTS AND CONTINGENCIES (Note 2)              |                      |                      |
| NET ASSETS (Note 2):                                |                      |                      |
| Net assets without donor restrictions:              |                      |                      |
| General   | 15,246,408           | 19,032,615           |
| Board-designated 20th Anniversary Campaign (Note 2) | <u>10,607,116</u>    | <u>10,607,116</u>    |
| Total net assets without donor restrictions         | 25,853,524           | 29,639,731           |
| Net assets with donor restrictions                  | <u>-</u>             | <u>32,411</u>        |
| Total net assets                                    | <u>25,853,524</u>    | <u>29,672,142</u>    |
| TOTAL   | <u>\$ 27,300,020</u> | <u>\$ 30,948,923</u> |

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2022 AND 2021

|  | 2022                       |                         |                   | 2021                       |                         |                   |
|--|----------------------------|-------------------------|-------------------|----------------------------|-------------------------|-------------------|
|  | Without Donor Restrictions | With Donor Restrictions | Total             | Without Donor Restrictions | With Donor Restrictions | Total             |
| <b>SUPPORT AND REVENUE:</b>                              |                            |                         |                   |                            |                         |                   |
| Person of the Year Dinner/Auction                        | \$ 6,716,840               | \$ -                    | \$ 6,716,840      | \$ 1,000,000               | \$ -                    | \$ 1,000,000      |
| Contributions and grants                                 | 3,592,507                  | 186,771                 | 3,779,278         | 2,750,161                  | 1,864,309               | 4,614,470         |
| Contributions from The Recording Academy                 | 2,500,000                  | 20,476                  | 2,520,476         | 2,499,400                  | 49,454                  | 2,548,854         |
| Other fundraising auctions                               | 803,299                    | -                       | 803,299           | 408,990                    | -                       | 408,990           |
| In kind donations (Note 9)                               | 442,198                    | -                       | 442,198           | 2,213,914                  | 4,600                   | 2,218,514         |
| Natural Disaster Fund                                    | -                          | 300,150                 | 300,150           | -                          | 275                     | 275               |
| COVID-19 Relief Fund                                     | -                          | 123,347                 | 123,347           | -                          | 2,071,580               | 2,071,580         |
| Music on a Mission                                       | 30,599                     | -                       | 30,599            | 1,309,578                  | -                       | 1,309,578         |
| Other income   | 288,162                    | -                       | 288,162           | 241,459                    | -                       | 241,459           |
| Interest and dividend income                             | 1,802,486                  | -                       | 1,802,486         | 1,235,931                  | -                       | 1,235,931         |
| Unrealized (loss) gain on investments—net                | (4,519,288)                | -                       | (4,519,288)       | 3,045,471                  | -                       | 3,045,471         |
| Realized gain on investments—net                         | 56,212                     | -                       | 56,212            | 200,688                    | -                       | 200,688           |
| <b>Total support and revenue</b>                         | <b>11,713,015</b>          | <b>630,744</b>          | <b>12,343,759</b> | <b>14,905,592</b>          | <b>3,990,218</b>        | <b>18,895,810</b> |
| <b>NET ASSETS RELEASED FROM RESTRICTIONS (Note 7)—</b>   |                            |                         |                   |                            |                         |                   |
| Satisfaction of purpose/time restrictions                | 663,155                    | (663,155)               | -                 | 6,847,817                  | (6,847,817)             | -                 |
| <b>PROGRAM SERVICES AND SUPPORTING EXPENSES:</b>         |                            |                         |                   |                            |                         |                   |
| <b>Program services:</b>                                 |                            |                         |                   |                            |                         |                   |
| Financial assistance program                             | 6,593,777                  | -                       | 6,593,777         | 3,831,386                  | -                       | 3,831,386         |
| Mental Health and Addiction Recovery (formally MAP Fund) | 1,741,023                  | -                       | 1,741,023         | 1,242,315                  | -                       | 1,242,315         |
| Natural Disaster Fund                                    | 333,659                    | -                       | 333,659           | 1,967                      | -                       | 1,967             |
| COVID-19 Relief Fund                                     | 234,530                    | -                       | 234,530           | 7,286,477                  | -                       | 7,286,477         |
| <b>Total program services</b>                            | <b>8,902,989</b>           | <b>-</b>                | <b>8,902,989</b>  | <b>12,362,145</b>          | <b>-</b>                | <b>12,362,145</b> |

(Continued)

