

D'Addario Foundation, Inc.

Financial Statements

December 31, 2020

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Directors
D'Addario Foundation, Inc.

We have audited the accompanying financial statements of D'Addario Foundation, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, statement of functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' judgement, 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 the entity'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 the entity'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.

Independent Auditors' Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of D'Addario Foundation, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of marketable securities on page 12 and the schedule of marketable securities restricted to the college scholarship fund on page 13 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Carney, Pacheco & Frangiosa, P.C.

Carney, Pacheco & Frangiosa, P.C.

Woodbury, NY

November 9, 2021

D'Addario Foundation, Inc.

Statement of Financial Position

December 31, 2020

Assets

Current Assets	
Cash and cash equivalents	\$ 65,810
Marketable securities (Schedule 1)	284,100
Prepaid expenses	8,316
Contribution receivable	<u>-</u>
Total Current Assets	<u>358,226</u>
Equipment (Note 4)	<u>1,079</u>
Other Assets	
Cash restricted to the college scholarship fund	60,123
Marketable securities restricted to the college scholarship fund (Schedule 2)	<u>219,493</u>
Total Other Assets	<u>279,616</u>
Total Assets	<u><u>\$ 638,921</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable and accrued expenses	\$ 7,075
Grant payable (Note 5)	140,096
Scholarships payable (Note 9)	<u>38,000</u>
Total Current Liabilities	<u>185,171</u>
Long Term Liabilities	
Grant payable (Note 5)	-
Scholarships payable (Note 9)	<u>72,000</u>
Total Long Term Liabilities	<u>72,000</u>
Total Liabilities	257,171
Net Assets	
Without donor restrictions	227,235
With donor restrictions	<u>154,515</u>
Total Net Assets	<u>381,750</u>
Total Net Assets and Liabilities	<u><u>\$ 638,921</u></u>

D'Addario Foundation, Inc.

Statement of Activities

For the Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and gains:			
Contributions	\$ 713,090	\$ 1,150	\$ 714,240
Investment return, net	42,451	14,628	57,079
	<u>755,541</u>	<u>15,778</u>	<u>771,319</u>
Total revenues and gains			
Expenses:			
Performance series	-	-	-
Long Island Lesson Program	49,926	-	49,926
Scholarship Program	-	78,284	78,284
Grants	537,051	-	537,051
Management and general	207,685	-	207,685
Fundraising	-	-	-
	<u>794,662</u>	<u>78,284</u>	<u>872,946</u>
Total expenses			
Change in net assets before unrealized gain on marketable securities	(39,121)	(62,506)	(101,627)
Unrealized gain on marketable securities	24,806	23,415	48,221
Change in net assets	(14,315)	(39,091)	(53,406)
Net Assets - January 1, 2020	<u>241,549</u>	<u>193,606</u>	<u>435,155</u>
Net Assets - December 31, 2020	<u>\$ 227,235</u>	<u>\$ 154,515</u>	<u>\$ 381,750</u>

D'Addario Foundation, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2020

	Program Services				Supporting Services		Total
	Performance Series	Long Island Lesson Program	Scholarship Program	Grants	Management and General	Fundraising	
Advertising and promotion costs	\$ -	\$ -	\$ -	\$ -	\$ 7,389	\$ -	\$ 7,389
Bank charges and credit card fees	-	-	-	-	2,578	-	2,578
Bookkeeping services	-	-	-	-	20,800	-	20,800
Concert events	-	-	-	-	-	-	-
Depreciation	-	-	-	-	1,010	-	1,010
Director's benefits	-	1,799	-	8,995	25,187	-	35,981
Director's compensation	-	5,616	-	28,078	78,618	-	112,312
Donations	-	-	-	485,284	-	-	485,284
Dues and subscriptions	-	-	-	-	973	-	973
Employee benefits	-	356	535	1,069	1,604	-	3,564
Employee compensation	-	3,532	5,298	10,596	15,894	-	35,320
Filing fees and excise tax	-	-	-	-	100	-	100
Fundraising expenses	-	-	-	-	-	-	-
Music equipment rental and repairs	-	3,130	-	-	-	-	3,130
Office expenses	-	-	-	-	5,045	-	5,045
Payroll taxes	-	726	451	3,029	7,308	-	11,514
Performing arts camp	-	1,024	-	-	-	-	1,024
Professional fees	-	33,743	-	-	37,013	-	70,756
Production fees	-	-	-	-	-	-	-
Rent	-	-	-	-	2,103	-	2,103
Scholarships	-	-	72,000	-	-	-	72,000
Telephone	-	-	-	-	1,804	-	1,804
Transportation	-	-	-	-	-	-	-
Travel	-	-	-	-	259	-	259
Total Expenses	\$ -	\$ 49,926	\$ 78,284	\$ 537,051	\$ 207,685	\$ -	\$ 872,946

