

## William Caspar Graustein Memorial Fund

Financial Statements

Years Ended December 31, 2015, 2014 and 2013

# 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 financial statements of the William Caspar Graustein Memorial Fund (the Memorial Fund), which comprise the statements of financial position as of December 31, 2015, 2014 and 2013, and the related statements of activities and cash flows for the years 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 accounting principles generally accepted in the United States of America; this includes 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.

### Auditor's 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 auditor's 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 financial position of the William Caspar Graustein Memorial Fund as of December 31, 2015, 2014 and 2013, 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.

## Change in Accounting Principle

As discussed in Note 1, during the year ended December 31, 2015, the Memorial Fund elected early adoption of Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments require retrospective application. As a result, certain amounts related to investment disclosures have been restated as of and for the years ended December 31, 2014 and 2013. Our opinion is not modified with respect to this matter.

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

West Hartford, Connecticut  
June 3, 2016

**WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015, 2014 AND 2013**

	2015	2014	2013
<b>ASSETS</b>			
CASH	\$ 500	\$ 500	\$ 500
INVESTMENTS			
Short-term	8,045,601	9,845,412	20,768,939
Equity	40,995,560	35,516,728	32,801,852
Debt	9,345,486	15,913,171	10,387,012
Alternative	49,248,160	51,743,060	49,613,614
Program-related	54,587	54,587	75,000
INTEREST AND DIVIDENDS RECEIVABLE	40,599	38,980	40,307
CONTRIBUTION RECEIVABLE	-	175,000	-
OTHER ASSETS	44,773	82,170	59,163
FURNITURE, LEASEHOLD IMPROVEMENTS AND EQUIPMENT - NET	11,500	16,474	27,285
<b>TOTAL ASSETS</b>	<b><u>\$ 107,786,766</u></b>	<b><u>\$ 113,386,082</u></b>	<b><u>\$ 113,773,672</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
GRANTS PAYABLE	\$ 961,898	\$ 2,407,523	\$ 2,384,572
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	213,696	214,854	393,635
POST-RETIREMENT BENEFIT OBLIGATION	536,859	492,071	-
DEFERRED TAXES	231,112	340,112	415,112
<b>TOTAL LIABILITIES</b>	<b>1,943,565</b>	<b>3,454,560</b>	<b>3,193,319</b>
<b>UNRESTRICTED NET ASSETS</b>	<b><u>105,843,201</u></b>	<b><u>109,931,522</u></b>	<b><u>110,580,353</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 107,786,766</u></b>	<b><u>\$ 113,386,082</u></b>	<b><u>\$ 113,773,672</u></b>

See Notes to Financial Statements.

# WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	2015	2014	2013
<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	\$ 5,821,000	\$ 5,674,000	\$ 5,425,000
Contributions appropriated for operations	137,077	335,366	440,000
<b>Total operating revenues</b>	<b>5,958,077</b>	<b>6,009,366</b>	<b>5,865,000</b>
<b>Operating Expenses</b>			
Grants and program	3,707,629	5,197,370	5,933,721
Other charitable	247,901	277,365	390,593
Management and general	448,358	476,422	428,137
Accountability	148,703	153,081	182,364
<b>Total operating expenses</b>	<b>4,552,591</b>	<b>6,104,238</b>	<b>6,934,815</b>
<b>RESULTS OF OPERATIONS</b>	<b>1,405,486</b>	<b>(94,872)</b>	<b>(1,069,815)</b>
<b>NON-OPERATING ACTIVITIES</b>			
<b>Investment return</b>			
Dividend and interest income	2,867,327	3,941,343	5,746,503
Net gain (loss) on investments	(2,146,707)	2,117,831	8,225,061
Investment management	(423,461)	(356,665)	(307,820)
Excise and other taxes	30,034	(148,454)	(353,393)
<b>Total investment return</b>	<b>327,193</b>	<b>5,554,055</b>	<b>13,310,351</b>
<b>Contributions</b>	<b>137,077</b>	<b>335,366</b>	<b>400,130</b>
<b>Post-Retirement Benefit Obligation</b>	<b>-</b>	<b>(434,014)</b>	<b>-</b>
<b>Total non-operating activities before appropriations</b>	<b>464,270</b>	<b>5,455,407</b>	<b>13,710,481</b>
<b>Amount appropriated for operations</b>	<b>(5,958,077)</b>	<b>(6,009,366)</b>	<b>(5,865,000)</b>
<b>NON-OPERATING ACTIVITIES</b>	<b>(5,493,807)</b>	<b>(553,959)</b>	<b>7,845,481</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>(4,088,321)</b>	<b>(648,831)</b>	<b>6,775,666</b>
<b>UNRESTRICTED NET ASSETS</b>			
<b>Beginning of year</b>	<b>109,931,522</b>	<b>110,580,353</b>	<b>103,804,687</b>
<b>End of year</b>	<b>\$ 105,843,201</b>	<b>\$ 109,931,522</b>	<b>\$ 110,580,353</b>

