

# **William Caspar Graustein Memorial Fund**

Financial Statements

Years Ended December 31, 2011, 2010 and 2009

# BlumShapiro

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## Independent Auditors' Report

To the Board of Trustees  
William Caspar Graustein Memorial Fund  
Hamden, Connecticut

We have audited the accompanying statements of financial position of the William Caspar Graustein Memorial Fund (the Memorial Fund) as of December 31, 2011, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Memorial Fund's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Memorial Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2011, 2010 and 2009 financial statements referred to above present fairly, in all material respects, the financial position of the William Caspar Graustein Memorial Fund as of December 31, 2011, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
March 19, 2012

**WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2011, 2010 AND 2009**

	2011	2010	2009
<b>ASSETS</b>			
CASH	\$ 500	\$ 500	\$ 870,413
INVESTMENTS			
Short-term	17,506,360	18,024,521	19,972,402
Equity	29,623,152	42,589,173	37,087,301
Debt	12,344,039	12,869,695	12,909,677
Alternative	39,601,797	30,884,525	27,840,889
Program-related	-	4,536	4,536
INTEREST AND DIVIDENDS RECEIVABLE	43,403	43,206	41,829
OTHER ASSETS	49,272	107,502	19,004
FURNITURE, LEASEHOLD IMPROVEMENTS AND EQUIPMENT - Net	61,713	73,113	98,963
<b>TOTAL ASSETS</b>	<b>\$ 99,230,236</b>	<b>\$ 104,596,771</b>	<b>\$ 98,845,014</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
GRANTS PAYABLE	\$ 1,381,750	\$ 2,441,931	\$ 2,150,851
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	158,356	224,453	164,435
DEFERRED TAXES	159,100	196,100	126,000
<b>TOTAL LIABILITIES</b>	<b>1,699,206</b>	<b>2,862,484</b>	<b>2,441,286</b>
<b>UNRESTRICTED NET ASSETS</b>	<b>97,531,030</b>	<b>101,734,287</b>	<b>96,403,728</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 99,230,236</b>	<b>\$ 104,596,771</b>	<b>\$ 98,845,014</b>

See Notes to Financial Statements.

**WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

	2011	2010	2009
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
<b>OPERATIONS</b>			
<b>Operating Revenues</b>			
Trustee appropriations for operations			
Investment funds appropriated for operations pursuant to spending policy	\$ 5,248,000	\$ 5,628,000	\$ 5,982,000
Contributions appropriated for operations	475,000	450,000	362,000
<b>Total operating revenues</b>	<b>5,723,000</b>	<b>6,078,000</b>	<b>6,344,000</b>
<b>Operating Expenses</b>			
Grants and program	5,193,902	5,575,300	4,767,582
Other charitable	265,341	272,023	187,034
Management and general	309,207	289,476	321,857
Accountability	113,721	107,524	130,039
<b>Total operating expenses</b>	<b>5,882,171</b>	<b>6,244,323</b>	<b>5,406,512</b>
<b>RESULTS OF OPERATIONS</b>	<b>(159,171)</b>	<b>(166,323)</b>	<b>937,488</b>
<b>NON-OPERATING ACTIVITIES</b>			
<b>Investment return</b>			
Dividend and interest income	1,411,495	2,865,944	2,675,442
Net gain on investments	54,607	8,592,211	14,407,572
Investment management	(258,334)	(249,087)	(257,919)
Excise tax	(13,760)	(90,002)	(136,685)
<b>Total investment return</b>	<b>1,194,008</b>	<b>11,119,066</b>	<b>16,688,410</b>
<b>Contributions</b>	<b>484,906</b>	<b>455,816</b>	<b>388,571</b>
<b>Total non-operating activities before appropriations</b>	<b>1,678,914</b>	<b>11,574,882</b>	<b>17,076,981</b>
<b>Amount appropriated for operations</b>	<b>(5,723,000)</b>	<b>(6,078,000)</b>	<b>(6,344,000)</b>
<b>NON-OPERATING ACTIVITIES</b>	<b>(4,044,086)</b>	<b>5,496,882</b>	<b>10,732,981</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>(4,203,257)</b>	<b>5,330,559</b>	<b>11,670,469</b>
<b>UNRESTRICTED NET ASSETS</b>			
<b>Beginning of year</b>	<b>101,734,287</b>	<b>96,403,728</b>	<b>84,733,259</b>
<b>End of year</b>	<b>\$ 97,531,030</b>	<b>\$ 101,734,287</b>	<b>\$ 96,403,728</b>

See Notes to Financial Statements.

**WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

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	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Dividend and interest received	\$ 1,411,298	\$ 2,864,567	\$ 2,688,245
Cash received from contributors	484,906	455,816	388,571
Grants paid	(4,172,371)	(3,380,188)	(4,377,481)
Cash paid to employees and suppliers	(2,967,928)	(2,831,943)	(3,134,029)
Change in excise tax	(90,000)	(7,902)	8,815
	<u>(5,334,095)</u>	<u>(2,899,650)</u>	<u>(4,425,879)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investments	14,970,093	13,389,764	16,741,534
Purchase of investments	(9,618,384)	(11,355,198)	(11,647,516)
Purchase of equipment, leasehold improvements and furniture	(17,614)	(4,829)	(1,076)
	<u>5,334,095</u>	<u>2,029,737</u>	<u>5,092,942</u>
<b>CHANGE IN CASH</b>	-	<b>(869,913)</b>	<b>667,063</b>
<b>CASH</b>			
<b>BEGINNING OF YEAR</b>	<u>500</u>	<u>870,413</u>	<u>203,350</u>
<b>END OF YEAR</b>	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 870,413</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES</b>			
Change in net assets	\$ (4,203,257)	\$ 5,330,559	\$ 11,670,469
Adjustments to reconcile change in net assets to net cash used in operating activities			
Net gain on investments	(54,607)	(8,592,211)	(14,407,572)
Depreciation and amortization	29,014	30,679	31,416
Change in interest and dividends receivable and other assets	58,033	(89,875)	13,304
Change in grants payable	(1,060,181)	291,080	(1,802,416)
Change in accounts payable and other liabilities	(103,097)	130,118	68,920
	<u>(5,334,095)</u>	<u>(2,899,650)</u>	<u>(4,425,879)</u>

See Notes to Financial Statements.

# WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Description of Activities** - The William Caspar Graustein Memorial Fund (the "Memorial Fund") was founded in 1946 by Archibald R. Graustein as a charitable trust. The mission of the Memorial Fund is to improve the effectiveness of education in fostering both personal development and leadership through grants, programs and other charitable activities. The goals of the Memorial Fund are to deepen young children's engagement in their own education, to support Connecticut communities in improving education for their elementary and preschool children, and to develop both statewide and local leadership dedicated to improving and advocating for education in Connecticut. All contributions received by the Memorial Fund have been considered unrestricted.

**Basis of Accounting** - The financial statements of the Memorial Fund have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below.

**Investment and Spending Policies** - The Memorial Fund has the objective of maintaining the purchasing power of its endowment to support its charitable activities over time. The Memorial Fund's spending and investment policies work together to achieve this objective. The Memorial Fund maintains a broadly diversified investment portfolio with the goal of achieving after-inflation and after-investment management expenses annual return of 5.25%. Actual returns in any given year may vary from this amount. The current spending policy is to appropriate for operations in each calendar year an amount equal to 5.25% of the average of the fair value of its cash and investments over the previous 36 months. In addition, it is the policy of the Memorial Fund to appropriate a portion of current and prior years' contributions.

**Cash** - The Memorial Fund maintains its cash in a bank deposit account which, at times, may exceed federally insured limits. The Memorial Fund has not experienced any losses in such account.

**Investments** - are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net gains and losses on investments include the Memorial Fund's gains or losses on investments bought and sold as well as held during the year.

**Program-Related Investments** - are debt or equity investments for appropriate charitable purposes as set forth in the Internal Revenue Code and regulations thereunder, and are carried at cost. An allowance for possible losses is established when the Memorial Fund does not expect repayment in full and when such uncollectible amount can be reasonably estimated.

***Furniture, Leasehold Improvements and Equipment*** - are reflected at cost. Depreciation and amortization are provided using the straight-line method over five to seven years. Accumulated depreciation and amortization was \$691,459, \$662,445 and \$631,766 at December 31, 2011, 2010 and 2009, respectively.

***Contributions*** - are recorded on the date received by the Memorial Fund. Contributions by bequest are recorded as soon as the amount is determinable. Contributions of assets other than cash are recorded at market value on the date the contribution is recorded by the Memorial Fund, except for bequests, which are recorded at market value on the date of death.

***Expenses*** - The Memorial Fund accounts for its expenses on a functional basis. Accountability activities include activities involved in reporting to the public or to the government.

***Taxes*** - As an organization described in Section 501(c)(3) of the Internal Revenue Code, the Memorial Fund is exempt from federal income taxes and has been classified as a private foundation. In accordance with the applicable provisions of the Internal Revenue Code, the Memorial Fund is subject to an excise tax on net investment income, including realized gains, and to tax on unrelated business income in connection with certain partnership investments. Deferred taxes are recognized on unrealized gains and interest and dividends receivable at the date of the financial statements. The informational returns of the Memorial Fund for the years ended December 31, 2008 through 2011 are subject to examination by the Internal Revenue Service and various states.

***Estimates*** - The preparation of the Memorial Fund's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Significant estimates include those used in determining the valuation of investments.

***Subsequent Events*** - In preparing these financial statements, management has evaluated subsequent events through March 19, 2012, which represents the date the financial statements were available to be issued.

## **2. FAIR VALUE**

The Fund's major financial instruments consist of cash, investments, accounts payables and grants payable.

The fair values of cash, accounts payables and grants payable approximate their carrying values due to the short-term nature of these items. Investments are recorded at fair value as discussed in Note 1, and as presented below.

