

MusiCares Foundation, Inc.

Financial Statements as of and for the
Years Ended July 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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

September 13, 2021

MUSICARES FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF JULY 31, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,747,371	\$ 1,699,189
Other receivables	796,651	82,393
Investments (Note 4)	20,146,544	21,779,996
Prepaid expenses and other current assets	<u>58,444</u>	<u>78,645</u>
Total current assets	28,749,010	23,640,223
PROPERTY (Note 8)	<u>79,144</u>	<u>104,301</u>
TOTAL	<u>\$ 28,828,154</u>	<u>\$ 23,744,524</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 701,024	\$ 513,287
Deferred revenue	277,876	371,766
Payable to The NARAS Foundation	10,321	10,321
Payable to GRAMMY Museum	-	2,781
Payable to The Recording Academy	<u>364,611</u>	<u>1,135,669</u>
Total current liabilities	<u>1,353,832</u>	<u>2,033,824</u>
COMMITMENTS AND CONTINGENCIES (Note 2)		
NET ASSETS (Note 2):		
Net assets without donor restrictions:		
General	13,977,347	11,071,803
Board-designated 20th Anniversary Campaign (Note 2)	<u>10,606,965</u>	<u>10,600,227</u>
Total net assets without donor restrictions	24,584,312	21,672,030
Net assets with donor restrictions	<u>2,890,010</u>	<u>38,670</u>
Total net assets	<u>27,474,322</u>	<u>21,710,700</u>
TOTAL	<u>\$ 28,828,154</u>	<u>\$ 23,744,524</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Person of the Year Dinner/Auction	\$ 8,281,229	\$ -	\$ 8,281,229	\$ 8,398,289	\$ -	\$ 8,398,289
Contributions from The Recording Academy	2,901,380	1,042,438	3,943,818	2,663,854	39,075	2,702,929
Concert for Recovery (formerly MAP Benefit Concert)	-	-	-	-	316,605	316,605
Natural Disaster Fund (formerly Hurricane/Flood Relief)	-	17,636	17,636	-	15,965	15,965
COVID-19 Relief Fund	-	20,288,013	20,288,013	-	-	-
Other fund-raising auctions	449,676	-	449,676	269,452	-	269,452
Other income—net	3,968,830	185,246	4,154,076	1,260,104	361,653	1,621,757
Interest and dividend income	1,074,370	-	1,074,370	1,342,185	-	1,342,185
Unrealized gain (loss) on investments—net	266,134	-	266,134	(676,361)	-	(676,361)
Realized (loss) gain on investments—net	(897,363)	-	(897,363)	30,200	-	30,200
Total support and revenue	16,044,256	21,533,333	37,577,589	13,287,723	733,298	14,021,021
NET ASSETS RELEASED FROM RESTRICTIONS (Note 7)—						
Satisfaction of purpose/time restrictions	18,681,993	(18,681,993)	-	722,118	(722,118)	-
PROGRAM SERVICES AND SUPPORTING EXPENSES:						
Program services:						
Financial assistance program	4,676,546	-	4,676,546	5,982,341	-	5,982,341
MAP Fund	1,558,278	-	1,558,278	1,888,126	-	1,888,126
Natural Disaster Fund (formerly Hurricane Relief/Flood Relief)	23,103	-	23,103	4,785	-	4,785
COVID-19 Relief Fund	18,436,106	-	18,436,106	-	-	-
Total program services	24,694,033	-	24,694,033	7,875,252	-	7,875,252

(Continued)

