

The Prospect Hill Foundation, Inc.

Financial Statements
(Modified Cash Basis)

June 30, 2023 and 2022



Independent Auditors' Report

**Board of Directors
The Prospect Hill Foundation, Inc.**

Opinion

We have audited the accompanying financial statements (modified cash basis) of The Prospect Hill Foundation, Inc. (the "Foundation") which comprise of the statements of assets and net assets (modified cash basis) as of June 30, 2023 and 2022 and the related statements of revenue, expenses and change in net assets (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 June 30, 2023 and 2022 and its revenue and expenses and 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 this 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 as 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 a 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

February 28, 2024

The Prospect Hill Foundation, Inc.

Statements of Assets and Net Assets
(Modified Cash Basis)

	June 30	
	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 909,918	\$ 2,046,390
Investments, at fair value	72,871,561	72,451,532
Program related investments	<u>360,626</u>	<u>360,626</u>
	<u>\$ 74,142,105</u>	<u>\$ 74,858,548</u>
NET ASSETS		
Without donor restrictions	<u>\$ 74,142,105</u>	<u>\$ 74,858,548</u>

See notes to financial statements

The Prospect Hill Foundation, Inc.

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

	Year Ended June 30	
	2023	2022
REVENUE		
Contributions	\$ 238,405	\$ 1,000,000
Investment Return		
Net partnership income and other gains	1,498,199	6,049,509
Net unrealized gain (loss) on investments	1,697,274	(17,110,007)
Interest and dividend income	26,974	1,714
Investment related services and fees	(59,500)	(58,075)
Total Investment Return	3,162,947	(11,116,859)
Total Revenue, net of Investment Return	3,401,352	(10,116,859)
EXPENSES		
Grants and programs	3,804,046	3,745,728
Operations and governance	253,749	217,682
Taxes	60,000	60,000
Total Expenses	4,117,795	4,023,410
Change in Net Assets	(716,443)	(14,140,269)
NET ASSETS		
Beginning of year	74,858,548	88,998,817
End of year	\$ 74,142,105	\$ 74,858,548

See notes to financial statements

The Prospect Hill Foundation, Inc.

Statements of Cash Flows
(Modified Cash Basis)

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (716,443)	\$ (14,140,269)
Adjustment to reconcile change in net assets to net cash from operating activities		
Net partnership income and other gains	(1,498,199)	(6,049,509)
Net unrealized (gain) loss on investments	<u>(1,697,274)</u>	<u>17,110,007</u>
Net Cash from Operating Activities	(3,911,916)	(3,079,771)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions from partnerships	<u>2,775,444</u>	<u>3,929,216</u>
Net Change in Cash and Cash Equivalents	(1,136,472)	849,445
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,046,390</u>	<u>1,196,945</u>
End of year	<u>\$ 909,918</u>	<u>\$ 2,046,390</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Federal taxes paid	\$ 60,000	\$ 60,000

See notes to financial statements

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
(Modified Cash Basis)
June 30, 2023 and 2022

1. Organization and Tax Status

The Prospect Hill Foundation, Inc. (the "Foundation") is a not-for-profit organization, incorporated on December 30, 1959. The mission of the Foundation is to advance the human experience while ensuring the well-being of the earth. The Foundation pursues its mission by making grants in two grantmaking areas: Nuclear Disarmament and Nonproliferation and Youth. In addition, the Foundation makes a number of grants that support its general philanthropic interests in arts and culture, environment, and education. The Foundation's grants primarily support activities in the United States with a particular regional focus in New York, Rhode Island, and Massachusetts.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is further classified as a private foundation. It is subject to an excise tax on net investment income (interest, dividends and realized capital gains less investment expenses). It is also subject to unrelated business income taxes on certain income generated from its investments.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the cash basis, modified for the valuation of investments and program related equity investment at fair value and recognition of the program related investment loan at cost. 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, except for unrealized gain (loss) on investments. No provision for deferred federal excise tax on investment appreciation was made. Management has determined that the cash basis, as modified above, is an acceptable basis for the preparation of the financial statements in the circumstances.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 consists of operating and money-market accounts. The Foundation considers highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents.

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
(Modified Cash Basis)
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Fair Value Measurements

The Foundation follows accounting principles generally accepted in the United States of America (“U.S. 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 U.S. 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.

Investments

Investments are carried at fair value. Alternative investments and similar interests are reported at NAV provided by the management of the respective fund as of June 30 and are reviewed by the Foundation’s management for reasonableness. Management utilizes financial information when available for alternative investments as part of its on-going due diligence and annual financial statement valuation process.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Realized and unrealized gains and losses are included in the change in net assets. Interest and dividends are recognized when received. Net partnership income is the Foundation’s allocable share of its earnings in the underlying investments.