The Memorial Fund is required under Fair Value Measurements of the FASB Codification to measure the fair value under a three-level hierarchy, as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data, by correlation or other means, and the Memorial Fund has the ability to redeem the asset in the near term subsequent to the measurement date.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and the Memorial Fund does not have the ability to redeem the asset in the near term. Fair value inputs used for alternative investments have been estimated using the estimated net asset value per share of the investments.

The Memorial Fund utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. Valuation for investments maintained by fund managers or limited partnerships are based on the most recent estimates determined by the fund managers or general partners after review by the Memorial Fund's management. Adjustments to such values have been considered but none have been made.

**Assets Measured at Fair Value on a Recurring Basis** - The following is a summary of the source of fair value measurements for assets that are measured at fair value on a recurring basis:

<u>Description</u>	<u>December 31, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term	\$ 17,506,360	\$ 1,900,463	\$ 15,605,897	\$
Equity	29,623,152	12,241,733	17,381,419	
Debt	12,344,039	857,719	11,486,320	
Alternative	39,601,797		5,420,012	34,181,785
Total	<u>\$ 99,075,348</u>	<u>\$ 14,999,915</u>	<u>\$ 49,893,648</u>	<u>\$ 34,181,785</u>
<u>Description</u>	<u>December 31, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term	\$ 18,024,521	\$ 4,618,817	\$ 13,405,704	\$
Equity	42,589,173	12,053,574	30,535,599	
Debt	12,869,695	5,379	12,864,316	
Alternative	30,884,525			30,884,525
Program related	4,536	4,536		
Total	<u>\$ 104,372,450</u>	<u>\$ 16,682,306</u>	<u>\$ 56,805,619</u>	<u>\$ 30,884,525</u>
<u>Description</u>	<u>December 31, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term	\$ 19,972,402	\$ 5,452,938	\$ 14,519,464	\$
Equity	37,087,301	10,535,675	26,551,626	
Debt	12,909,677	1,515,478	11,394,199	
Alternative	27,840,889			27,840,889
Program related	4,536	4,536		
Total	<u>\$ 97,814,805</u>	<u>\$ 17,508,627</u>	<u>\$ 52,465,289</u>	<u>\$ 27,840,889</u>

**Short-term** - This investment class seeks to provide current income, be the principal source of liquidity for distribution for current expenses and create some measure of diversification. As a result, credit quality is a core emphasis of this allocation. The redemption period for these investments is daily, with no advanced notice.

**Equity** - This investment class seeks to provide long-term capital appreciation. Equity managers are selected with the objective of building a portfolio that is diversified by geographic region, economic sector, industry and market capitalization. The objective in selecting equity managers is to generate average annual compounded returns over the relevant broad market indices (e.g., the S&P 500 and MSCI AC World excluding the U.S.), net of fees, over full market cycles (5-10 years). The redemption period for these investments is daily, with no advanced notice.

**Debt** - This investment class seeks to provide current income and long-term capital appreciation and create some measure of diversification. The redemption period for these investments is daily, with no advanced notice.

**Alternative** - This investment class may include both “absolute return strategies,” long/short “equity hedge” strategies, private equity, venture capital and inflation hedges. These investments are expected to produce returns equal to or higher than public market strategies. These investments include marketable alternatives with annual redemptions and limited partnerships, which generally have 4-6 year investment periods and approximately 10-year fund lives.

Some equity and debt securities include those held through mutual fund investments. The classification of investments as Level 2 should not be interpreted to suggest that such investments could not be liquidated at their reported values.

Investments classified as Level 3 in the fair value hierarchy represent the Memorial Fund’s investments in financial instruments in which the Memorial Fund’s management has used at least one significant unobservable input in the valuation model. The following table presents a reconciliation of activity for the Level 3 financial instruments:

Balance, January 1, 2009	\$	23,441,174
Capital contributions		3,918,750
Partnership distributions		(314,928)
Net gain on investments		795,893
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Balance, December 31, 2009		27,840,889
Capital contributions		4,138,250
Partnership distributions		(4,040,916)
Net gain on investments		2,946,302
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Balance, December 31, 2010		30,884,525
Capital contributions		3,708,250
Partnership distributions		(2,721,244)
Net gain on investments		2,310,254
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Balance, December 31, 2011	\$	<u>34,181,785</u>

**Investments in Entities that Calculate Net Asset Value per Share** - The following is a summary of commitments and redemption rights of investments in entities that calculate net asset per share:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Days Notification</u>
TIFF Multi-Asset Fund	\$ 47,985,798	\$ -	Daily	\$ -
Level 3 Alternative	34,181,785	13,700,000	Annually - Illiquid	90 days - illiquid

### 3. COMMITMENTS

As of December 31, 2011, the Memorial Fund is obligated under a noncancelable operating lease for office space, expiring June 30, 2014. The aggregate minimum future payments under the lease total \$380,957, payable in the years ending December 31, 2012, 2013 and 2014 in the following amounts: \$149,242, \$153,719 and \$77,996, respectively.