MUSICARES FOUNDATION, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JULY 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Supporting expenses:						
Person of the Year Dinner/Auction	\$ 4,687,057	\$ -	\$ 4,687,057	\$ 5,402,395	\$ -	\$ 5,402,395
General fund-raising	546,199	-	546,199	359,143	-	359,143
Administration	1,466,867	-	1,466,867	923,777	-	923,777
20th Anniversary Campaign	-	-	-	25	-	25
Other fundraising auctions	414,467	-	414,467	322,833	-	322,833
MAP Benefit Concert	5,344	-	5,344	374,392	-	374,392
	<u>7,119,934</u>	<u>-</u>	<u>7,119,934</u>	<u>7,382,565</u>	<u>-</u>	<u>7,382,565</u>
Total supporting expenses						
Total program services and supporting expenses	<u>31,813,967</u>	<u>-</u>	<u>31,813,967</u>	<u>15,257,817</u>	<u>-</u>	<u>15,257,817</u>
INCREASE/(DECREASE) IN NET ASSETS	2,912,282	2,851,340	5,763,622	(1,247,976)	11,180	(1,236,796)
NET ASSETS:						
Beginning of year	<u>21,672,030</u>	<u>38,670</u>	<u>21,710,700</u>	<u>22,920,006</u>	<u>27,490</u>	<u>22,947,496</u>
End 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>

See notes to financial statements.

(Concluded)

MUSICARES FOUNDATION, INC.

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

	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 Fundraising	Administration	Other Fundraising 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
Total	<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.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JULY 31, 2019

	Program Services				Supporting Services								Total
	Financial Assistance Program	MAP Fund	Natural Disaster Relief	Total Program Services	Person of the Year Dinner/Auction	General Fundraising	Administration	20th Anniversary Campaign	Other Fundraising Auctions	MAP Benefit Concert	Total Supporting Expenses		
Event expenses	\$ 2,291	\$ 18,227	\$ -	\$ 20,518	\$4,257,739	\$101,945	\$ 1,500	\$ -	\$ 32,831	\$146,230	\$4,540,245	\$ 4,560,763	
Financial grants and assistance	4,348,461	1,365,454	4,765	5,718,680	-	-	500	-	-	12,205	12,705	5,731,385	
Professional fees	206,071	105,927	-	311,998	381,134	72,193	259,521	-	114,478	36,212	863,538	1,175,536	
Salaries and benefits	1,084,725	298,472	-	1,383,197	242,393	95,219	408,235	-	131,277	68,422	945,546	2,328,743	
Administration	210,881	50,587	20	261,488	407,591	55,424	224,772	25	32,849	26,840	747,501	1,008,989	
Depreciation	36,875	19,856	-	56,731	-	-	199	-	-	-	199	56,930	
Travel and entertainment	77,705	26,052	-	103,757	90,921	12,051	8,618	-	9,328	81,335	202,253	306,010	
Computer, video, and other expenses	15,332	3,551	-	18,883	22,617	22,311	20,432	-	2,070	3,148	70,578	89,461	
Total	<u>\$5,982,341</u>	<u>\$1,888,126</u>	<u>\$4,785</u>	<u>\$7,875,252</u>	<u>\$5,402,395</u>	<u>\$359,143</u>	<u>\$923,777</u>	<u>\$25</u>	<u>\$322,833</u>	<u>\$374,392</u>	<u>\$7,382,565</u>	<u>\$15,257,817</u>	

See notes to financial statements.

MUSICARES FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 5,763,622	\$(1,236,796)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	25,157	56,930
Net unrealized (gain) loss on investments	(266,134)	676,361
Net realized (gain) loss on investments	897,363	(30,200)
Changes in operating assets and liabilities:		
Receivable from The NARAS Foundation	-	179,222
Receivable from GRAMMY Museum	-	93,582
Payable to The Recording Company	(771,058)	245,972
Other receivables	(714,258)	193,378
Prepaid expenses and other current assets	20,201	38,759
Accounts payable and accrued liabilities	187,737	136,031
Deferred revenue	(93,890)	292,571
Payable to GRAMMY Museum	(2,781)	2,781
Payable to The NARAS Foundation	-	10,321
	<u>5,045,959</u>	<u>658,912</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,650,546)	(3,434,739)
Proceeds from sales and maturities of investments	4,652,769	2,365,183
Purchases of property	-	(21,931)
	<u>1,002,223</u>	<u>(1,091,487)</u>
Net cash provided by (used in) investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,048,182	(432,575)
CASH AND CASH EQUIVALENTS— Beginning of year	<u>1,699,189</u>	<u>2,131,764</u>
CASH AND CASH EQUIVALENTS— End of year	<u>\$ 7,747,371</u>	<u>\$ 1,699,189</u>
SUPPLEMENTAL CASH FLOW INFORMATION—		
In-Kind donations (Note 2)	<u>\$ 1,641,914</u>	<u>\$ 2,222,899</u>

