

# **The Hyde and Watson Foundation**

Financial Statements  
(Modified Cash Basis)

December 31, 2023 and 2022

## **Independent Auditors' Report**

### **Board of Directors The Hyde and Watson Foundation**

#### ***Opinion***

We have audited the accompanying financial statements (modified cash basis) of The Hyde and Watson Foundation (the "Foundation") which comprise the statements of assets and net assets (modified cash basis) as of December 31, 2023 and 2022 and the related statements of revenue, expenses and change in net assets (modified cash basis), functional expenses (modified cash basis) and cash flows (modified cash basis) for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of the Foundation as of December 31, 2023 and 2022, and its revenue and expenses and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 2.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Basis of Accounting***

We draw attention to Note 2 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.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 2, and for 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.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*PKF O'Connor Davies, LLP*

October 2, 2024

## The Hyde and Watson Foundation

### Statements of Assets and Net Assets (Modified Cash Basis)

	December 31	
	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,714,162	\$ 1,190,974
Due from funds	-	5,750,021
Investments	117,776,184	108,546,827
Property, net	<u>578,509</u>	<u>608,709</u>
	<u>\$124,068,855</u>	<u>\$116,096,531</u>
<b>NET ASSETS</b>		
Net assets without donor restrictions	<u>\$124,068,855</u>	<u>\$116,096,531</u>

See notes to financial statements

## The Hyde and Watson Foundation

### Statements of Revenue, Expenses and Change in Net Assets (Modified Cash Basis)

	Year Ended December 31,	
	2023	2022
<b>INVESTMENT RETURN</b>		
Dividends and interest	\$ 1,292,724	\$ 1,306,660
Realized gains on investments	1,125,089	2,674,106
Unrealized gain (loss) on investments	13,048,268	(35,695,557)
Other partnership income	685,875	139,030
	16,151,956	(31,575,761)
Less		
Direct investment expenses	952,274	1,071,960
Federal excise tax expense	30,000	120,000
Total Investment Return	15,169,682	(32,767,721)
<b>EXPENSES</b>		
Grants	5,871,545	6,449,440
Foundation operations and governance	1,325,813	1,240,363
Total Expenses	7,197,358	7,689,803
Change in Net Assets	7,972,324	(40,457,524)
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Beginning of year	116,096,531	156,554,055
End of year	\$ 124,068,855	\$ 116,096,531

See notes to financial statements

## The Hyde and Watson Foundation

### Statements of Functional Expenses (Modified Cash Basis)

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Grants	Foundation Operations and Governance	Total	Grants	Foundation Operations and Governance	Total
Grants	\$5,871,545	\$ -	\$5,871,545	\$6,449,440	\$ -	\$6,449,440
Salaries and benefits	-	1,132,672	1,132,672	-	1,029,457	1,029,457
Professional fees	-	38,936	38,936	-	37,491	37,491
Directors fees	-	11,400	11,400	-	10,600	10,600
Facilities expense	-	46,217	46,217	-	42,728	42,728
General office expense	-	49,126	49,126	-	64,708	64,708
Dues and subscriptions	-	5,113	5,113	-	4,724	4,724
Insurance	-	8,149	8,149	-	18,384	18,384
Conferences and meetings	-	4,000	4,000	-	2,071	2,071
Depreciation	-	30,200	30,200	-	30,200	30,200
Total	\$5,871,545	\$ 1,325,813	\$7,197,358	\$6,449,440	\$ 1,240,363	\$7,689,803

See notes to financial statements

## The Hyde and Watson Foundation

### Statements of Cash Flows (Modified Cash Basis)

	Year Ended December 31	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 7,972,324	\$ (40,457,524)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	30,200	30,200
Realized gains on investments	(1,125,089)	(2,674,106)
Unrealized (gain) loss on investments	(13,048,268)	35,695,557
Changes in operating assets and liabilities		
Due from funds	<u>5,750,021</u>	<u>(4,750,021)</u>
Net Cash from Operating Activities	<u>(420,812)</u>	<u>(12,155,894)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	11,097,245	22,456,362
Purchases of investments	<u>(6,153,245)</u>	<u>(12,719,582)</u>
Net Cash from Investing Activities	<u>4,944,000</u>	<u>9,736,780</u>
Net Change in Cash and Cash Equivalents	4,523,188	(2,419,114)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,190,974</u>	<u>3,610,088</u>
End of year	<u>\$ 5,714,162</u>	<u>\$ 1,190,974</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for Federal excise taxes	\$ 30,000	\$ 120,000

See notes to financial statements

# The Hyde and Watson Foundation

Notes to Financial Statements  
(Modified Cash Basis)  
December 31, 2023 and 2022

## 1. Organization

The Hyde and Watson Foundation (the "Foundation") is a tax exempt, not-for-profit private foundation organized under section 501(c)(3) of the Internal Revenue Code (the "Code"). 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.

