

THE PROSPECT HILL FOUNDATION, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2009 AND 2008**

THE PROSPECT HILL FOUNDATION, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2009 AND 2008**

I N D E X

INDEPENDENT AUDITORS' REPORT	1
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS – MODIFIED CASH BASIS	2
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS	3
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS	4
NOTES TO FINANCIAL STATEMENTS	5 – 10



**Elliot
Horowitz &
Company, LLP**

**Certified Public
Accountants**

675 Third Avenue
New York, New York 10017
Telephone 212/972-7500
Fax 212/972-7050
www.elliethorowitz.com

November 9, 2009

Board of Directors
The Prospect Hill Foundation, Inc.
New York, New York

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of assets, liabilities and net assets - modified cash basis of The Prospect Hill Foundation, Inc. (the "Foundation") as of June 30, 2009, and the related statements of revenue, expenses and changes in net assets - modified cash basis and cash flows - modified cash basis for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation as of June 30, 2008 and for the year then ended, were audited by other auditors whose report dated March 4, 2009 expressed an unqualified opinion.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets - modified cash basis of The Prospect Hill Foundation, Inc. and its revenue, expenses and changes in net assets - modified cash basis and its cash flows - modified cash basis in conformity with the modified cash basis of accounting as described in Note 2.

Elliot Horowitz & Company, LLP

THE PROSPECT HILL FOUNDATION, INC.

**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
JUNE 30, 2009 AND 2008**

ASSETS	<u>2009</u>	<u>2008</u>
INVESTMENTS, AT FAIR VALUE		
Partnerships (cost, \$58,044,929 and \$61,455,635 in 2009 and 2008, respectively)	\$ 52,833,846	\$ 70,435,237
CASH AND CASH EQUIVALENTS	100,078	369,695
OTHER ASSETS	138	285
PROPERTY AND EQUIPMENT, AT COST		
(net of accumulated depreciation and amortization of \$38,512 and \$29,864 in 2009 and 2008, respectively)	<u>51,392</u>	<u>54,778</u>
TOTAL ASSETS	<u>\$ 52,985,454</u>	<u>\$ 70,859,995</u>
LIABILITIES AND NET ASSETS		
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
COMMITMENTS		
NET ASSETS	<u>\$ 52,985,454</u>	<u>\$ 70,859,995</u>

See notes to financial statements

THE PROSPECT HILL FOUNDATION, INC.

**STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
REVENUE		
Contribution	\$ 146,243	\$ -
Interest	968	25,245
Net partnership income	<u>75,892</u>	<u>6,761,990</u>
TOTAL REVENUE	<u>223,103</u>	<u>6,787,235</u>
EXPENSES		
Grants	3,169,927	4,161,318
Administrative	485,202	539,023
Investment	<u>251,830</u>	<u>251,466</u>
TOTAL EXPENSES	<u>3,906,959</u>	<u>4,951,807</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES BEFORE NET LOSS ON INVESTMENTS	(3,683,856)	1,835,428
NET LOSS ON INVESTMENTS	<u>(14,190,685)</u>	<u>(7,507,726)</u>
DECREASE IN NET ASSETS	(17,874,541)	(5,672,298)
NET ASSETS - BEGINNING OF YEAR	<u>70,859,995</u>	<u>76,532,293</u>
NET ASSETS - END OF YEAR	<u><u>\$52,985,454</u></u>	<u><u>\$70,859,995</u></u>

See notes to financial statements

THE PROSPECT HILL FOUNDATION, INC.

**STATEMENTS OF CASH FLOWS -
MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (17,874,541)	\$ (5,672,298)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net loss on investments	14,190,685	7,507,726
Depreciation	8,648	4,808
Net partnership income	(75,892)	(6,761,990)
Other assets	147	3,012
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(3,750,953)</u>	<u>(4,918,742)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions from partnerships	3,534,098	3,566,136
Purchases of partnership interests	(47,500)	-
Purchases of fixed assets	(5,262)	-
	<u> </u>	<u> </u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,481,336</u>	<u>3,566,136</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (269,617)	 (1,352,606)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>369,695</u>	 <u>1,722,301</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 100,078</u></u>	 <u><u>\$ 369,695</u></u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for Federal excise tax and unrelated business income tax	<u><u>\$ 51,160</u></u>	<u><u>\$ 102,693</u></u>

See notes to financial statements

THE PROSPECT HILL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

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 the general philanthropic interests of the Foundation. 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, New Jersey, Rhode Island and Massachusetts. Limited support is directed towards environmental conservation and reproductive health projects in the Mayan Region of Latin America.

The Internal Revenue Code classifies the Foundation as a private foundation under Section 509(a) which is exempt from Federal income tax under Section 501(c)(3). However, the Foundation is subject to excise taxes on its net investment income and income taxes on its unrelated business taxable income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the cash basis of accounting modified for the presentation of investments at fair value, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, certain revenue and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligations are incurred. Consequently, the Foundation has not recognized grants payable to donees or accounts payable to vendors and their related effects on the changes in net assets in the accompanying financial statements. Also, the Foundation does not recognize deferred excise taxes from unrealized gains or losses on investments.