See Notes to Financial Statements.

# WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31 2015, 2014 AND 2013

	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Dividend and interest received	\$ 2,865,708	\$ 3,942,670	\$ 5,740,188
Cash received from contributors	310,077	160,367	400,130
Grants paid	(3,324,497)	(3,205,219)	(3,393,127)
Cash paid to employees and suppliers	(2,933,152)	(3,334,770)	(3,229,946)
Change in excise tax	(152,886)	(250,793)	(150,393)
<b>Net cash used in operating activities</b>	<b>(3,234,750)</b>	<b>(2,687,745)</b>	<b>(633,148)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investments	12,040,061	11,271,382	10,349,723
Purchase of investments	(8,803,205)	(8,580,092)	(9,707,736)
Purchase of equipment, leasehold improvements and furniture	(2,106)	(3,545)	(8,839)
<b>Net cash provided by investing activities</b>	<b>3,234,750</b>	<b>2,687,745</b>	<b>633,148</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>BEGINNING OF YEAR</b>	<b>500</b>	<b>500</b>	<b>500</b>
<b>END OF YEAR</b>	<b>\$ 500</b>	<b>\$ 500</b>	<b>\$ 500</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES</b>			
Change in net assets	\$ (4,088,321)	\$ (648,831)	\$ 6,775,666
Adjustments to reconcile change in net assets to net cash used in operating activities			
Net (gain) loss on investments	2,146,707	(2,117,831)	(8,225,061)
Depreciation and amortization	7,080	14,356	22,445
Change in interest and dividends receivable, contributions receivable and other assets	210,779	(196,679)	93,415
Change in grants payable	(1,445,625)	22,949	448,081
Change in post-retirement benefit obligation	44,788	492,071	
Change in accounts payable and other liabilities	(110,158)	(253,780)	252,306
<b>Net cash used in operating activities</b>	<b>\$ (3,234,750)</b>	<b>\$ (2,687,745)</b>	<b>\$ (633,148)</b>

See Notes to Financial Statements.

# WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

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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 achieve equity in education by working with those affected and inspiring all to end racism and poverty. 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 \$475,607, \$468,527 and \$454,171 at December 31, 2015, 2014 and 2013, 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.

**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.

**Change in Accounting Principle** - In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize investments measured at net asset value within the fair value hierarchy tables. The standard is effective for years beginning after December 15, 2016 and early adoption is permitted. The Memorial Fund has elected to early adopt ASU 2015-07 for the year ended December 31, 2015.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through June 3, 2016, which represents the date the financial statements were available to be issued.

## 2. FAIR VALUE

The Memorial 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.

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. As a practical expedient, certain investments are measured at fair value on the basis of net asset value. The fair value of these investments is not included in the fair value hierarchy.

There have been no changes in the methodologies used at December 31, 2015, 2014 and 2013.