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2022 AND 2021

|  | 2022                       |                         |                      | 2021                       |                         |                      |
|--|----------------------------|-------------------------|----------------------|----------------------------|-------------------------|----------------------|
|  | Without Donor Restrictions | With Donor Restrictions | Total                | Without Donor Restrictions | With Donor Restrictions | Total                |
| Supporting expenses:                           |                            |                         |                      |                            |                         |                      |
| Person of the Year Dinner/Auction              | \$ 4,485,153               | \$ -                    | \$ 4,485,153         | \$ 245,397                 | \$ -                    | \$ 245,397           |
| General fundraising                            | 1,162,828                  | -                       | 1,162,828            | 782,945                    | -                       | 782,945              |
| Administration                                 | 1,394,565                  | -                       | 1,394,565            | 1,982,747                  | -                       | 1,982,747            |
| Other fundraising auctions                     | 123,045                    | -                       | 123,045              | 134,503                    | -                       | 134,503              |
| Music on a Mission                             | 93,797                     | -                       | 93,797               | 1,190,253                  | -                       | 1,190,253            |
| Total supporting expenses                      | <u>7,259,388</u>           | <u>-</u>                | <u>7,259,388</u>     | <u>4,335,845</u>           | <u>-</u>                | <u>4,335,845</u>     |
| Total program services and supporting expenses | <u>16,162,377</u>          | <u>-</u>                | <u>16,162,377</u>    | <u>16,697,990</u>          | <u>-</u>                | <u>16,697,990</u>    |
| (DECREASE) INCREASE IN NET ASSETS              | (3,786,207)                | (32,411)                | (3,818,618)          | 5,055,419                  | (2,857,599)             | 2,197,820            |
| NET ASSETS:                                    |                            |                         |                      |                            |                         |                      |
| Beginning of year                              | <u>29,639,731</u>          | <u>32,411</u>           | <u>29,672,142</u>    | <u>24,584,312</u>          | <u>2,890,010</u>        | <u>27,474,322</u>    |
| End 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> |
| See notes to financial statements.             |                            |                         |                      |                            |                         | (Concluded)          |

## MUSICARES FOUNDATION, INC.

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

|                                     | Program Services             |                                      |                         |                      |                        | Supporting Services               |                     |                    |                            |                    |                           |                     | Total |
|-------------------------------------|------------------------------|--------------------------------------|-------------------------|----------------------|------------------------|-----------------------------------|---------------------|--------------------|----------------------------|--------------------|---------------------------|---------------------|-------|
|                                     | Financial Assistance Program | Mental Health and Addiction Recovery | Natural Disaster Relief | COVID-19 Relief Fund | Total Program Services | Person of the Year Dinner/Auction | General Fundraising | Administration     | Other Fundraising Auctions | Music on a Mission | Total Supporting Expenses |                     |       |
| 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             |       |
| <b>Total</b>                        | <u>\$6,593,777</u>           | <u>\$1,741,023</u>                   | <u>\$333,659</u>        | <u>\$234,530</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.

