

THE HYDE AND WATSON FOUNDATION
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2020 AND 2019

Dated:
New York, NY
May 12, 2021

THE HYDE AND WATSON FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Directors of
The Hyde and Watson Foundation

We have audited the accompanying financial statements of The Hyde and Watson Foundation (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets - modified cash basis as of December 31, 2020 and 2019, and the related statements of revenues, expenditures, grants and changes in net assets - modified cash basis and statements of functional expenses – modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 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' 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 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 assets, liabilities and net assets of The Hyde and Watson Foundation as of December 31, 2020 and 2019 and its revenues, expenditures, grants and changes in net assets for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of net investment income, schedule of qualifying distributions on pages 12 - 13 is presented for purposes of additional analysis and is 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 the 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.

New York, NY
May 12, 2021

McGrath & Company, LLP

The Hyde and Watson Foundation
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
 MODIFIED CASH BASIS
 DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Cash and cash equivalents	\$ 3,761,806	\$ 3,868,331	\$ (106,525)
Due from funds	1,060,995	2,000,000	(939,005)
Prepaid excise tax	<u>27,114</u>	<u>27,114</u>	<u>(27,114)</u>
Total current assets	<u>4,822,801</u>	<u>5,895,445</u>	<u>(1,072,644)</u>
Investments at fair values (Note 2)			
Cash and cash equivalents	822,419	2,924,542	(2,102,123)
Equities	37,653,862	25,429,088	12,224,774
Mutual funds	12,734,261	11,701,128	1,033,133
Managed investment funds	<u>98,485,842</u>	<u>77,737,852</u>	<u>20,747,990</u>
Total investments	<u>149,696,384</u>	<u>117,792,610</u>	<u>31,903,774</u>
Property, furniture, fixtures, and equipment at cost (Note 3)			
Furniture, fixtures, and equipment - net	7,396	8,360	(964)
Office condominium units - net	<u>669,109</u>	<u>699,309</u>	<u>(30,200)</u>
Total property, furniture, fixtures and equipment	<u>676,505</u>	<u>707,669</u>	<u>(31,164)</u>
TOTAL ASSETS	<u><u>\$ 155,195,690</u></u>	<u><u>\$ 124,395,724</u></u>	<u><u>\$ 30,799,966</u></u>
Liabilities:			
Excise Tax Payable	3,715		3,175
Total liabilities	<u>3,715</u>	<u>-</u>	<u>3,715</u>
Net assets:			
Without donor restrictions	155,191,975	124,395,724	30,796,251
Grant commitments outstanding	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets without donor restrictions	<u>155,191,975</u>	<u>124,395,724</u>	<u>30,796,251</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 155,195,690</u></u>	<u><u>124,395,724</u></u>	<u><u>\$ 30,799,966</u></u>

See notes to financial statements.