See notes to financial statements.

MUSICARES FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JULY 31, 2020 AND 2019

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 July 31, 2021, cumulative funds raised for this effort totaled approximately \$23,690,357, and \$23,921,206 in cumulative grants 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 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 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.

For fiscal years ended July 31, 2020 and 2019, 20th Anniversary Campaign administrative costs were paid from campaign funds.

There was no material activity in the Board-designated funds for the years ended July 31, 2020 and 2019.

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, 2020 and 2019, such amounts totaled \$7,497,371 and \$1,416,961, 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.

Sponsorships—Certain services received in exchange for the right for affiliation with the MusiCares Foundation trademarks and official programs are included in Person of the Year Dinner/Auction, Concert for Recovery (formerly MAP Benefit Concert), and Other Income, net.

In-Kind Donations—In-kind donations relate to goods and services that are donated by vendors and given to MusiCares Foundation Person of the Year participants or used for other fund-raising and program purposes. Donated goods and services received in 2020 were estimated to have a fair value of \$1,323,826 and were included in Person of the Year Dinner/Auction revenue. Donated goods and services received in 2019 were estimated to have a fair value of \$1,933,318 and were included in Person of the Year Dinner/Auction revenue of \$1,923,406 and MAP Benefit Concert revenue of \$9,912.

In-kind donations from The Recording Academy relate to discounts on rental expenses and event tickets contributed in the amounts of \$318,088 and \$289,581 for the years ended July 31, 2020 and 2019, respectively (see Note 5).

Contributed goods and services are reported as contributions at their fair values if such goods and services create or enhance nonfinancial assets, would have been purchased if not provided by contribution or requiring specialized skills, and are provided by individuals possessing such specialized skills.

Donor-Restricted Gifts—Unconditional promises to give cash and other assets are reported at fair value at the date the promises are received. Conditional promises to give are reported at fair value at the date the conditions are substantially met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions (see Note 7).

Functional Expenses—The costs of providing program and other activities have been summarized in the statement 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, 2020 and 2019, MusiCares Foundation did not record any liability for unrecognized tax benefits.

Financial Instruments—Financial instruments consist of cash equivalents, other receivables, investments, accounts payable and accrued liabilities, and receivables and payables from 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.

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

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

As described above, in June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The provisions of ASU No. 2018-08 are effective beginning August 1, 2020, for contributions made. MusiCares Foundation is currently evaluating the effect this guidance will have on MusiCares Foundation's financial statements and related disclosures.

3. AVAILABILITY AND LIQUIDITY

The following represents MusiCares Foundation's financial assets available within one year for general expenditure at July 31, 2020 and 2019:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	\$ 7,747,371	\$ 1,699,189
Operating investments	9,539,579	11,179,769
Accounts and interest receivable—net	796,651	82,393
Prepaid expenses and other current assets	<u>58,444</u>	<u>78,645</u>
 Total financial assets	 <u>\$ 18,142,045</u>	 <u>\$ 13,039,996</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, 2020 and 2019, are maintained in certificates of deposit (CDs) and mutual funds that primarily invest in equity securities and fixed-income investments.