D'Addario Foundation, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2020

Cash flows from operating activities:	
Change in net assets	\$ (53,406)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	\$ 1,010
Realized gain on investments	(40,173)
Unrealized gain on marketable securities	(48,221)
Increase in prepaid expenses	(8,316)
Decrease in contribution receivable	15,000
Decrease in accounts payable and accrued expenses	(1,030)
Increase in scholarships payable	47,000
Increase in grants payable	64,096
Total Adjustments	<u>29,366</u>
Net cash used in operating activities	(24,040)
Cash flows from investing activities:	
Purchase of equipment	
Purchase of marketable securities	(359,151)
Proceeds from sale of marketable securities	<u>434,942</u>
Net cash provided by investing activities	<u>75,791</u>
Net Increase in cash, cash equivalents and restricted cash	51,752
Cash, cash equivalents and restricted cash - January 1, 2020	<u>74,181</u>
Cash, cash equivalents and restricted cash - December 31, 2020	<u>\$ 125,933</u>
Supplemental Information:	
Interest Paid	<u>\$ -</u>
Income Taxes Paid	<u>\$ -</u>

December 31, 2020

Note 1 - Summary of Significant Accounting Policies

Nature of the Foundation

D'Addario Foundation, Inc. (the Foundation) was established in 1982 as a non-profit corporate foundation committed to inspiring and assisting the growth and appreciation of music throughout the world. The focus of the Foundation's giving is in the areas of stringed musical instruments as well as band and orchestral instruments, primarily through the support of educational programs and events, as well as performance-based activities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Equipment

The Foundation capitalizes equipment over \$2,500. Lesser amounts are expensed. Purchased equipment is capitalized at cost. The Foundation's equipment is depreciated using primarily the straight-line method. Depreciation for the year ended December 31, 2020 was \$1,010.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair values in the statement of financial position. Unrealized gains and losses are included in the change of net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

Cash and Marketable Securities Restricted to the College Scholarship Fund

Cash and marketable securities restricted to the college scholarship fund has been restricted by donors and is not available for operating purposes.

Contribution Receivable

Contributions that have not been collected as of year-end are recorded as contributions receivable in the accompanying statement of financial position. There were no contribution receivables as of December 31, 2020.

Contributed Services

Amounts have been reflected in the financial statements for donated services. The Foundation generally pays for services requiring specific expertise. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services. However, the director's and employee's compensation, benefits, bookkeeping and legal services provided by the staff of a company controlled by the board members of the Foundation were donated and reflected as contributed services. Also, the use of office space in Brooklyn, NY was donated to the Foundation by a related party.

Note 1 -

Summary of Significant Accounting Policies (continued)

Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Foundation uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. As of December 31, 2020, the Foundation had a net allowance of \$0.

Advertising and Promotion Costs

The Foundation expenses advertising and promotion costs as incurred. Advertising and promotion costs were \$7,389 for the year ended December 31, 2020.

Functional Allocation of Expenses

The costs providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, costs have been allocated among the program services and supporting services benefited.

Income Taxes

The Foundation is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation has investment income which makes it subject to an excise tax. The accompanying financial statements do reflect a provision for excise tax and is in the supporting services of the functional expenses.

The Foundation's form 990PF, Return of Private Foundation, for the years ending 2019, 2018, and 2017 are subject to examination by the IRS, generally for three years after they were filed.

D'Addario Foundation, Inc.

Notes to Financial Statements

December 31, 2020

Note 2 - Concentration of Credit Risk

The Foundation maintains a cash balance at one financial institution. The account is insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At December 31, 2020, the Foundation's uninsured cash balance was \$0.

Note 3 - Restrictions on Net Assets

Net assets with donor restrictions are restricted for the following purposes:

Donor restricted net assets to fund the college scholarship fund	\$ <u>154,515</u>
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The D'Addario Foundation college scholarship fund's purpose is to encourage high-need students, who have already committed years of time to the community based non-profit music education programs supported by the D'Addario Foundation, to apply to and attend college. Many students that qualify are the first generation in their family to attend college and the scholarship award aligns with the D'Addario Foundation's core mission to nurture the educational and social development of underserved children through robust, socially responsible music education programs. Recipients will each receive \$1,000 per semester for four years, or the length of their college tenure, and don't have to declare music as a major or minor to qualify.

Note 4 - Equipment

Equipment consists of the following:

Computer equipment	\$ 4,071
Music equipment	10,150
Accumulated depreciation	<u>(13,142)</u>
Net Equipment	\$ <u>1,079</u>

Note 5 - Grants Payable

Grants payable consists of multi-year grants and grants awarded to non-profit organizations, but not paid as of the year end. The Foundation's multi-year grants are provided to selected organizations. The organizations are provided a grant for the current year and will receive the same grant the following year. Organizations who receive multi-year grants do not need to complete subsequent applications during the term of the grant. The Foundation offers 2-year and 3-year multi-year grants. The total grants payable as of December 31, 2020 was \$140,096.

Aggregate payments of the grants are as follows:

For the years ending December 31,

2021	\$ 140,096
2022	-
Thereafter	<u>\$ 140,096</u>

December 31, 2020

Note 6 - Investments and Fair Value Measurements

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2020, are as follows:

<u>Description</u>	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 125,933	\$ 125,933	\$ -	\$ -
Investments in Marketable Securities (Schedules 1 & 2)	\$ 503,593	\$ 503,593	\$ -	\$ -
Total Assets at Fair Value	\$ 629,526	\$ 629,526	\$ -	\$ -

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of other than quoted prices that are observable for the asset, either directly or indirectly, and Level 3 inputs which are significantly unobservable and have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 and 3 inputs will be used only when Level 1 inputs are not available.