Investment Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as offshore limited partnerships, venture capital funds, hedge funds, private equity funds and common trust 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.

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
(Modified Cash Basis)
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Investment Risks and Uncertainties (continued)

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.

Program Related Investments (PRIs)

PRIs are strategic philanthropic investments made by the Foundation for the specific objective of furthering charitable purposes. The production of income is not a significant purpose of a PRI. PRIs can be loans, equity or guarantees. PRIs are recorded when disbursed and are treated as qualifying distributions for tax reporting purposes. PRI loans are recorded at cost net of appropriate reserves for collectability in determining the net realizable value. Return of principal of PRIs increases the Foundation's distribution requirement in the year of receipt. Management has reviewed various qualitative and quantitative factors to determine a collectability reserve, if any. PRI equities are stated at estimated fair value and classified as Level 3 within the fair value hierarchy.

Net Asset Presentation

Net assets without donor restrictions include funds having no restriction 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 in perpetuity. As of June 30, 2023 and 2022 all net assets were without donor restrictions.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated between program and other activities and have been allocated on a reasonable basis that is consistently applied. Certain expenses such as payroll and related costs are allocated on the basis of time and effort. All other expenses were allocated by the purpose of each expenditure.

Contributions

Contributions are considered available for general use unless specifically restricted by the donor or subject to other legal restrictions. Contributions that are received with donor stipulations that limit the use of donated assets are recorded as net assets with donor restrictions. For the years ended June 30, 2023 and 2022, all contributions were without donor restrictions.

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
(Modified Cash Basis)
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Grants

The Foundation recognizes grant expense upon payment.

Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of tax positions only if they are more likely than not to be sustained. Management has determined that the Foundation has no uncertain tax positions that would require financial statement disclosure and/or recognition. The Foundation is no longer subject to examinations by applicable taxing jurisdictions for periods prior to June 30, 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 February 28, 2024.

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 on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The Foundation places its cash and cash equivalents with quality financial institutions and routinely assesses the financial strength of its cash, cash equivalents and investment portfolio. The Foundation does not believe that a significant risk of loss due to failure of a financial institution presently exists.

As of June 30, 2023 and 2022, the Foundation's investment in Prospect Capital Partners ("PCP") represented over 99% of total investments. The Foundation does not believe that a significant risk of loss exists as PCP's underlying investments are diversified.

4. Investments

As of and for the years ended June 30, 2023 and 2022 the Foundation did not hold any investments that were subject to the fair value hierarchy besides the single level 3 PRI referenced in Note 2. As discussed in Note 2, the following alternative investments are measured using the practical expedient and are not subject to the fair value hierarchy:

	2023		2022	
	Fair Value	Cost	Fair Value	Cost
Venture capital - partnerships (see "a" below)	\$ 391,125	\$ 444,630	\$ 553,247	\$ 524,845
Fund of funds - PCP* (see "b" below)	72,480,436	58,123,209	71,898,285	59,320,239
Total Investments	<u>\$ 72,871,561</u>	<u>\$ 58,567,839</u>	<u>\$ 72,451,532</u>	<u>\$ 59,845,084</u>

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
(Modified Cash Basis)
June 30, 2023 and 2022

4. Investments (continued)

(*) The Foundation is a general partner of PCP. PCP is controlled by certain directors of the Foundation. At June 30, 2023 and 2022 the Foundation had an 80.74% and 80.43%, respectively, interest in PCP. At June 30, 2023 and 2022 the remaining 19.26% and 19.57%, respectively, interest in PCP is owned by another private foundation controlled by certain directors of the Foundation.

Information regarding alternative investments measured at NAV as a practical expedient at June 30, 2023 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Venture capital - partnerships	\$ 391,125	\$ 47,500	N/A	N/A
Fund of funds - PCP	<u>72,480,436</u>	<u>-</u>	Annual	120 days
	<u>\$ 72,871,561</u>	<u>\$ 47,500</u>		

a. Venture capital partnerships represent legacy positions that are in liquidation phase. The Foundation receives distributions from these positions on a periodic basis.

b. PCP is a diversified fund of funds which invests in taxable bonds, domestic and foreign equities, absolute return and hedging strategies, real estate and energy investments and venture capital and private investments.

The Foundation has two PRIs with the same investee. As of June 30 the PRI holdings were as follows:

	<u>2023</u>	<u>2022</u>
PRI loan, at cost	\$ 76,840	\$ 76,840
PRI equity, at fair value	<u>283,786</u>	<u>283,786</u>
	<u>\$ 360,626</u>	<u>\$ 360,626</u>

The PRI equity is reported using Level 3 inputs of the fair value hierarchy. There were no changes during the years ended June 30, 2023 and 2022.