THE PROSPECT HILL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

The Foundation considers highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

The Foundation has a general partnership interest in Prospect Capital Partners (PCP) which is used to diversify the portfolio by investing in other investment partnerships, corporate securities and hedge funds. In addition, the Foundation's investment portfolio includes investments in various investment partnerships as a limited partner.

PCP's direct holdings of investments are carried at market value, based on quoted market price. Investments in underlying partnerships are valued based on information supplied by the management of the respective entities.

Net loss on investments includes both realized and unrealized gains and losses. Realized gains and losses represent the difference between the cost of the investments sold and the net proceeds received. Unrealized gains and losses represent the net change in fair value during the year for investments held throughout the year, the net change in fair value from date of purchase to year-end for investments acquired during the year, and an adjustment for the accumulated unrealized appreciation on investments held at the end of the prior year that were sold during the current year.

The Foundation's distributive share of partnership gains and losses, interest, dividends, other income and expenses are reported as net partnership income.

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.

THE PROSPECT HILL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements requires the Foundation 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.

Risks and Uncertainties

Cash and Cash Equivalents

The Foundation has cash and cash equivalents which exceed the Federal insurance limits, however, management does not believe there is any significant risk of loss on any uninsured amounts.

Investments

The Foundation's investments are subject to various risks that determine their value. Due to the level of risk associated with the investments and the level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in market conditions in the near term could materially affect the value reported in the financial statements.

3. PROPERTY AND EQUIPMENT

As of June 30, 2009 and 2008, property and equipment consisted of the following:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$67,031	\$67,031
Computer equipment	20,223	14,961
Furniture and fixtures	<u>2,650</u>	<u>2,650</u>
	89,904	84,642
Less: accumulated depreciation	<u>38,512</u>	<u>29,864</u>
	<u>\$51,392</u>	<u>\$54,778</u>

THE PROSPECT HILL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS

The following schedule summarizes the relationship between cost and fair value of investments:

	<u>2009</u>	<u>2008</u>
Investments – 79.25% and 80% share of PCP in 2009 and 2008, respectively		
Cash and cash equivalents	\$ 1,144,523	\$ (276,094)
Debt instruments	-	1,221,704
Taxable bonds	973,293	1,492,972
Domestic equities	7,127,147	9,964,943
Foreign equities	10,898,871	16,379,184
Absolute return	11,199,647	15,514,187
Hedged equities	6,381,929	11,029,205
Real estate investments	3,519,498	3,645,428
Venture Capital – partnerships	4,244,917	3,847,715
Private Equity – partnerships	<u>3,200,323</u>	<u>2,332,449</u>
	48,690,148	65,151,693
 Investments		
Venture Capital – partnerships	<u>4,143,698</u>	<u>5,283,544</u>
 Fair value, ending	52,833,846	70,435,237
Cost, ending	<u>58,044,929</u>	<u>61,455,635</u>
 Unrealized (depreciation) appreciation, ending	<u>(5,211,083)</u>	<u>8,979,602</u>
 Fair value, beginning	70,435,237	74,747,109
Cost, beginning	<u>61,455,635</u>	<u>58,259,781</u>
 Unrealized appreciation, beginning	<u>8,979,602</u>	<u>16,487,328</u>
 Net loss on investments	<u>\$(14,190,685)</u>	<u>\$(7,507,726)</u>

As of June 30, 2009 and 2008 investments at quoted market prices were \$5,296,462 and \$7,457,796, respectively. The remaining balances were valued based on values supplied by management of the underlying partnership investments.

THE PROSPECT HILL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

5. RELATED PARTY TRANSACTIONS

Pursuant to a service agreement, during the years ended June 30, 2009 and 2008, the Foundation paid \$460,124 and \$285,759, 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.

6. COMMITMENTS

Lease

The Foundation occupies offices at 99 Park Avenue, New York, New York, under an operating lease which expires on May 31, 2018. The lease provides for escalation charges based upon increases in real estate taxes and certain operating costs. Rent expense was \$62,771 and \$35,968 for the years ended June 30, 2009 and 2008, respectively. Future minimum annual lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2010	\$ 62,300
2011	62,300
2012	62,300
2013	62,671
2014	66,750
Thereafter	<u>261,438</u>
Total	<u>\$577,759</u>

Investments

The Foundation has commitments to invest \$9,025,000 in limited partnerships. As of June 30, 2009, \$8,527,500 has been invested, leaving an unfunded balance of \$497,500.

Grants

As of June 30, 2009, the Foundation is committed to making 20 grants to 20 organizations in future years in the aggregate amount of \$2,170,000.

THE PROSPECT HILL FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Minimum Distribution Requirements

The Internal Revenue Code requires that foundations make certain minimum charitable distributions each year under a specified formula which amounts to approximately 5% of the average fair market value of the Foundation's previous year's net assets. The Foundation has an excess distributions carryover totaling \$3,228,892 which arose in the fiscal years ended 2005 through 2009. The carryover can be used to help satisfy the minimum distribution requirement prior to expiration over a five-year period from the fiscal years ended 2010 through 2014.