The Hyde and Watson Foundation
STATEMENTS OF REVENUES, EXPENDITURES, GRANTS AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
REVENUES			
Dividends	\$ 239,194	\$ 385,579	\$ (146,385)
Interest	661	9,184	(8,523)
Managed investment funds (limited partnerships) - net income	<u>711,092</u>	<u>772,478</u>	<u>(61,386)</u>
Total revenues	<u>950,947</u>	<u>1,167,241</u>	<u>(216,294)</u>
EXPENDITURES			
Salaries	593,736	573,914	19,822
Pension expenditure (Note 4)	126,577	121,803	4,774
Payroll taxes	42,719	41,506	1,213
Hospitalization and major medical	198,777	211,410	(12,633)
Life and disability insurance	7,205	6,971	234
Custodian fees and bank charges	10,610	9,640	970
Investment consulting fee	200,000	200,000	-
Investment management fees	255,618	302,811	(47,193)
Directors' fees	9,800	11,400	(1,600)
Audit fees	20,000	18,000	2,000
Legal fees	14,329	-	14,329
Facilities maintenance	22,706	23,561	(855)
Real estate tax - condominium units	15,732	15,489	243
Telephone	5,219	5,620	(401)
Administrative supplies and services	25,637	27,789	(2,152)
Pension consultant	8,506	7,370	1,136
Subscriptions and publications	967	999	(32)
Insurance	37,699	24,808	12,891
Membership dues	2,970	2,445	525
Conferences and meetings	-	1,773	(1,773)
Board and committee meetings	620	1,599	(979)
State filing fees	1,533	1,527	6
Sundry general expenditures	1,052	1,526	(474)
Depreciation	35,531	35,312	219
Total expenditures before taxes	<u>1,637,543</u>	<u>1,647,273</u>	<u>(9,730)</u>
Federal excise tax (Note 5)	<u>86,274</u>	<u>82,560</u>	<u>3,714</u>
Total expenditures with taxes	<u>1,723,817</u>	<u>1,729,833</u>	<u>(6,016)</u>
Net before grants	(772,870)	(562,592)	(210,278)
Grants (Net)	<u>6,025,300</u>	<u>5,835,500</u>	<u>189,800</u>
(Deficiency) of revenues over grants and expenditures before realized and unrealized gains on assets	(6,798,170)	(6,398,092)	(400,078)
Realized gains of investments	5,925,463	7,801,039	(1,875,576)
Increase (decrease) in unrealized gains on investments	<u>31,668,958</u>	<u>15,360,978</u>	<u>16,307,980</u>
Realized and unrealized gains on investments	<u>37,594,421</u>	<u>23,162,017</u>	<u>14,432,404</u>
Change in net assets	<u>30,796,251</u>	<u>16,763,925</u>	<u>14,032,326</u>
Net assets at beginning of year	<u>124,395,724</u>	<u>107,631,799</u>	<u>16,763,925</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 155,191,975</u></u>	<u><u>\$ 124,395,724</u></u>	<u><u>\$ 30,796,251</u></u>

See notes to financial statements.

The Hyde and Watson Foundation
STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2020 WITH COMPARATIVE TOTALS FOR 2019

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>2020 TOTAL</u>	<u>2019 TOTAL</u>
Grants (Net)	\$ 6,025,300	\$ -	\$ 6,025,300	\$ 5,835,500
Salaries and benefits	525,288	443,726	969,014	955,604
Audit fees	-	20,000	20,000	18,000
Legal fees	-	14,329	14,329	-
Consulting fees	-	8,506	8,506	7,370
Directors fees	-	9,800	9,800	11,400
Facilities expense	38,438	-	38,438	39,050
General office expense	37,597	-	37,597	39,906
Insurance	-	37,699	37,699	24,808
Conferences and meetings	620	-	620	3,372
Depreciation	-	35,312	35,312	35,312
	<u>\$ 6,627,243</u>	<u>\$ 569,372</u>	<u>\$ 7,196,615</u>	<u>\$ 6,970,322</u>

See notes to financial statements.

The Hyde and Watson Foundation
 STATEMENT OF FUNCTIONAL EXPENSES
 MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2019

	<u>PROGRAM</u>	<u>MANAGEMENT AND GENERAL</u>	<u>2019 TOTAL</u>
Grants	\$ 5,835,500	\$ -	\$ 5,835,500
Salaries and benefits	518,019	437,585	955,604
Audit fees	-	18,000	18,000
Consulting fees	-	7,370	7,370
Directors fees	-	11,400	11,400
Facilities expense	39,050	-	39,050
General office expense	39,906	-	39,906
Insurance	-	24,808	24,808
Conferences and meetings	3,372	-	3,372
Depreciation	-	35,312	35,312
	<u>\$ 6,435,847</u>	<u>\$ 534,475</u>	<u>\$ 6,970,322</u>

See notes to financial statements.

The Hyde and Watson Foundation
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Hyde and Watson Foundation (the Foundation) is a private foundation which provides grants to support capital projects in the broad fields of health, education, religion, social services, arts and humanities.

METHOD OF ACCOUNTING

The Foundation maintains its accounts on the modified cash basis of accounting. Dividends and interest are recognized when constructively received, grants and expenditures are recognized when paid rather than when incurred. Excise and unrelated business taxes are accrued.

CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for cash and short-term investments managed by the Foundation's investment managers as part of their long-term investment strategies.

FAIR VALUE MEASUREMENTS

The Foundation follows US GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The Foundation follows US GAAP guidance which removed the requirements to categorize within the fair value hierarchy all investments for which fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient.