MusiCares Foundation presents its investments in accordance with FASB ASC 820, *Investments*. FASB ASC 820 requires classifying holdings as Level 1, Level 2, or Level 3 in a fair value hierarchy based upon various inputs or methodologies used to value the holdings as summarized below:

Level 1—Quoted prices in active markets for identical assets.

MusiCares Foundation's Level 1 investments include cash equivalents and investments registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940.

Cash equivalents represent cash held by MusiCares Foundation's investment managers, which will be invested based on MusiCares Foundation's investment strategy. Cash equivalents are included within cash and cash equivalents in the statements of financial position.

Level 2—Significant observable market-based inputs, other than Level 1 quoted prices, or unobservable inputs that are corroborated by market data.

As of July 31, 2019, MusiCares Foundation's Level 2 investments include CDs, which represent time deposits that bear maturity dates and fixed interest rates. These CDs are not traded in active markets. As values can be corroborated by market data, CDs are classified as Level 2.

Level 3—Significant unobservable inputs that are not corroborated by observable market data.

MusiCares Foundation does not hold any investments classified as Level 3.

The inputs or methodologies used for valuing MusiCares Foundation’s holdings are not necessarily an indication of the risks associated with investing in those holdings.

The fair values of mutual funds included in Level 1 are determined by obtaining quoted prices on nationally recognized securities exchanges. The CDs included in Level 2 are valued utilizing inputs obtained from an independent pricing service. The fair value is determined by obtaining quoted prices for similar assets in active markets or through the use of pricing models supported with market data information.

Management judgment is required to develop estimates of fair value for certain holdings. Accordingly, the estimates presented below are not necessarily indicative of the amounts MusiCares Foundation could have realized in an actual market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

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

	Fair Value Measurements— July 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Market-Based Inputs (Level 2)
Total cash equivalents	<u>\$ 1,049,117</u>	<u>\$ 1,049,117</u>	<u>\$ -</u>
Investments:			
Certificates of deposit			
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>	<u>-</u>
Total investments	<u>\$ 20,146,544</u>	<u>\$ 20,146,544</u>	<u>\$ -</u>

As of July 31, 2019, based on the fair value hierarchy outlined in FASB ASC 820, MusiCares Foundation's holdings are as follows:

	Fair Value Measurements— July 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Market-Based Inputs (Level 2)
Total cash equivalents	<u>\$ 126,590</u>	<u>\$ 126,590</u>	<u>\$ -</u>
Investments:			
Certificates of deposit	906,946	-	906,946
Mutual funds:			
US equity funds	9,388,953	9,388,953	-
Global equity funds	4,223,189	4,223,189	-
US fixed-income bond funds	6,680,008	6,680,008	-
Global fixed-income bond funds	<u>580,900</u>	<u>580,900</u>	<u>-</u>
Total investments	<u>\$ 21,779,996</u>	<u>\$ 20,873,050</u>	<u>\$ 906,946</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 2020 or 2019.

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 \$4,762,318 and \$3,370,828 in 2020 and 2019, respectively. The details about these contributions are described below:

	2020	2019
Cash contributions—general cash contributions:		
General contributions	\$ 2,542,636	\$ 2,374,273
Person of the Year Dinner/Auction	818,500	652,750
Musicians Assistance Program Fund (program)	37,538	39,074
MAP Benefit Concert (program)	-	15,150
Natural Disaster Relief (program)	900	-
COVID-19 Relief Fund (program)	1,004,000	-
General Fundraising	<u>40,656</u>	<u>-</u>
Total cash contributions	<u>4,444,230</u>	<u>3,081,247</u>
Noncash contributions:		
Discounted rent	317,188	265,781
GRAMMY show tickets	<u>900</u>	<u>23,800</u>
Total noncash contributions	<u>318,088</u>	<u>289,581</u>
Total cash and noncash contributions	<u>\$ 4,762,318</u>	<u>\$ 3,370,828</u>