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2021

|                                     | Program Services             |                                      |                         |                      |                        | Supporting Services               |                     |                    |                            |                    |                           |                     | Total |
|-------------------------------------|------------------------------|--------------------------------------|-------------------------|----------------------|------------------------|-----------------------------------|---------------------|--------------------|----------------------------|--------------------|---------------------------|---------------------|-------|
|                                     | Financial Assistance Program | Mental Health and Addiction Recovery | Natural Disaster Relief | COVID-19 Relief Fund | Total Program Services | Person of the Year Dinner/Auction | General Fundraising | Administration     | Other Fundraising Auctions | Music on a Mission | Total Supporting Expenses |                     |       |
| Event expenses                      | \$ 393                       | \$ 3,500                             | \$ -                    | \$ -                 | \$ 3,893               | \$ 30,000                         | \$ 16,924           | \$ -               | \$ 34                      | \$ 297,017         | \$ 343,975                | \$ 347,868          |       |
| Financial grants and assistance     | 3,035,306                    | 852,529                              | 1,958                   | 6,328,423            | 10,218,216             | -                                 | -                   | -                  | -                          | -                  | -                         | 10,218,216          |       |
| Professional fees                   | 109,967                      | 114,843                              | -                       | 154,520              | 379,330                | 110,634                           | 131,941             | 437,665            | 67,772                     | 152,558            | 900,570                   | 1,279,900           |       |
| Salaries and benefits               | 566,809                      | 204,249                              | -                       | 690,937              | 1,461,995              | 66,125                            | 497,353             | 1,135,714          | 46,821                     | 195,111            | 1,941,124                 | 3,403,119           |       |
| Administration                      | 84,345                       | 43,449                               | 9                       | 83,210               | 211,013                | 35,226                            | 115,146             | 371,288            | 13,221                     | 520,385            | 1,055,266                 | 1,266,279           |       |
| Depreciation                        | 2,746                        | 1,479                                | -                       | -                    | 4,225                  | -                                 | -                   | 398                | -                          | -                  | 398                       | 4,623               |       |
| Travel and entertainment            | 7,290                        | 6,295                                | -                       | -                    | 13,585                 | -                                 | 219                 | 413                | -                          | 9,034              | 9,666                     | 23,251              |       |
| Computer, video, and other expenses | <u>24,530</u>                | <u>15,971</u>                        | <u>-</u>                | <u>29,387</u>        | <u>69,888</u>          | <u>3,412</u>                      | <u>21,362</u>       | <u>37,269</u>      | <u>6,655</u>               | <u>16,148</u>      | <u>84,846</u>             | <u>154,734</u>      |       |
| Total                               | <u>\$3,831,386</u>           | <u>\$1,242,315</u>                   | <u>\$1,967</u>          | <u>\$7,286,477</u>   | <u>\$12,362,145</u>    | <u>\$245,397</u>                  | <u>\$782,945</u>    | <u>\$1,982,747</u> | <u>\$134,503</u>           | <u>\$1,190,253</u> | <u>\$4,335,845</u>        | <u>\$16,697,990</u> |       |

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2022 AND 2021

|  | 2022                | 2021                |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                     |                     |
| (Decrease) increase in net assets  | \$ (3,818,618)      | \$ 2,197,820        |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities: |                     |                     |
| Depreciation   | 1,263               | 4,623               |
| Net unrealized loss (gain) on investments  | 4,519,288           | (3,045,471)         |
| Net realized gain on investments   | (56,212)            | (200,688)           |
| Changes in operating assets and liabilities:   |                     |                     |
| Receivables  | (146,571)           | 524,216             |
| Receivable from GRAMMY Museum  | (1,072)             | -                   |
| Prepaid expenses and other current assets  | (229,225)           | (20,279)            |
| Accounts payable and accrued liabilities   | (121,311)           | 114,486             |
| Deferred revenue   | 279,959             | 73,250              |
| Payable to The NARAS Foundation  | -                   | (10,321)            |
| Payable to GRAMMY Museum   | -                   | 790                 |
| Payable to The Recording Academy   | 11,857              | (255,256)           |
|  | <u>439,358</u>      | <u>(616,830)</u>    |
| Net cash provided by (used in) operating activities  |                     |                     |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |                     |                     |
| Purchases of investments   | (3,041,837)         | (2,990,380)         |
| Proceeds from sales and maturities of investments  | 1,409,415           | 986,715             |
|  | <u>(1,632,422)</u>  | <u>(2,003,665)</u>  |
| Net cash used in investing activities  |                     |                     |
| NET DECREASE IN CASH AND CASH EQUIVALENTS  | (1,193,064)         | (2,620,495)         |
| CASH AND CASH EQUIVALENTS—Beginning of year  | <u>5,126,876</u>    | <u>7,747,371</u>    |
| CASH AND CASH EQUIVALENTS—End of year  | <u>\$ 3,933,812</u> | <u>\$ 5,126,876</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—  |                     |                     |
| In kind donations (Note 9)   | <u>\$ 442,198</u>   | <u>\$ 2,218,514</u> |

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JULY 31, 2022 AND 2021

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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 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. MusiCares Foundation, along with The GRAMMY Museum Foundation (“GRAMMY Museum”), a related party, 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 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. 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 the MusiCares Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (US 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 Endowment**—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 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.

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.

There was no activity in the Board-designated funds for the years ended July 31, 2022 and 2021.

**Use of Estimates**—The preparation of financial statements in conformity with US 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 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, 2022 and 2021, such amounts totaled \$3,683,812 and \$4,876,876, 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 at the time of the event/auction. 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). For the year ended July 31, 2021, there was no Person of the Year Dinner/Auction held due to the ongoing COVID-19 pandemic. Other activities honoring prior honorees provided \$1,000,000 in revenue.