PROPERTY, FURNITURE, FIXTURES, AND EQUIPMENT

Property, furniture, fixtures, and equipment are stated at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the related assets.

GRANTS

Grants are recorded in the accounts as a charge against income in the year paid.

USE OF ESTIMATES

The management of the Foundation uses estimates and assumptions in preparing the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenditures. Actual results could vary from the estimates that management uses.

FUNCTIONAL ALLOCATION OF EXPENSE

The financial statements report certain categories of expense that are attributable to program and supporting functions. Expenses are applied directly to program, where applicable, on a consistent basis. A substantial portion of the Foundation's expenses are directly related to program activities. Certain other expenses are attributable to program and supporting function, and require allocation on a reasonable basis. The expenses that are allocated include salaries, payroll taxes and benefits, which are allocated on the basis of estimates of employee time and effort.

The Hyde and Watson Foundation
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020 and 2019

NOTE

2. INVESTMENTS

The following represents a summary of investments at December 31, 2020 and December 31, 2019:

<u>December 31, 2020</u>			
Cash and cash equivalents	\$ 822,419	\$ 822,419	\$ -
Equities	20,041,130	37,653,862	17,612,732
Mutual funds	8,520,214	12,734,261	4,214,047
Managed investment funds	56,760,390	98,485,842	41,725,452
	<hr/>		
TOTAL	\$ 86,144,153	\$ 149,696,384	\$ 63,552,231
	<hr/>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Increase (Decrease)</u>
<u>December 31, 2019</u>			
Cash and cash equivalents	\$ 2,924,542	\$ 2,924,542	\$ -
Equities	16,246,372	25,429,088	9,182,716
Mutual funds	9,455,034	11,701,128	2,246,094
Managed investment funds	57,283,389	77,737,852	20,454,463
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TOTAL	\$ 85,909,337	\$ 117,792,610	\$ 31,883,273
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(Continued on Page 9).

The Hyde and Watson Foundation
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE

2. INVESTMENTS (Continued)

The following table presents information about the Foundation's assets measured at fair value as of December 31:

Descriptions	2020			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 822,419	\$ 822,419	\$ -	\$ -
Equities	37,653,862	37,653,862	-	-
International Mutual Funds	12,734,261	12,734,261	-	-
Total assets in fair value hierarchy	\$ 51,210,542	\$ 51,210,542	\$ -	\$ -
Investments measured at net asset value	98,485,842	(*)		
TOTAL INVESTMENTS	\$ 149,696,384			

Descriptions	2019			
	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,924,542	\$ 2,924,542	\$ -	\$ -
Domestic Equities	24,014,195	24,014,195	-	-
International Equities	1,414,893	1,414,893	-	-
International Mutual Funds	11,701,128	11,701,128	-	-
Total assets in fair value hierarchy	\$ 40,054,758	\$ 40,054,758	\$ -	\$ -
Investments measured at net asset value	77,737,852	(*)		
TOTAL INVESTMENTS	\$ 117,792,610			

(*) As discussed in Note 1, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

The Hyde and Watson Foundation
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020 and 2019

NOTE

3. PROPERTY, FURNITURE, FIXTURES, AND EQUIPMENT:

	2020	2019
	<u>Cost</u>	<u>Cost</u>
Fine arts, antiques, etc.	\$ 22,500	\$ 22,500
Furniture and equipment	107,564	103,197
Telephone and air conditioning unit	13,487	13,487
Generator	11,799	11,799
	<u>155,350</u>	<u>150,983</u>
Less-accumulated depreciation	147,954	142,623
FURNITURE, FIXTURES AND EQUIPMENT-NET	<u>\$ 7,396</u>	<u>\$ 8,360</u>
Office condominium units	1,107,772	1,107,772
Less-accumulated depreciation	438,663	408,463
CONDOMINIUM UNITS - NET	<u>\$ 669,109</u>	<u>\$ 699,309</u>

4. PENSION EXPENDITURE

The Foundation has a fully-funded pension plan covering eligible employees. Pension expenditures for the current fiscal year, which represents required payments for 2020, was \$126,577 (22% of salaries).

Contributions for 2021 will be equal to 22% of eligible employees' annual salaries for that year. Future contributions will be reviewed annually.