## 2. Summary of Significant Accounting Policies

### ***Basis of Accounting and Use of Estimates***

The financial statements are prepared in accordance with the modified cash basis of accounting. Under this basis, revenue and the related assets are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligations are incurred. The modification relates to the valuation of investments at fair value with unrealized gains and losses reported as a component of change in net asset and recording of receivables due from investment funds and the capitalization and subsequent depreciation of the office condominium units. Management has determined that the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America ("US GAAP"), is an acceptable basis for the preparation of the financial statements in the circumstances.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

### ***Net Asset Presentation***

Net assets without donor restrictions include funds having no restrictions as to use or purpose imposed by donors. Net assets with donor restrictions are those whose use is limited by donors to a specific time period or purpose or are limited by donors for investments in perpetuity. At December 31, 2023 and 2022, all net assets of the Foundation are considered without donor restrictions.

### ***Cash and Cash Equivalents***

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



## The Hyde and Watson Foundation

Notes to Financial Statements  
(Modified Cash Basis)  
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### 2. Summary of Significant Accounting Policies *(continued)*

#### ***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.

Pursuant to US GAAP guidance, alternative investments where fair value is measured using the Net Asset Value (“NAV”) per share as a practical expedient are not categorized within the fair value hierarchy.

#### ***Investment Valuation and Investment Income Recognition***

Investments are carried at fair value in the statements of assets and net assets. The fair value of alternative investments has been estimated using the NAV as reported by the management of the respective alternative investment fund.

Purchases and sales of securities are recorded on a settlement-date basis. Interest and dividend income is recorded when received. Realized and unrealized gains and losses are included in the determination of changes in net assets.

#### ***Investment Risks and Uncertainties***

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as limited partnerships, venture capital funds, hedge funds, and private equity funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees’ financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

#### ***Property***

Property is stated at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the related assets, which is 39 years.

## The Hyde and Watson Foundation

Notes to Financial Statements  
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### 2. Summary of Significant Accounting Policies *(continued)*

#### **Grants**

Grants are recorded as an expense at the time the grants are paid.

#### **Tax Status**

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the 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 an excise tax of 1.39% on net investment income which includes realized gains, as defined in the Code. The Foundation was taxed at the 1.39% rate in 2023 and 2022.

In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. As of December 31, 2023 and 2022, the Foundation has met its minimum distribution requirement.

#### **Functional Allocation of Expenses**

The cost of providing various programs and other activities has been summarized on a functional basis in the statements of revenue, expenses and change in net assets. All costs are direct expenses to each functional category. Grants comprise the Foundation's program related expenses and operations and governance comprises the supporting activity expenses. Operations and governance expenses include salaries and benefits, professional fees, directors fees, facilities expenses, general office expenses, dues and subscriptions, conferences and meetings, insurance and depreciation expenses.

#### **Accounting for Uncertainty in Income Taxes**

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition or disclosure. The Foundation is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2020.

#### **Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 2, 2024.

## The Hyde and Watson Foundation

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### 3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit and market risk consist principally of cash and cash equivalents and investments held at financial institutions. Deposits held at financial institutions insured by the Federal Deposit Insurance Corporation (“FDIC”) are insured up to \$250,000. Investment holdings at financial institutions insured by the Securities Investor Protection Corporation (“SIPC”) are insured up to \$500,000 (\$250,000 for cash holdings). At times cash and cash equivalent balances may exceed the FDIC and/or the SIPC limit.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment, investment advisor, investment manager or group of investments represents a significant concentration of credit risk.

### 4. Investments

The following are major categories of investments measured at fair value on a recurring basis at December 31, grouped by the fair value hierarchy, for those investments subject to categorization within such hierarchy:

	2023			
	Level 1	Investments Valued Using NAV (*)	Total	Total Cost
Common Stocks				
Communication services	\$ 1,747,697	\$ -	\$ 1,747,697	\$ 896,065
Consumer	945,813	-	945,813	494,241
Energy	510,847	-	510,847	465,123
Financial	5,490,623	-	5,490,623	3,066,618
Health care	3,131,083	-	3,131,083	2,439,605
Industrial	6,258,392	-	6,258,392	2,690,581
Information technology	4,951,666	-	4,951,666	4,807,098
Utilities	269,195	-	269,195	418,052
Other	4,473,420	-	4,473,420	3,882,753
International mutual fund	2,927,165	-	2,927,165	2,830,730
Hedge Funds and Other Commingled Funds				
US large cap	-	40,364,384	40,364,384	22,999,651
International	-	9,939,831	9,939,831	8,713,525
Hedged equity	-	20,015,524	20,015,524	11,872,281
Absolute return	-	15,995,942	15,995,942	14,628,156
Total Investments at Fair Value	<u>\$30,705,901</u>	<u>\$ 86,315,681</u>	<u>117,021,582</u>	<u>80,204,479</u>
Temporary cash investments, at cost			<u>754,602</u>	<u>754,602</u>
Total Investments			<u>\$117,776,184</u>	<u>\$80,959,081</u>

