

The Prospect Hill Foundation, Inc.

Financial Statements
(Modified Cash Basis)

June 30, 2018 and 2017

Independent Auditors' Report

Board of Directors The Prospect Hill Foundation, Inc.

We have audited the accompanying financial statements (modified cash basis) of The Prospect Hill Foundation, Inc. (the "Foundation") which comprise of the statement of assets and net assets (modified cash basis) as of June 30, 2018, and the related statement of revenue, expenses and change in net assets (modified cash basis), and statement of cash flows (modified cash basis) 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 the modified cash basis of accounting as described in Note 2; 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.

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' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of The Prospect Hill Foundation, Inc. as of June 30, 2018, and its revenue and expenses and their cash flows for the year then ended, on the basis of accounting described in Note 2.

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.

Prior Period Financial Statements

The financial statements of The Prospect Hill Foundation, Inc. as of June 30, 2017 were audited by other auditors whose report dated January 24, 2018 expressed an unmodified opinion on those statements.

PKF O'Connor Davies, LLP

January 30, 2019

The Prospect Hill Foundation, Inc.

Statement of Assets and Net Assets
(Modified Cash Basis)

	June 30	
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 210,438	\$ 1,546,321
Investments, at fair value	70,186,427	63,620,099
Program related investment	252,840	213,000
Property and equipment, net	<u>-</u>	<u>4,404</u>
	<u>\$ 70,649,705</u>	<u>\$ 65,383,824</u>
NET ASSETS		
Unrestricted	<u>\$ 70,649,705</u>	<u>\$ 65,383,824</u>

See notes to financial statements

The Prospect Hill Foundation, Inc.

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

	Year Ended	
	June 30	
	2018	2017
REVENUE		
Contributions	\$ -	\$ 2,000,000
Investment Income		
Net partnership income	5,412,354	2,442,501
Net unrealized gain on investments	1,583,464	6,433,705
Interest and dividend income	10,878	7,162
Total Investment Income	7,006,696	8,883,368
 Total Support and Revenue	 7,006,696	 10,883,368
 EXPENSES		
Grants	1,012,286	2,349,653
Grantee related expenses	13,819	2,276
Payroll and related costs	382,421	332,153
Taxes	92,815	69,595
Administrative services	76,200	70,654
Occupancy	54,961	66,529
Professional fees	32,199	31,095
Office expenses	30,152	23,129
Information technology	25,038	47,930
Travel, conferences and meetings	12,361	25,648
Depreciation and amortization	4,404	5,926
Printing and publications	2,659	5,033
Filing fees	1,500	1,500
Total Expenses	1,740,815	3,031,121
 Change in Net Assets	 5,265,881	 7,852,247
 NET ASSETS		
Beginning of year	65,383,824	57,531,577
End of year	\$ 70,649,705	\$ 65,383,824

See notes to financial statements

The Prospect Hill Foundation, Inc.

Statement of Cash Flows
(Modified Cash Basis)

	Year Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,265,881	\$ 7,852,247
Adjustment to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	4,404	5,926
Net partnership income	(5,412,354)	(2,442,501)
Net unrealized gain on investments	(1,583,464)	(6,433,705)
Net Cash from Operating Activities	(1,725,533)	(1,018,033)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions from partnerships	429,490	2,115,818
Issuance of program related investment	(39,840)	-
Net Cash from Investing Activities	389,650	2,115,818
Net Change in Cash and Cash Equivalents	(1,335,883)	1,097,785
 CASH AND CASH EQUIVALENTS		
Beginning of year	1,546,321	448,536
 End of year	\$ 210,438	\$ 1,546,321
 SUPPLEMENTAL CASH FLOW INFORMATION		
Federal excise tax paid	\$ 70,000	\$ 45,084
Federal unrelated business income tax paid	18,239	24,261
State unrelated business income tax paid	4,576	250

See notes to financial statements

The Prospect Hill Foundation, Inc.