The PRI loan has a maturity date of September 30, 2027 and bears interest at 6% per annum which is due at maturity.

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
(Modified Cash Basis)
June 30, 2023 and 2022

5. Liquidity and Availability of Financial Assets

The Foundation's financial assets and resources available as of June 30, 2023 and 2022, to meet cash needs for general 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	\$ 909,918	\$ 2,046,390
Investments	72,871,561	72,451,532
Less: Illiquid investments	<u>(391,125)</u>	<u>(553,247)</u>
Financial Assets Available to Meet Cash Needs For General Expenditure Within One Year	<u>\$ 73,390,354</u>	<u>\$ 73,944,675</u>

The Foundation's working capital and cash flows are driven by its investment portfolio and investment return. As part of the Foundation's liquidity management strategy, the Foundation seeks to maintain adequate liquidity to meet its obligations, including planned expenditures as approved by the Board. The Foundation structures its financial assets to be available as its grant payments and other general liabilities come due. The Foundation will inform their investment managers of any anticipated need for liquidity as such need becomes known and the investment managers will then withdraw the funds needed from the investment portfolio.

These withdrawals will normally coincide with the Foundation's grant disbursement cycle. Prospect Capital Partners may distribute funds as of any day of the year. The withdrawals are adjusted based on the grants to be disbursed and other factors affecting available cash, including investment income and general operating expenses.

The Prospect Hill Foundation, Inc.

Notes to Financial Statements (Modified Cash Basis) June 30, 2023 and 2022

6. Expenses by Functional and Natural Classification

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. The expenses for the years ended June 30, 2023 and 2022 by natural and functional classification were reported as follows:

	2023		
	Grants and Programs	Operations and Governance	Total
Grants, net of grant refunds of \$7,108	\$ 3,114,940	\$ -	\$ 3,114,940
Grantee related expenses	83,103	-	83,103
Payroll and related costs	488,016	134,385	622,401
Administrative services	-	30,700	30,700
Occupancy	45,637	15,212	60,849
Professional fees	-	39,950	39,950
Office expenses	7,700	22,180	29,880
Information technology	25,449	8,483	33,932
Travel, conferences and meetings	35,305	-	35,305
Printing and publications	3,896	1,299	5,195
Filing fees	-	1,540	1,540
Total Expenses before Taxes	3,804,046	253,749	4,057,795
Taxes	-	-	60,000
Total Expenses	\$ 3,804,046	\$ 253,749	\$ 4,117,795
	2022		
	Grants and Programs	Operations and Governance	Total
Grants, net of rescinded grants of \$10,000	\$ 3,253,551	\$ -	\$ 3,253,551
Grantee related expenses	56,420	-	56,420
Payroll and related costs	356,903	107,695	464,598
Administrative services	-	29,500	29,500
Occupancy	42,122	14,040	56,162
Professional fees	-	36,500	36,500
Office expenses	4,587	21,409	25,996
Information technology	17,385	5,795	23,180
Travel, conferences and meetings	11,032	-	11,032
Printing and publications	3,728	1,243	4,971
Filing fees	-	1,500	1,500
Total Expenses before Taxes	3,745,728	217,682	3,963,410
Taxes	-	-	60,000
Total Expenses	\$ 3,745,728	\$ 217,682	\$ 4,023,410

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
(Modified Cash Basis)
June 30, 2023 and 2022

7. Commitments

Lease

The Foundation occupies offices at 99 Park Avenue, New York, New York, under an operating lease expiring April 30, 2028. The lease provided for \$58,877 in rent credits and \$18,280 in tenant improvement allowances. The lease also provides for escalation charges based upon increases in real estate taxes and certain operating costs. Rent and related expenses were \$60,849 and \$56,162 for the years ended June 30, 2023 and 2022, respectively.

Future minimum annual lease payments are as follows:

2024	\$ 61,162
2025	61,162
2026	61,162
2027	61,162
2028	55,601
	<u>\$ 300,249</u>

Grants

As of June 30, 2023 the Foundation's Board of Directors had authorized grant commitments of \$525,000.

8. Related Party Transactions

Pursuant to service agreements, the Foundation paid \$638,242 and \$527,780 during the years ended June 30, 2023 and 2022, respectively, to an affiliated organization as reimbursement for salaries, profit sharing plan contributions, payroll related expenses and other costs incurred on the Foundation's behalf. The beneficial owners of the affiliate are officers and/or directors of the Foundation. The affiliate made charitable contributions of \$0 and \$1,000,000 for the years ended June 30, 2023 and 2022. During the year ended June 30, 2023, approximately \$230,000 or approximately 96% of charitable contributions came from a family trust affiliated with the board of directors.

* * * * *