Total contributions from The Recording Academy provided for approximately 13% and 24% of total support and revenue in 2020 and 2019, 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 general cash contribution payment of \$2,500,000 to MusiCares Foundation for the fiscal year ended July 31, 2021. 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 \$1,160,645 and \$855,181 in 2020 and 2019, respectively. Details about the operating expenses are as follows:

	2020	2019
Salaries and benefits	\$ 653,548	\$ 458,667
Rent expense	268,463	210,591
Other operating expenses (shared services)	<u>238,634</u>	<u>185,923</u>
Total expenses billed by The Recording Academy	<u>\$ 1,160,645</u>	<u>\$ 855,181</u>

MusiCares Foundation billed certain affiliated entities during 2020 and 2019 for the face 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 and \$56,500 in 2020 and 2019, respectively.

MusiCares Foundation was billed \$25,400 and \$24,200 for 2020 and 2019, respectively, by The Recording Academy for the face value of tickets purchased by MusiCares Foundation related to the annual GRAMMY awards telecast.

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 25% and 50% for 2020 and 2019, respectively. During the years ended July 31, 2020 and 2019, MusiCares Foundation's matching contribution was \$66,375 and \$72,513, respectively. Additionally, for each plan year, MusiCares Foundation has the option of making an employer discretionary match. No discretionary match was made in 2020 or 2019.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of July 31, 2020 and 2019, are restricted for the following purpose:

	2020	2019
Natural Disaster Fund (formerly Hurricane/Flood Relief)	\$ 34,103	\$ 38,670
COVID-19 Relief Fund	<u>2,855,907</u>	<u>-</u>
Total	<u>\$ 2,890,010</u>	<u>\$ 38,670</u>

During the fiscal years ended July 31, 2020 and 2019, 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, 2020 and 2019, are as follows:

	2020	2019
Purpose/time restrictions accomplished:		
MAP Fund/Benefit Concert	\$ 177,905	\$ 534,037
Financial assistance program	44,879	183,297
Natural Disaster Fund (formerly Hurricane/Flood Relief)	23,103	4,784
COVID-19 Relief Fund	<u>18,436,106</u>	<u>-</u>
Total net assets released from purpose/time restrictions	<u>\$ 18,681,993</u>	<u>\$ 722,118</u>

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 \$17,636 and \$15,965 for the year ended July 31, 2020 and

2019, respectively. The satisfaction of these donor restricted funds totaled \$23,103 and \$4,785 for the year ended July 31, 2020 and 2019, respectively.

On March 17, 2020, MusiCares Foundation and the Recording Academy established the COVID-19 Relief fund. These donor restricted contributions totaled \$20,288,013 for the year ended July 31, 2020. The satisfaction of these donor restricted funds totaled \$18,436,106 for the year ended July 31, 2020.

8. PROPERTY

Property as of July 31, 2020 and 2019, consisted of the following:

	2020	2019
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>(294,940)</u>	<u>(269,783)</u>
 Property–net	 <u>\$ 79,144</u>	 <u>\$ 104,301</u>

Depreciation expense amounted to \$25,157 and \$56,930 in 2020 and 2019, respectively.

There were no gains or losses on disposal of property during the years ended July 31, 2020 and 2019.

9. SUBSEQUENT EVENTS

MusiCares Foundation has evaluated subsequent events through September 13, 2021, the date the financial statements were available to be issued, and has determined there are subsequent events that require disclosure in these audited financial statements.

On May 13, 2021, The Recording Academy's Board of Trustees appointed Harvey Mason Jr., as the Academy's President/CEO effective June 1, 2021. He had been serving as Interim President /CEO since March 2, 2020. The President/CEO of the Recording Academy also serves as the President/CEO of MusiCares Foundation. Prior to his appointment as President/CEO of the Recording Academy, Harvey Mason, Jr. also served as Chair of the Recording Academy Board of Trustees and a Director on the MusiCares Foundation Board.

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