

William Caspar Graustein Memorial Fund

Financial Statements

Years Ended December 31, 2014, 2013 and 2012

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, 2014, 2013 and 2012, 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, 2014, 2013 and 2012, 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
May 19, 2015

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014, 2013 AND 2012

	2014	2013	2012
ASSETS			
CASH	\$ 500	\$ 500	\$ 500
INVESTMENTS			
Short-term	9,845,412	20,768,939	13,838,293
Equity	35,516,728	32,801,852	36,555,530
Debt	15,913,171	10,387,012	11,866,334
Alternative	51,743,060	49,613,614	43,803,185
Program-related	54,587	75,000	-
INTEREST AND DIVIDENDS RECEIVABLE	38,980	40,307	33,993
CONTRIBUTION RECEIVABLE	175,000	-	-
OTHER ASSETS	82,170	59,163	77,893
FURNITURE, LEASEHOLD IMPROVEMENTS AND EQUIPMENT - Net	16,474	27,285	40,891
TOTAL ASSETS	<u>\$ 113,386,082</u>	<u>\$ 113,773,672</u>	<u>\$ 106,216,619</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
GRANTS PAYABLE	\$ 2,407,523	\$ 2,384,572	\$ 1,936,492
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	214,854	393,635	182,328
POST-RETIREMENT BENEFIT OBLIGATION	492,071	-	-
DEFERRED TAXES	340,112	415,112	293,112
TOTAL LIABILITIES	3,454,560	3,193,319	2,411,932
UNRESTRICTED NET ASSETS	<u>109,931,522</u>	<u>110,580,353</u>	<u>103,804,687</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 113,386,082</u>	<u>\$ 113,773,672</u>	<u>\$ 106,216,619</u>

See Notes to Financial Statements.

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	2014	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS			
OPERATIONS			
Operating Revenues			
Trustee appropriations for operations			
Investment funds appropriated for operations pursuant to spending policy	\$ 5,674,000	\$ 5,425,000	\$ 5,152,000
Additional investment funds appropriated for operations			
Contributions appropriated for operations	335,366	440,000	555,000
Total operating revenues	6,009,366	5,865,000	5,707,000
Operating Expenses			
Grants and program	5,197,370	5,933,721	5,106,474
Other charitable	277,365	390,593	387,535
Management and general	476,422	428,137	325,917
Accountability	153,081	182,364	117,596
Total operating expenses	6,104,238	6,934,815	5,937,522
RESULTS OF OPERATIONS	(94,872)	(1,069,815)	(230,522)
NON-OPERATING ACTIVITIES			
Investment return			
Dividend and interest income	3,941,343	5,746,503	2,803,838
Net gain on investments	2,117,831	8,225,061	9,213,793
Investment management	(356,665)	(307,820)	(307,475)
Excise tax	(148,454)	(353,393)	(169,668)
Total investment return	5,554,055	13,310,351	11,540,488
Contributions	335,366	400,130	670,691
Post-Retirement Benefit Obligation	(434,014)	-	-
Total non-operating activities before appropriations	5,455,407	13,710,481	12,211,179
Amount appropriated for operations	(6,009,366)	(5,865,000)	(5,707,000)
NON-OPERATING ACTIVITIES	(553,959)	7,845,481	6,504,179
CHANGE IN UNRESTRICTED NET ASSETS	(648,831)	6,775,666	6,273,657
UNRESTRICTED NET ASSETS			
Beginning of year	110,580,353	103,804,687	97,531,030
End of year	\$ 109,931,522	\$ 110,580,353	\$ 103,804,687

See Notes to Financial Statements.

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31 2014, 2013 AND 2012

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividend and interest received	\$ 3,942,670	\$ 5,740,188	\$ 2,813,248
Cash received from contributors	160,367	400,130	670,690
Grants paid	(3,205,219)	(3,393,127)	(2,607,490)
Cash paid to employees and suppliers	(3,334,770)	(3,229,946)	(3,097,811)
Change in excise tax	(250,793)	(150,393)	-
Net cash used in operating activities	(2,687,745)	(633,148)	(2,221,363)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	11,271,382	10,349,723	19,541,614
Purchase of investments	(8,580,092)	(9,707,736)	(17,315,815)
Purchase of equipment, leasehold improvements and furniture	(3,545)	(8,839)	(4,436)
Net cash provided by investing activities	2,687,745	633,148	2,221,363
CHANGE IN CASH AND CASH EQUIVALENTS	-	-	-
CASH AND CASH EQUIVALENTS			
BEGINNING OF YEAR	500	500	500
END OF YEAR	\$ 500	\$ 500	\$ 500
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES			
Change in net assets	\$ (648,831)	\$ 6,775,666	\$ 6,273,657
Adjustments to reconcile change in net assets to net cash used in operating activities			
Net gain on investments	(2,117,831)	(8,225,061)	(9,213,793)
Depreciation and amortization	14,356	22,445	25,258
Change in interest and dividends receivable and other assets	(196,680)	93,415	(19,211)
Change in grants payable	22,951	448,081	554,742
Change in accounts payable and other liabilities	(253,781)	252,306	157,984
Change in post-retirement benefit obligation	492,071	-	-
Net cash used in operating activities	\$ (2,687,745)	\$ (633,148)	\$ (2,221,363)

