

# MusiCares Foundation, Inc.

Financial Statements as of and for the  
Years Ended July 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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*

January 13, 2022

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2021 AND 2020

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	2021	2020
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,126,876	\$ 7,747,371
Receivables	272,435	796,651
Investments (Note 4)	25,396,368	20,146,544
Prepaid expenses and other current assets	<u>78,723</u>	<u>58,444</u>
Total current assets	30,874,402	28,749,010
PROPERTY (Note 8)	<u>74,521</u>	<u>79,144</u>
TOTAL	<u>\$ 30,948,923</u>	<u>\$ 28,828,154</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 815,510	\$ 701,024
Deferred revenue	351,126	277,876
Payable to The NARAS Foundation	-	10,321
Payable to GRAMMY Museum	790	-
Payable to The Recording Academy	<u>109,355</u>	<u>364,611</u>
Total current liabilities	<u>1,276,781</u>	<u>1,353,832</u>
COMMITMENTS AND CONTINGENCIES (Note 2)		
NET ASSETS (Note 2):		
Net assets without donor restrictions:		
General	19,032,615	13,977,347
Board-designated 20th Anniversary Campaign (Note 2)	<u>10,607,116</u>	<u>10,606,965</u>
Total net assets without donor restrictions	29,639,731	24,584,312
Net assets with donor restrictions	<u>32,411</u>	<u>2,890,010</u>
Total net assets	<u>29,672,142</u>	<u>27,474,322</u>
TOTAL	<u>\$ 30,948,923</u>	<u>\$ 28,828,154</u>

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Person of the Year Dinner/Auction	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 8,281,229	\$ -	\$ 8,281,229
Contributions and Grants	4,213,381	1,864,309	6,077,690	3,581,169	185,246	3,766,415
Contributions from The Recording Academy	2,768,463	50,054	2,818,517	2,901,380	1,042,438	3,943,818
COVID-19 Relief Fund	-	2,075,580	2,075,580	-	20,288,013	20,288,013
Music on a Mission	1,791,209	-	1,791,209	-	-	-
Other fund-raising auctions	408,990	-	408,990	449,676	-	449,676
Natural Disaster Fund (formerly Hurricane/Flood Relief)	-	275	275	-	17,636	17,636
Other income	241,459	-	241,459	387,661	-	387,661
Interest and dividend income	1,235,931	-	1,235,931	1,074,370	-	1,074,370
Unrealized gain on investments—net	3,045,471	-	3,045,471	266,134	-	266,134
Realized gain (loss) on investments—net	200,688	-	200,688	(897,363)	-	(897,363)
Total support and revenue	<u>14,905,592</u>	<u>3,990,218</u>	<u>18,895,810</u>	<u>16,044,256</u>	<u>21,533,333</u>	<u>37,577,589</u>
NET ASSETS RELEASED FROM RESTRICTIONS (Note 7)—						
Satisfaction of purpose/time restrictions	<u>6,847,817</u>	<u>(6,847,817)</u>	<u>-</u>	<u>18,681,993</u>	<u>(18,681,993)</u>	<u>-</u>
PROGRAM SERVICES AND SUPPORTING EXPENSES:						
Program services:						
Financial assistance program	3,831,386	-	3,831,386	4,676,546	-	4,676,546
MAP Fund	1,242,315	-	1,242,315	1,558,278	-	1,558,278
Natural Disaster Fund (formerly Hurricane Relief/Flood Relief)	1,967	-	1,967	23,103	-	23,103
COVID-19 Relief Fund	7,286,477	-	7,286,477	18,436,106	-	18,436,106
Total program services	<u>\$ 12,362,145</u>	<u>\$ -</u>	<u>\$ 12,362,145</u>	<u>\$ 24,694,033</u>	<u>\$ -</u>	<u>\$ 24,694,033</u>

(Continued)