**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, 2022 and 2021.

**COVID-19 Relief Fund**—MusiCares Foundation established the COVID-19 Relief Fund to help the music community affected by the Coronavirus 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, 2022 and 2021, MusiCares Foundation recognized \$123,347 and \$2,075,580, 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, 2022 and 2021, MusiCares Foundation recognized \$442,198 and \$2,217,914, 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, 2022 and 2021, MusiCares Foundation recognized \$803,299 and \$408,990, 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, 2022 and 2021, 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, The NARAS Foundation, and GRAMMY Museum. 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**—In September 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958)*. Under ASU No. 2020-07, a not-for-profit entity is required to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash and other financial assets, and disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statements of activities by category that depicts the type of contributed nonfinancial assets. ASU No. 2020-07 also requires new disclosures pertaining to the monetization, utilization, and valuation of contributed nonfinancial assets and any donor-imposed restrictions. The provisions of ASU No. 2020-07 were adopted for the year ended July 31, 2022, and were applied retrospectively for the year ended July 31, 2021. The presentation and disclosures of contributed nonfinancial assets received have been enhanced in accordance with the standard.

Changes adopted to conform to the provisions of this ASU were applied retroactively by restating the financial statements for the earliest period presented. The adoption of this new standard did not change the classification of “with and without donor restrictions” for total support and revenue as of July 31, 2021. The effect of implementing ASU No. 2020-07 on the MusiCares Foundation’s financial statements for the year ended July 31, 2021, was as follows.

|  | As Reported in<br>Fiscal Year 2021 | ASU No. 2020-07<br>Restatement | Restated Fiscal<br>Year 2021 |
|--|------------------------------------|--------------------------------|------------------------------|
| <b>Statement of Activities</b>           |                                    |                                |                              |
| Support and revenue:                     |                                    |                                |                              |
| Person of the Year Dinner/Auction        | \$ 1,000,000                       | \$ -                           | \$ 1,000,000                 |
| Contributions and grants                 | 6,077,690                          | (1,463,220)                    | 4,614,470                    |
| Contributions from The Recording Academy | 2,818,517                          | (269,663)                      | 2,548,854                    |
| Other fundraising auctions               | 408,990                            | -                              | 408,990                      |
| In kind donations                        | -                                  | 2,218,514                      | 2,218,514                    |
| Natural Disaster Fund                    | 275                                | -                              | 275                          |
| COVID-19 Relief Fund                     | 2,075,580                          | (4,000)                        | 2,071,580                    |
| Music on a Mission                       | 1,791,209                          | (481,631)                      | 1,309,578                    |
| Other income                             | 241,459                            | -                              | 241,459                      |
| Interest and dividend income             | 1,235,931                          | -                              | 1,235,931                    |
| Unrealized gain on investments—net       | 3,045,471                          | -                              | 3,045,471                    |
| Realized gain on investments—net         | <u>200,688</u>                     | <u>-</u>                       | <u>200,688</u>               |
| Total support and revenue                | <u>\$18,895,810</u>                | <u>\$ -</u>                    | <u>\$18,895,810</u>          |

**New Accounting Pronouncements**—In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under ASU No. 2016-02, an entity will be required to recognize assets and liabilities for the rights and obligations created by leases on the entity’s statements of financial position for both finance and operating leases. For leases with terms of 12 months or less, an entity can elect to not recognize lease assets and lease liabilities and expense the lease over a straight-line basis for the term of the lease. ASU No. 2016-02 will require new disclosures that depict the amount, timing, and uncertainty of cash flows pertaining to an entity’s leases. Entities are required to adopt the new standard using a modified retrospective approach for annual and interim periods beginning after December 15, 2021. Early adoption is permitted. MusiCares Foundation is currently evaluating the effect the new leasing guidance will have on its financial position and changes in net assets.

### 3. AVAILABILITY AND LIQUIDITY

The following represents MusiCares Foundation’s financial assets available within one year for general expenditure at July 31, 2022 and 2021:

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
| Financial assets at year-end:                    |                      |                      |
| Cash and cash equivalents                        | \$ 3,933,812         | \$ 5,126,876         |
| Investments (excluding Board-designated amounts) | 11,958,598           | 14,789,252           |
| Receivables                                      | 419,288              | 272,435              |
| Prepaid expenses and other current assets        | <u>-</u>             | <u>78,723</u>        |
| Total financial assets                           | <u>\$ 16,311,698</u> | <u>\$ 20,267,286</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.