Notes to Financial Statements

June 30, 2018

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 the mission by making grants in four program sectors: Criminal Justice, Environmental Conservation, Nuclear Nonproliferation, and Reproductive Health and Rights. In addition, the Foundation makes a number of grants that support its general philanthropic interests. The Foundation's grants primarily support activities in the United States. While many of these activities are national in scope, there is 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 investment at fair value. 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

June 30, 2018

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.

Investments 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

June 30, 2018

2. Summary of Significant Accounting Policies (continued)

Investments 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. PRIs are stated at estimated fair value and classified as Level 3 within the fair value hierarchy.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related asset of five to ten years.

Presentation of Net Assets

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the presence or absence of donor imposed restrictions. All net assets are considered unrestricted.

Contributions

Contributions are considered available for unrestricted 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 temporarily restricted support.

Grants

The Foundation recognizes grant expense upon payment.

Reclassifications

Certain amounts in the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 financial statement presentation.

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
June 30, 2018

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

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, 2015.

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 January 30, 2019.

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, 2018 and 2017, the Foundation's investment in Prospect Capital Partners ("PCP") represented over 95% of total investments. The Foundation does not believe that a significant risk of loss exists as PCP's underlying investments are diversified.

4. Investments

During and at the years ended June 30, 2018 and 2017 the Foundation did not hold any investments that were subject to the fair value hierarchy. As discussed in Note 2, the following alternative investments are measured using the practical expedient and are not subject to the fair value hierarchy:

	2018		2017	
	Market	Cost	Market	Cost
Venture capital - partnerships (see "a" below)	\$ 788,668	\$ 935,317	\$ 1,148,130	\$ 1,072,899
Fund of funds - PCP* (see "b" below)	<u>69,397,759</u>	<u>57,829,987</u>	<u>62,471,969</u>	<u>52,709,541</u>
Total investments	<u>\$ 70,186,427</u>	<u>\$ 58,765,304</u>	<u>\$ 63,620,099</u>	<u>\$ 53,782,440</u>

(*) The Foundation is a general partner of PCP. PCP is controlled by certain directors of the Foundation. At June 30, 2018 and 2017 the Foundation had an 80.27% and 79.25% interest in PCP. At June 30, 2018 and 2017 the remaining 19.73% and 20.75% interest in PCP is owned by another private foundation controlled by certain directors of the Foundation.

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
June 30, 2018

4. Investments (continued)

Information regarding alternative investments measured at NAV as a practical expedient at June 30, 2018 is as follows:

Description	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Venture capital - partnerships	\$ 788,668	\$ 47,500	N/A	N/A
Fund of funds - PCP	69,397,759	-	Annual	120 days
	<u>\$ 70,186,427</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.

5. Property, Equipment and Leasehold Improvements

As of June 30, 2018 and 2017 property and equipment consisted of the following:

	2018	2017
Leasehold improvements	\$ 67,031	\$ 67,031
Computer equipment	27,945	27,945
Furniture and fixtures	2,650	2,650
	<u>97,626</u>	<u>97,626</u>
Less: accumulated depreciation and amortization	97,626	93,222
	<u>\$ -</u>	<u>\$ 4,404</u>

The Prospect Hill Foundation, Inc.

Notes to Financial Statements
June 30, 2018

6. Commitments

Lease

The Foundation occupies offices at 99 Park Avenue, New York, New York, under an operating lease expiring April 30, 2028. The lease provides for \$58,877 in rent credits to be applied during the term of the lease 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 expense was \$54,961 and \$66,529 for the years ended June 30, 2018 and 2017, respectively.

Future minimum annual lease payments are as follows:

2019	\$	56,973
2020		56,973
2021		56,973
2022		56,973
2023		59,639
Thereafter		<u>300,249</u>
	\$	<u>587,780</u>

Grants

As of June 30, 2018 and 2017 the Foundation's Board of Directors had authorized grant commitments of \$780,900 and \$1,070,900.

7. Related Party Transactions

Pursuant to service agreements during the years ended June 30, 2018 and 2017, the Foundation paid \$439,621 and \$416,529, 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.

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