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Supporting expenses:						
Person of the Year Dinner/Auction	\$ 245,397	\$ -	\$ 245,397	\$ 4,687,057	\$ -	\$ 4,687,057
General fund-raising	782,945	-	782,945	546,199	-	546,199
Administration	1,982,747	-	1,982,747	1,466,867	-	1,466,867
Other fund-raising auctions	134,503	-	134,503	414,467	-	414,467
Music on a Mission	1,190,253	-	1,190,253	-	-	-
MAP Benefit Concert	-	-	-	5,344	-	5,344
	<u>4,335,845</u>	<u>-</u>	<u>4,335,845</u>	<u>7,119,934</u>	<u>-</u>	<u>7,119,934</u>
Total supporting expenses						
Total program services and supporting expenses	<u>16,697,990</u>	<u>-</u>	<u>16,697,990</u>	<u>31,813,967</u>	<u>-</u>	<u>31,813,967</u>
INCREASE (DECREASE) IN NET ASSETS	5,055,419	(2,857,599)	2,197,820	2,912,282	2,851,340	5,763,622
NET ASSETS:						
Beginning of year	<u>24,584,312</u>	<u>2,890,010</u>	<u>27,474,322</u>	<u>21,672,030</u>	<u>38,670</u>	<u>21,710,700</u>
End 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>

See notes to financial statements.

(Concluded)

**MUSICARES FOUNDATION, INC.**

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

	Program Services					Supporting Services							Total
	Financial Assistance Program	MAP Fund	Natural Disaster Relief	COVID-19 Relief Fund	Total Program Services	Person of the Year Dinner/Auction	General Fund-raising	Administration	Other Fund-raising 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	24,530	15,971	-	29,387	69,888	3,412	21,362	37,269	6,655	16,148	84,846	154,734	
<b>Total</b>	<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.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JULY 31, 2020**

	Program Services				Total Program Services	Supporting Services						Total
	Financial Assistance Program	MAP Fund	Natural Disaster Relief	COVID-19 Relief Fund		Person of the Year Dinner/ Auction	General Fund-raising	Administration	Other Fund-raising Auctions	MAP Benefit Concert	Total Supporting Expenses	
Event expenses	\$ 2,457	\$ 11,450	\$ -	\$ -	\$ 13,907	\$ 3,539,780	\$ 86,963	\$ -	\$ 34,360	\$ -	\$ 3,661,103	\$ 3,675,010
Financial grants and assistance	3,607,595	1,169,313	20,400	17,592,783	22,390,091	-	-	-	-	-	-	22,390,091
Professional fees	150,446	77,304	619	130,452	358,821	412,748	263,364	491,837	194,121	1,097	1,363,167	1,721,988
Salaries and benefits	649,556	232,987	1,160	555,397	1,439,100	131,756	97,662	642,990	125,178	3,309	1,000,895	2,439,995
Administration	174,733	41,771	836	133,483	350,823	504,388	92,936	279,431	49,066	846	926,667	1,277,490
Depreciation	16,093	8,666	-	-	24,759	-	-	398	-	-	398	25,157
Travel and entertainment	56,811	10,532	1	36	67,380	90,819	3,875	22,816	3,567	1	121,078	188,458
Computer, video, and other expenses	18,855	6,255	87	23,955	49,152	7,566	1,399	29,395	8,175	91	46,626	95,778
<b>Total</b>	<u>\$ 4,676,546</u>	<u>\$ 1,558,278</u>	<u>\$ 23,103</u>	<u>\$ 18,436,106</u>	<u>\$ 24,694,033</u>	<u>\$ 4,687,057</u>	<u>\$ 546,199</u>	<u>\$ 1,466,867</u>	<u>\$ 414,467</u>	<u>\$ 5,344</u>	<u>\$ 7,119,934</u>	<u>\$ 31,813,967</u>

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2021 AND 2020

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	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,197,820	\$ 5,763,622
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	4,623	25,157
Net unrealized gain on investments	(3,045,471)	(266,134)
Net realized (gain) loss on investments	(200,688)	897,363
Changes in operating assets and liabilities:		
Receivables	524,216	(714,258)
Prepaid expenses and other current assets	(20,279)	20,201
Accounts payable and accrued liabilities	114,486	187,737
Deferred revenue	73,250	(93,890)
Payable to The NARAS Foundation	(10,321)	-
Payable to GRAMMY Museum	790	(2,781)
Payable to The Recording Academy	(255,256)	(771,058)
	<u>(616,830)</u>	<u>5,045,959</u>
Net cash (used in) provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,990,380)	(3,650,546)
Proceeds from sales and maturities of investments	<u>986,715</u>	<u>4,652,769</u>
	<u>(2,003,665)</u>	<u>1,002,223</u>
Net cash (used in) provided by investing activities		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,620,495)	6,048,182
CASH AND CASH EQUIVALENTS—Beginning of year	<u>7,747,371</u>	<u>1,699,189</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,126,876</u>	<u>\$ 7,747,371</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—		
In-Kind donations (Note 2)	<u>\$ 2,218,514</u>	<u>\$ 1,641,914</u>

See notes to financial statements.