Note 7 - Fundraising

The Foundation did not sponsor any fundraisers during the year ended December 31, 2020. The purpose of the fundraiser is to promote and receive contributions to support programs that bring music back into communities and schools. The Foundation plans to hold additional fundraisers in future years.

Note 8 - Long Island Lesson Program

D'Addario Foundation provides an intensive beginner string program to a school district on Long Island. The Foundation hired consultants to run the program which brings an intensive after-school music program to a community with limited access to instrumental music education. They work with the schools to create a program that teaches children to read music, play orchestral instruments and perform in ensembles. By training young musicians and building youth orchestras in underserved neighborhoods, the Long Island Lesson Program works not only to shape the lives of children but also to engage and inspire their parents and their broader communities. Due to COVID-19, the lesson program was held virtually for the majority of 2020.

December 31, 2020

Note 9- Scholarships Payable

The Foundation offers college scholarships to students who are enrolled in the music programs of the non-profit organizations which the Foundation awards grants to. To qualify for a scholarship, the student must be enrolled in the program for at least 3 years, be in good standing with the program and have already applied and be accepted to a higher learning institution. The scholarships granted are up to \$8,000 in total per student, disbursed over eight payments/four years. Twice a year, the scholars submit their grades from the previous semester and proof of enrollment for the following semester. Students need to maintain a 2.5 GPA and be enrolled full time to receive the full payments of \$1,000 per semester. The total scholarships payable as of December 31, 2020 was \$110,000.

Aggregate payments of the scholarships are as follows:

For the years ending December 31,

2021	\$ 38,000
2022	36,000
2023	27,000
2024	9,000
Thereafter	-
	<u>\$ 110,000</u>

Note 10 - In-kind Donations

The Foundation accepts in-kind donations from supporters to help the Foundation's fundraisers. The in-kind donations consist of goods and services. For the year ended December 31, 2020 the Foundation did not receive any in-kind donations from supporters. The Foundation also receives product donations from D'Addario & Co., a related party. The cost value of the product donations for year ended December 31, 2020 was \$19,688.

Note 11 - Related Party Transactions

During the year ended December 31, 2020, the Foundation received support of \$563,493, which consisted of cash, in-kind product and contributed services from board members and entities controlled by members of the governing board.

Note 12 - Subsequent Events

The Foundation has evaluated subsequent events through November 9, 2021, the date which the financial statements were available to be issued for possible disclosure and recognition in the financial statements. Included in the evaluation was consideration of the effects of COVID-19. Due to the spread of the virus, management has not discerned a substantial impact on operations.

SUPPLEMENTARY INFORMATION

Schedule of Marketable Securities

For the Year Ended December 31, 2020

	Number of Shares	Cost Basis	Fair Market Valuc
<u>Marketable Securities</u>			
Ishares Broad USD High Yield Corp Bond ETF	68	\$ 2,809	\$ 2,806
Ishares Core S&P Small Cap	325	23,769	29,867
Ishares Core US Aggregate Bond ETF	126	13,822	14,892
JP Morgan US Large Cap Core Plus	928	23,483	22,428
Metro West T/R BD CL I	2,100	22,665	23,497
SPDR Bloomberg Barclays High	104	9,531	9,518
Vanguard FTSE Developed Markets	1,028	43,273	48,532
Vanguard FTSE Emerging Markets ETF	180	7,539	9,020
Vanguard Mid Cap ETF	270	48,668	55,828
Vanguard S&P 500	181	48,166	62,208
Vanguard Total Intl Bond Index	94	5,249	5,504
Total Marketable Securities		<u>\$ 248,974</u>	<u>\$ 284,100</u>

Schedule of Marketable Securities Restricted to College Scholarship Fund

For the Year Ended December 31, 2020

	<u>Number of Shares</u>	<u>Cost Basis</u>	<u>Fair Market Value</u>
<u>Marketable Securities</u>			
Ishares Broad USD High Yield Corp Bond ETF	53	\$ 2,182	\$ 2,187
Ishares Core S&P Small Cap	252	17,826	23,159
Ishares Core US Aggregate Bond ETF	98	10,367	11,583
JP Morgan US Large Cap Core Plus	685	18,284	16,568
Metro West T/R BD CL I	1,628	17,033	18,221
SPDR Bloomberg Barclays High	80	7,330	7,321
Vanguard FTSE Developed Markets	797	33,594	37,626
Vanguard FTSE Emerging Markets ETF	140	5,824	7,015
Vanguard Mid Cap ETF	210	36,174	43,422
Vanguard S&P 500	140	34,959	48,117
Vanguard Total Intl Bond Index	73	4,009	4,274
		<u>\$ 187,582</u>	<u>\$ 219,493</u>
Total Marketable Securities			