**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:

Description	December 31, 2015	Investments Measured at Net Asset Value (a)	Investments Measured at Fair Value		
			Level 1	Level 2	Level 3
Short-term	\$ 8,045,601	\$ 2,126,111	\$ 5,919,490	\$ -	\$ -
Equity	40,995,560	29,584,604	11,410,956	-	-
Debt	9,345,486	5,518,840	2,064,949	1,761,697	-
Alternative	49,248,160	49,248,160	-	-	-
Total	<u>\$ 107,634,807</u>	<u>\$ 86,477,715</u>	<u>\$ 19,395,395</u>	<u>\$ 1,761,697</u>	<u>\$ -</u>

Description	December 31, 2014	Investments Measured at Net Asset Value (a)	Investments Measured at Fair Value		
			Level 1	Level 2	Level 3
Short-term	\$ 9,845,412	\$ 3,596,500	\$ 6,248,912	\$ -	\$ -
Equity	35,516,728	23,474,452	12,042,276	-	-
Debt	15,913,171	13,170,967	928,510	1,813,694	-
Alternative	51,743,060	51,743,060	-	-	-
Total	<u>\$ 113,018,371</u>	<u>\$ 91,984,979</u>	<u>\$ 19,219,698</u>	<u>\$ 1,813,694</u>	<u>\$ -</u>

Description	December 31, 2013	Investments Measured at Net Asset Value (a)			
		Level 1	Level 2	Level 3	
Short-term	\$ 20,768,939	\$ 14,340,017	\$ 6,428,922	\$ -	\$ -
Equity	32,801,852	21,280,382	11,521,470	-	-
Debt	10,387,012	7,961,006	672,031	1,753,975	-
Alternative	49,613,614	49,613,614	-	-	-
Total	\$ 113,571,417	\$ 93,195,019	\$ 18,622,423	\$ 1,753,975	\$ -

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

There were no transfers between levels of investments during the years ended December 31, 2015, 2014 and 2013.

The investment strategies of the investments are as follows:

**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.

**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:

	Fair Value	Unfunded Commitments	Redemption Frequency	Days Notification
TIFF Multi-Asset Fund	\$ 45,236,397	\$ -	Daily	\$ -
Alternative	41,241,318	15,675,046	Monthly - Illiquid	14 days - illiquid

### 3. COMMITMENTS

As of December 31, 2015, the Memorial Fund is obligated under a noncancelable operating lease for office space, expiring June 30, 2021. At December 31, 2015, minimum future payments under the lease were as follows:

#### Year Ending December 31

2016	\$	192,172
2017		197,937
2018		203,875
2019		209,992
2020		216,291
Thereafter		<u>109,744</u>
Total	\$	<u>1,130,011</u>

### 4. LINE OF CREDIT

William Caspar Graustein Memorial Fund entered into a line of credit agreement on December 2, 2013, with the Northern Trust Company in the amount of \$2,000,000 for short-term cash flow needs. The line expires on July 31, 2017. The line bears interest at the greater of 2.25% or the Prime Rate less .75%. There were no outstanding borrowings on this line of credit agreement as of December 31, 2015, 2014 and 2013.

### 5. POST-RETIREMENT BENEFIT PLAN

Effective on January 1, 2014, the Memorial Fund adopted a post-retirement benefit plan. Eligible employees must be fully retired from employment with the Memorial Fund and at least age 65 with 10 years of service. Employees who are age 60 or older as of January 1, 2014 will be eligible to participate in this plan upon retirement with less than 10 years of service. Eligible retired employees will receive a maximum of \$6,000 per year for healthcare costs. As of January 1, 2014 a liability totaling \$434,014 was recorded to reflect the post-retirement benefit obligation. Net periodic benefit costs totaled \$88,327 and \$74,085 in 2015 and 2014. The post-retirement benefit obligation as of December 31, 2015 and 2014 was \$536,859 and \$492,071.

The weighted average discount rate assumptions used for the plan are shown below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Discount rate to determine benefit obligations	4.1%	3.7%	N/A
Discount rate to determine the net periodic benefit cost	3.7%	4.4%	N/A

*Estimated Future Benefit Payments* - The following benefit payments, which reflect future service if all eligible employees were to retire during 2015, are expected to be paid over the next ten years as follows:

2016	\$	23,710
2017		35,133
2018		40,500
2019		39,943
2020		39,353
2021-2025		197,554

The Memorial Fund expects to contribute \$23,710 to the plan for the year ending December 31, 2016.