# MUSICARES FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

### AS OF AND FOR THE YEARS ENDED JULY 31, 2021 AND 2020

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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. As of November 30, 2021, cumulative funds raised for this effort totaled approximately \$23,593,157, and \$24,082,273 in cumulative grants were distributed. Refer to Note 7 for current-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 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

**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 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 material activity in the Board-designated funds for the years ended July 31, 2021 and 2020.

**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, 2021 and 2020, such amounts totaled \$4,876,876 and \$7,497,371, 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, the COVID-19 Relief Fund, and Music on a Mission.

**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 at the Los Angeles Convention Center 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, 2020, MusiCares Foundation recognized \$8,281,229 of revenue from this event. 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, 2021 and 2020.

**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, 2021 and 2020, MusiCares Foundation recognized \$2,075,580 and \$20,288,013, 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 contributed services provided.

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 2021 were estimated to have a fair value of \$1,949,451 and were included in contributions and grants and Music on a Mission in the statement of activities. Donated goods and services received in 2020 were estimated to have a fair value of \$1,323,826 and were included in Person of the Year Dinner/Auction in the statement of activities.

In-kind donations from The Recording Academy relate to discounts on rental expenses, event tickets, and editorial content contributed in the amounts of \$269,063 and \$318,088 for the years ended July 31, 2021 and 2020, respectively (see Note 5).

**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, 2021 and 2020, 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 approximate 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 June 2018, the FASB issued Accounting Standards Update (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 provide a more robust framework for the determination. This update also provides additional guidance on whether a contribution is conditional. MusiCares Foundation adopted ASU No. 2018-08 as of and for the year ended July 31, 2020, for contributions received. The provisions of ASU No. 2018-08 were adopted for the year ended July 31, 2021, for contributions made, and it did not have an impact on MusiCares Foundation's financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 will supersede existing revenue recognition standards with a single model, unless those 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 update using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. The MusiCares Foundation has adopted ASU No. 2014-09 as amended for the year ended July 31, 2021. Analysis of

various provisions of this standard resulted in no significant changes in the way MusiCares Foundation recognizes revenue; therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

**New Accounting Pronouncements**—In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. The objective of this proposed ASU was to provide additional transparency in the presentation and disclosure of contributed nonfinancial assets, which are disclosed in the financial statements as donations in kind. The provisions of ASU No. 2020-07 are effective for MusiCares Foundation beginning August 1, 2021. MusiCares Foundation is currently evaluating the impact on the financial statements.

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.

**Reclassification**—Certain prior-year amounts have been reclassified for consistency with the current-year presentation. These reclassifications had no effect on the reported 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, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Financial assets at year-end:		
Cash and cash equivalents	\$ 5,126,876	\$ 7,747,371
Investments (excluding Board-designated amounts)	14,789,252	9,539,579
Receivables	272,435	796,651
Prepaid expenses and other current assets	<u>78,723</u>	<u>58,444</u>
 Total financial assets	 <u>\$ 20,267,286</u>	 <u>\$ 18,142,045</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, 2021 and 2020, are maintained in certificates of deposit 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.

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

	<b>Fair Value Measurements— July 2021</b>	<b>Quoted Prices in Active Markets for Identical Assets (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>

As of July 31, 2020, based on the fair value hierarchy outlined in FASB ASC 820, MusiCares Foundation's holdings are as follows:

	<b>Fair Value Measurements— July 2020</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>
Total cash equivalents	<u>\$ 1,049,117</u>	<u>\$ 1,049,117</u>
Investments:		
Mutual funds:		
US equity funds	\$ 8,324,873	\$ 8,324,873
Global equity funds	4,473,374	4,473,374
US fixed-income bond funds	6,893,493	6,893,493
Global fixed-income bond funds	<u>454,804</u>	<u>454,804</u>
Total investments	<u>\$ 20,146,544</u>	<u>\$ 20,146,544</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 2021 or 2020.