See Notes to Financial Statements.

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

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 \$468,527, \$454,171 and \$716,717 at December 31, 2014, 2013 and 2012, 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.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through May 19, 2015, 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.

There have been no changes in the methodologies used at December 31, 2014, 2013 and 2012.

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, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term	\$ 9,845,412	\$ 6,248,912	\$ 3,596,500	\$ -
Equity	35,516,728	12,042,276	23,474,452	-
Debt	15,913,171	928,510	14,984,661	-
Alternative	<u>51,743,060</u>	<u>-</u>	<u>8,359,432</u>	<u>43,383,628</u>
Total	<u>\$ 113,018,371</u>	<u>\$ 19,219,698</u>	<u>\$ 50,415,045</u>	<u>\$ 43,383,628</u>

<u>Description</u>	<u>December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term	\$ 20,768,939	\$ 6,428,922	\$ 14,340,017	\$ -
Equity	32,801,852	11,521,470	21,280,382	-
Debt	10,387,012	672,031	9,714,981	-
Alternative	<u>49,613,614</u>	<u>-</u>	<u>7,450,685</u>	<u>42,162,929</u>
Total	<u>\$ 113,571,417</u>	<u>\$ 18,622,423</u>	<u>\$ 52,786,065</u>	<u>\$ 42,162,929</u>

<u>Description</u>	<u>December 31, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term	\$ 13,838,293	\$ 3,871,029	\$ 9,967,264	\$ -
Equity	36,555,530	12,852,285	23,703,245	-
Debt	11,866,334	409,956	11,456,378	-
Alternative	<u>43,803,185</u>	<u>-</u>	<u>6,297,724</u>	<u>37,505,461</u>
Total	<u>\$ 106,063,342</u>	<u>\$ 17,133,270</u>	<u>\$ 51,424,611</u>	<u>\$ 37,505,461</u>

There were no transfers between levels of investments during the years ended December 31, 2014, 2013 and 2012.

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.

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, 2012	\$	34,181,785
Capital contributions		3,682,525
Partnership distributions		(4,102,689)
Net gain on investments		<u>3,743,840</u>
Balance, December 31, 2012	\$	37,505,461
Capital contributions		6,048,908
Partnership distributions		(4,947,048)
Net gain on investments		<u>3,555,608</u>
Balance, December 31, 2013	\$	42,162,929
Capital contributions		4,980,140
Partnership distributions		(7,929,611)
Net gain on investments		<u>4,170,170</u>
Balance, December 31, 2014	\$	<u><u>43,383,628</u></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	\$ 48,601,351	\$ -	Daily	\$ -
Level 3 Alternative	43,383,628	12,727,650	Annually - Illiquid	20 days - illiquid

3. COMMITMENTS

As of December 31, 2014, the Memorial Fund is obligated under a noncancelable operating lease for office space, expiring June 30, 2021. At December 31, 2014, minimum future payments under the lease were as follows:

Year Ending December 31

2015	\$ 189,332
2016	192,172
2017	197,937
2018	203,875
2019	209,992
Thereafter	<u>326,035</u>
Total	<u>\$ 1,319,343</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 December 2, 2015. 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, 2014, 2013 and 2012.

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 \$74,085 in 2014. The post-retirement benefit obligation as of December 31, 2014 was \$492,071.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rate to determine benefit obligations	3.7%	N/A	N/A
Discount rate to determine the net periodic benefit cost	4.4%	N/A	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:

2015	\$	23,712
2016		29,293
2017		34,745
2018		34,281
2019		33,790
2020-2024		165,960

The Memorial Fund expects to contribute \$23,712 to the plan for the year ending December 31, 2015.