The Hyde and Watson Foundation
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE

5. TAX STATUS

The Foundation qualifies as a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. However, the Foundation is classified as a private foundation, and, as such, is subject to a federal excise tax on net investment income at 1.39%

Under the Internal Revenue Code, the Foundation is required to make certain minimum distributions in accordance with a specified formula. At December 31, 2020 the Foundation had distributions in excess of the required minimum. See Page 13, Schedule of Qualifying Distributions.

6. UNRESTRICTED NET ASSETS

There are no donor restrictions on the Foundation's net assets.

7. CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash balances in Bank of America, which at times may exceed federally insured limits. The balances are insured by the Federal Deposit Insurance Corporation or the Securities Investors Protection Corporation up to certain limits.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 5, 2021, which is the date the financial statements were issued.

9. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Foundation's financial assets available for general expenditure is as follows:

Cash and due from funds	\$ 4,822,801
Investments	<u>149,696,384</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 154,519,185</u>

The Foundation manages its liquidity and cash by establishing a budget for each fiscal year based on its spending policy on the net investment return from investments to provide the necessary funds to cover grants and operating expenses. Liquid investments are redeemed to meet cash needs during the year.

The Hyde and Watson Foundation
SCHEDULE OF NET INVESTMENT INCOME

Signed into law on December 20, 2020, Section 4940 imposed on private foundations an excise tax fixed at 1.39% of net investment income (exclusive of unrelated business income) of foundations. Following is a schedule of this Foundation's net investment income and computation of excise tax:

NET INVESTMENT INCOME

Income:	<u>2020</u>
Dividends	\$ 239,194
Interest	661
Managed investment funds (limited partnerships)	711,092
Net capital gains (includes limited partnerships)	<u>5,925,463</u>
TOTAL INCOME	<u>6,876,410</u>

Income production expenditures:

	<u>Total</u>	<u>Allocated Expenditures</u>
Salaries	\$ 593,736	\$ 104,970
Pension expenditure	126,577	23,093
Payroll taxes	42,719	7,241
Hospitalization and major medical	198,777	30,727
Life and disability insurance	7,205	1,423
Custodian fees and bank charges	10,610	10,610
Investment consulting fee	200,000	200,000
Investment management fees	255,618	255,618
Directors' fees	9,800	3,200
Audit fees	20,000	11,000
Legal fess	14,329	-
Facilities maintenance	22,706	3,860
Real estate tax - condominium units	15,732	2,674
Telephone	5,219	887
Administrative supplies and services	25,637	4,358
Pension consultant	8,506	-
Subscriptions and publications	967	630
Insurance	37,699	6,409
Membership dues	2,970	-
Board and committee meetings	620	372
State filing fees	1,533	-
Sundry general expenditures	1,052	35
Depreciation	35,531	2,518
TOTAL EXPENDITURES	<u>1,637,543</u>	<u>669,625</u>

NET INVESTMENT INCOME \$ 6,206,785

EXCISE TAX AT 1.39% TAX RATE \$ 86,274

The Hyde and Watson Foundation
SCHEDULE OF QUALIFYING DISTRIBUTIONS

Section 4942 requires that beginning with 1982, a private foundation must pay out not less than its minimum investment return (reduced by the federal taxes payable for the taxable year) in the form of “qualifying distributions” by the end of its next succeeding fiscal year. The Foundation’s minimum investment return for 2020 amounted to \$6,208,376 (5% of \$124,167,517), the average fair market valuation of appropriate assets.

At December 31, 2020, this Foundation had distributed more than the required minimum. (See computation below):

Minimum investment return		\$ 6,208,376
Less-Federal excise tax		<u>86,274</u>
Distributable amount before adjustment		6,122,102
Plus - Return Grant		<u>7,600</u>
		6,129,702
Qualifying distributions paid:		
Managerial expenditures (net of depreciation)	\$ 942,505	
Grants paid	<u>6,025,300</u>	
Total qualifying distributions paid for the year		<u>6,967,805</u>
Excess qualifying distributions paid in 2019		838,103
Excess qualifying distributions carried over from 2016, 2017, 2018 and 2019		<u>3,122,769</u>
EXCESS DISTRIBUTIONS CARRYOVER TO 2021		<u><u>\$ 3,960,872</u></u>