#### 4. INVESTMENTS

Investments as of July 31, 2022 and 2021, are maintained in 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.

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.

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

|                                | <b>Fair Value<br/>Measurements—<br/>July 2022</b> | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical Assets<br/>(Level 1)</b> |
|--------------------------------|---|---|
| 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>  |

As of July 31, 2021, based on the fair value hierarchy outlined in FASB ASC 820, MusiCares Foundation's holdings are as follows:

|                                | <b>Fair Value<br/>Measurements—<br/>July 2021</b> | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical Assets<br/>(Level 1)</b> |
|--------------------------------|---|---|
| Total cash equivalents         | <u>\$ 94,842</u>                                  | <u>\$ 94,842</u>  |
| Investments—mutual funds:      |   |   |
| US equity funds                | \$ 10,867,211                                     | \$ 10,867,211   |
| Global equity funds            | 5,527,062   | 5,527,062   |
| US fixed-income bond funds     | 8,488,899   | 8,488,899   |
| Global fixed-income bond funds | <u>513,196</u>                                    | <u>513,196</u>  |
| Total investments              | <u>\$ 25,396,368</u>                              | <u>\$ 25,396,368</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 2022 or 2021.

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

## 5. AFFILIATED ENTITY TRANSACTIONS

MusiCares Foundation received cash and noncash contributions from The Recording Academy amounting to \$3,515,030 and \$2,924,915 in 2022 and 2021, respectively. The details about these contributions are described below:

|  | <b>2022</b>         | <b>2021</b>         |
|--|---------------------|---------------------|
| Cash contributions—general cash contributions: |                     |                     |
| Contributions                                  | \$ 2,500,000        | \$ 2,500,150        |
| Music on a Mission                             | -                   | 105,648             |
| Musicians Assistance Program Fund (program)    | 20,476              | 50,054              |
| Person of the Year Dinner/Auction              | <u>698,091</u>      | <u>-</u>            |
| Total cash contributions                       | <u>3,218,567</u>    | <u>2,655,852</u>    |
| Noncash contributions:                         |                     |                     |
| Discounted rent                                | 268,463             | 268,463             |
| Editorial content                              | -                   | 600                 |
| GRAMMY show tickets                            | <u>28,000</u>       | <u>-</u>            |
| Total noncash contributions                    | <u>296,463</u>      | <u>269,063</u>      |
| Total cash and noncash contributions           | <u>\$ 3,515,030</u> | <u>\$ 2,924,915</u> |

Total contributions from The Recording Academy provided for approximately 28% and 15% of total support and revenue in 2022 and 2021, 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 \$2,500,000 to MusiCares Foundation for the fiscal year ending July 31, 2023. 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.

MusiCares Foundation was billed by The Recording Academy for certain operating expenses incurred on its behalf amounting to \$1,270,042 and \$1,125,086 in 2022 and 2021, respectively. Details about the operating expenses are as follows:

|  | <b>2022</b>         | <b>2021</b>         |
|--|---------------------|---------------------|
| Salaries and benefits                          | \$ 426,688          | \$ 529,938          |
| Rent expense                                   | 268,463             | 268,463             |
| Other operating expenses (shared services)     | <u>574,891</u>      | <u>326,685</u>      |
| Total expenses billed by The Recording Academy | <u>\$ 1,270,042</u> | <u>\$ 1,125,086</u> |

MusiCares Foundation billed certain affiliated entities during 2022 for the face value of tickets for events. The GRAMMY Museum Foundation was billed \$55,500 for the Person of the Year Dinner/Auction. The Latin Academy of Recording Arts & Sciences was billed \$12,500 for the Person of the Year Dinner/Auction. There were no billings in 2021 for the Person of the Year Dinner/Auction because the event was not held.

MusiCares Foundation was billed \$12,000 for the face value of tickets for the annual GRAMMY Awards telecast. There were no billings in 2021 for the GRAMMY Awards telecast because the event did not have a live audience.

## 6. 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 matched its employees’ elective deferral contributions up to the IRS maximum by a match of 50% for 2022 and 2021. During the years ended July 31, 2022 and 2021, MusiCares Foundation’s matching contribution was \$94,341 and \$44,014, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. No discretionary match was made in 2022 or 2021.