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 \$2,924,915 and \$4,762,318 in 2021 and 2020, respectively. The details about these contributions are described below:

	<b>2021</b>	<b>2020</b>
Cash contributions—general cash contributions:		
Contributions	\$ 2,500,150	\$ 2,542,636
Music on a Mission	105,648	-
Musicians Assistance Program Fund (program)	50,054	37,538
COVID-19 Relief Fund (program)	-	1,004,000
Person of the Year Dinner/Auction	-	818,500
Fund-raising	-	40,656
Natural Disaster Fund (program)	-	900
	<u>2,655,852</u>	<u>4,444,230</u>
Total cash contributions		
Noncash contributions:		
Discounted rent	268,463	317,188
Editorial content	600	-
GRAMMY show tickets	-	900
	<u>269,063</u>	<u>318,088</u>
Total noncash contributions		
Total cash and noncash contributions	<u>\$ 2,924,915</u>	<u>\$ 4,762,318</u>

Total contributions from The Recording Academy provided for approximately 15% and 13% of total support and revenue in 2021 and 2020, 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 ended July 31, 2022. 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 \$1,125,086 and \$1,160,645 in 2021 and 2020, respectively. Details about the operating expenses are as follows:

	<b>2021</b>	<b>2020</b>
Salaries and benefits	\$ 529,938	\$ 653,548
Rent expense	268,463	268,463
Other operating expenses (shared services)	<u>326,685</u>	<u>238,634</u>
Total expenses billed by The Recording Academy	<u>\$ 1,125,086</u>	<u>\$ 1,160,645</u>

MusiCares Foundation billed certain affiliated entities during 2021 and 2020 for the fair value of tickets for events held by MusiCares Foundation. GRAMMY Museum was billed for tickets related to the Person of the Year Dinner/Auction in the amount of \$86,000 in 2020. There were no billings in 2021 for the Person of the Year Dinner/Auction as the event was not held.

MusiCares Foundation was billed \$25,400 for 2020 by The Recording Academy for the fair value of tickets purchased by MusiCares Foundation related to the annual GRAMMY Awards telecast. There were no billings in 2021 for the GRAMMY Awards telecast as the show 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 matches its employees' elective deferral contributions up to the IRS maximum by a match of 50% and 25% for 2021 and 2020, respectively. During the years ended July 31, 2021 and 2020, MusiCares Foundation's matching contribution was \$44,014 and \$66,375, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. No discretionary match was made in 2021 or 2020.

## 7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of July 31, 2021 and 2020, are restricted for the following purpose:

	<b>2021</b>	<b>2020</b>
Natural Disaster Fund (formerly Hurricane/Flood Relief)	\$ 32,411	\$ 34,103
COVID-19 Relief Fund	<u>-</u>	<u>2,855,907</u>
Total	<u>\$ 32,411</u>	<u>\$ 2,890,010</u>

During the fiscal years ended July 31, 2021 and 2020, 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, 2021 and 2020, are as follows:

	<b>2021</b>	<b>2020</b>
Purpose/time restrictions accomplished:		
MAP Fund/Benefit Concert	\$ 184,648	\$ 177,905
Financial assistance program	1,729,715	44,879
Natural Disaster Fund (formerly Hurricane/Flood Relief)	1,967	23,103
COVID-19 Relief Fund	<u>4,931,487</u>	<u>18,436,106</u>
Total net assets released from purpose/time restrictions	<u>\$ 6,847,817</u>	<u>\$ 18,681,993</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 were from The Recording Academy. These donor-restricted contributions totaled \$2,075,580 and \$20,288,013 for the years ended July 31, 2021 and 2020, respectively. The satisfaction of these donor-restricted funds totaled \$4,931,487 and \$18,436,106 for the years ended July 31, 2021 and 2020, respectively.

In 2020, a major tornado hit Nashville, Tennessee. MusiCares Foundation 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 \$275 and \$17,636 for the years ended July 31, 2021 and 2020, respectively. The satisfaction of these donor-restricted funds totaled \$1,967 and \$23,103 for the years ended July 31, 2021 and 2020, respectively.

**8. PROPERTY**

Property as of July 31, 2021 and 2020, consisted of the following:

	<b>2021</b>	<b>2020</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>(299,563)</u>	<u>(294,940)</u>
 Property—net	 <u>\$ 74,521</u>	 <u>\$ 79,144</u>

Depreciation expense amounted to \$4,623 and \$25,157 in 2021 and 2020, respectively.

There were no gains or losses on disposal of property during the years ended July 31, 2021 and 2020.

**9. SUBSEQUENT EVENTS**

MusiCares Foundation has evaluated subsequent events through January 13, 2022, 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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