## The Hyde and Watson Foundation

Notes to Financial Statements  
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### 4. Investments (continued)

	2022			
	Level 1	Investments Valued Using NAV (*)	Total	Total Cost
Common Stocks				
Communication services	\$ 1,762,323	\$ -	\$ 1,762,323	\$ 1,860,655
Consumer	1,522,624	-	1,522,624	1,342,790
Energy	208,860	-	208,860	174,366
Financial	4,000,628	-	4,000,628	2,983,206
Health care	3,493,190	-	3,493,190	2,798,538
Industrial	6,385,937	-	6,385,937	3,963,762
Information technology	4,391,309	-	4,391,309	5,095,501
Other	1,292,243	-	1,292,243	965,318
International mutual fund	5,168,916	-	5,168,916	5,446,649
Hedge Funds and Other Commingled Funds				
US large cap	-	34,731,216	34,731,216	22,656,503
International	-	8,529,949	8,529,949	8,650,461
Hedged equity	-	19,732,723	19,732,723	12,160,187
Absolute return	-	14,695,268	14,695,268	14,048,414
Total Investments at Fair Value	<u>\$28,226,030</u>	<u>\$ 77,689,156</u>	105,915,186	82,146,350
Temporary cash investments, at cost			2,631,641	2,631,641
Total Investments			<u>\$108,546,827</u>	<u>\$84,777,991</u>

(\*) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

Four hedge funds and other commingled funds represented 46% of the Foundation's total investment portfolio as of December 31, 2023 and three hedge funds and other commingled funds represented 36% of the Foundation's total investment portfolio as of December 31, 2022.

Information regarding alternative investments measured at NAV using the practical expedient at December 31, 2023 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds and Other Commingled Funds				
US large cap (see "a" below)	\$40,364,384	\$ -	Monthly - Quarterly	10 - 60 days
International (see "b" below)	9,939,831	-	Daily - Annually	1 - 60 days
Hedged equity (see "c" below)	20,015,524	-	Quarterly - Annually	60 - 90 days
Absolute return (see "d" below)	15,995,942	-	Quarterly - Annually	65 - 90 days
Total	<u>\$ 86,315,681</u>	<u>\$ -</u>		

## The Hyde and Watson Foundation

Notes to Financial Statements  
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### 4. Investments (*continued*)

- a) This category includes investments in hedge funds and other commingled investments with a focus on US large cap investments. The objectives are to invest in companies with above-average earnings growth that are trading at a discount to intrinsic value in the healthcare, biotech and technology sectors among others. The underlying investments consist of public and private companies of various sizes.
- b) This category includes investments in hedge funds and other commingled investments with a focus on international investments. The funds have a focus on securities in China and other foreign countries. The objective is to achieve long-term capital appreciation while minimizing risk of permanent loss by investing in a portfolio of securities that are purchased at a deep discount to intrinsic value.
- c) This category includes investments in hedge funds and other commingled investments with a focus on hedged equity investments. The strategy is to make long and short investments in publicly traded securities and private companies in the US and internationally. The funds are invested across sectors with a focus on healthcare, consumer, financial services, business services, industrials among others.
- d) This category includes investments in hedge funds and other commingled investments with a focus on absolute return investments. These are multi-strategy funds with an event-driven focus investing in securities and other financial instruments. The funds invest in companies in financial distress, merger and acquisition arbitrage situations as well as bonds and other debt in the US and internationally.

### 5. Property

Property is as follows at December 31:

	<u>2023</u>	<u>2022</u>
Office condominium units	\$1,107,772	\$1,107,772
Less accumulated depreciation	<u>529,263</u>	<u>499,063</u>
Property, net	<u>\$ 578,509</u>	<u>\$ 608,709</u>

## The Hyde and Watson Foundation

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### 6. Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets and resources available as of December 31, to meet cash needs for expenditures within one year of the date of the statements of assets and net assets:

	<u>2023</u>	<u>2022</u>
Financial Assets:		
Cash and cash equivalents	\$ 5,714,162	\$ 1,190,974
Due from funds	-	5,750,021
Investments	<u>117,776,184</u>	<u>108,546,827</u>
Financial assets available to meet general expenditures Over the next twelve months	<u>\$ 123,490,346</u>	<u>\$ 115,487,822</u>

The Foundation's working capital and cash flows are driven by its investment portfolio and investment return. 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 the grants and operating expenses. Liquid investments are redeemed to meet cash needs during the year.

### 7. Retirement Plan

The Foundation currently provides a 403(b) plan for the benefit of eligible employees. The Foundation contributes, under certain conditions, a percentage of the employees' wages to the plan. Employer discretionary contributions for 2023 and 2022, were \$143,904 and \$124,410.

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