## 7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of July 31, 2022 and 2021, are restricted for the following purpose:

|   | <b>2022</b> | <b>2021</b> |
|---|-------------|-------------|
| Natural Disaster Fund (formerly Hurricane/Flood Relief) | \$ -        | \$ 32,411   |

During the fiscal years ended July 31, 2022 and 2021, 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, 2022 and 2021, are as follows:

|  | <b>2022</b>       | <b>2021</b>         |
|--|-------------------|---------------------|
| Purpose/time restrictions accomplished:                  |                   |                     |
| MAP Fund/benefit concert                                 | \$ 132,791        | \$ 184,648          |
| Financial assistance program                             | 74,456            | 1,729,715           |
| Natural Disaster Fund (formerly Hurricane/Flood Relief)  | 332,561           | 1,967               |
| COVID-19 Relief Fund                                     | <u>123,347</u>    | <u>4,931,487</u>    |
| Total net assets released from purpose/time restrictions | <u>\$ 663,155</u> | <u>\$ 6,847,817</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 \$123,347 and \$2,075,580 for the years ended July 31, 2022 and 2021, respectively. The satisfaction of these donor-restricted funds totaled \$123,347 and \$4,931,487 for the years ended July 31, 2022 and 2021, 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 \$300,150 and \$275 for the years ended July 31, 2022 and 2021, respectively. The satisfaction of these donor-restricted funds totaled \$332,561 and \$1,967 for the years ended July 31, 2022 and 2021, respectively.

## 8. PROPERTY

Property as of July 31, 2022 and 2021, consisted of the following:

|                                 | <b>2022</b>      | <b>2021</b>      |
|---------------------------------|------------------|------------------|
| 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>(300,826)</u> | <u>(299,563)</u> |
| Property—net                    | <u>\$ 73,258</u> | <u>\$ 74,521</u> |

Depreciation expenses amounted to \$1,263 and \$4,623 in 2022 and 2021, respectively.

There were no gains or losses on disposal of property during the years ended July 31, 2022 and 2021.

## 9. IN KIND DONATIONS

For the years ended July 31, 2022 and 2021, MusiCares Foundation received the following contributions of nonfinancial assets:

|  | 2022              | 2021                |
|--|-------------------|---------------------|
| Person of the Year:                            |                   |                     |
| Airfare  | \$ 75,000         | \$ -                |
| Equipment rental                               | 53,915            | -                   |
| Catering                                       | 16,320            | -                   |
| Event coordinator                              | 500               | -                   |
|  | <u>145,735</u>    | <u>-</u>            |
| Total Person of the Year                       |                   |                     |
| Contributions and grants:                      |                   |                     |
| Educational subscriptions                      | <u>-</u>          | <u>1,463,220</u>    |
| Total contributions and grants                 | <u>-</u>          | <u>1,463,220</u>    |
| Music on a Mission:                            |                   |                     |
| Advertising                                    | -                 | 451,731             |
| Merchandise                                    | <u>-</u>          | <u>29,900</u>       |
| Total Music on a Mission                       | <u>-</u>          | <u>481,631</u>      |
| COVID-19 Relief Fund:                          |                   |                     |
| Gift cards                                     | <u>-</u>          | <u>4,600</u>        |
| Total COVID-19 Relief Fund                     | <u>-</u>          | <u>4,600</u>        |
| Contributions from The Recording Academy:      |                   |                     |
| Discounted rent                                | 268,463           | 268,463             |
| Editorial content                              | -                 | 600                 |
| GRAMMY show tickets                            | <u>28,000</u>     | <u>-</u>            |
| Total contributions from The Recording Academy | <u>296,463</u>    | <u>269,063</u>      |
| Total in kind donations                        | <u>\$ 442,198</u> | <u>\$ 2,218,514</u> |

Donated goods or services related to the Person of the Year 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 \$145,735 and \$0 in 2022 and 2021, respectively.

Contributed educational subscriptions were used to provide additional resources to those impacted by the COVID-19 pandemic who could not otherwise afford access.

Donated goods or services related to the Music on a Mission event were made as contributions or in exchange for event tickets and sponsorships and were recognized when the event took place. These contributed goods or services included print and digital advertising and audio merchandise.

In kind donations from The Recording Academy relate to discounts on rental expenses, event tickets, and editorial content contributed in the amounts of \$296,463 and \$269,063 for the years ended July 31, 2022 and 2021, respectively. GRAMMY 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 27, 2023, the date the financial statements were available to be issued, and has determined there are no subsequent events that require disclosure in these audited financial statements.

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