

# William Caspar Graustein Memorial Fund

Financial Statements

Years Ended December 31, 2009, 2008 and 2007

# 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 statement of financial position of the William Caspar Graustein Memorial Fund (the "Memorial Fund") as of December 31, 2009 and the related statements of activities and cash flows for the year 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 audit. The financial statements of the Memorial Fund for the years ended December 31, 2008 and 2007, were audited by other auditors whose report, dated July 8, 2009, expressed an unqualified opinion on those statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2009, the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

West Hartford, Connecticut  
March 25, 2010

**WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2009, 2008 AND 2007**

	2009	2008	2007
<b>ASSETS</b>			
CASH	\$ 870,413	\$ 203,350	\$ 492,382
INVESTMENTS			
Short-term	19,972,402	16,202,556	22,098,257
Equity	37,087,301	34,797,455	55,582,170
Debt	12,909,677	14,055,530	21,079,121
Alternative	27,840,889	23,441,174	24,567,020
Program-related	4,536	4,536	179,833
INTEREST AND DIVIDENDS RECEIVABLE	41,829	54,632	67,977
OTHER ASSETS	19,004	19,505	19,209
FURNITURE, LEASEHOLD IMPROVEMENTS AND EQUIPMENT - Net	98,963	129,303	93,041
<b>TOTAL ASSETS</b>	<b><u>\$ 98,845,014</u></b>	<b><u>\$ 88,908,041</u></b>	<b><u>\$ 124,179,010</u></b>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
GRANTS PAYABLE	\$ 2,150,851	\$ 3,953,267	\$ 3,950,650
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	164,435	221,015	695,549
DEFERRED TAXES	126,000	500	266,300
<b>TOTAL LIABILITIES</b>	<b>2,441,286</b>	<b>4,174,782</b>	<b>4,912,499</b>
<b>UNRESTRICTED NET ASSETS</b>	<b><u>96,403,728</u></b>	<b><u>84,733,259</u></b>	<b><u>119,266,511</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 98,845,014</u></b>	<b><u>\$ 88,908,041</u></b>	<b><u>\$ 124,179,010</u></b>

See Notes to Financial Statements.

**WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

	2009	2008	2007
<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	\$ 5,982,000	\$ 5,839,000	\$ 5,396,000
Additional investment funds appropriated for operations		2,950,000	2,750,000
Contributions appropriated for operations	362,000	326,000	328,000
<b>Total operating revenues</b>	<b>6,344,000</b>	<b>9,115,000</b>	<b>8,474,000</b>
<b>Operating Expenses</b>			
Grants and program	4,767,582	7,308,060	7,301,111
Other charitable	187,034	226,706	235,499
Management and general	321,857	352,779	355,733
Accountability	130,039	164,993	85,486
<b>Total operating expenses</b>	<b>5,406,512</b>	<b>8,052,538</b>	<b>7,977,829</b>
<b>RESULTS OF OPERATIONS</b>	<b>937,488</b>	<b>1,062,462</b>	<b>496,171</b>
<b>NON-OPERATING ACTIVITIES</b>			
<b>Investment return</b>			
Dividend and interest income	2,675,442	2,664,537	5,405,833
Net gain (loss) on investments	14,407,572	(29,476,339)	8,543,168
Investment management	(257,919)	(261,959)	(267,954)
Excise tax	(136,685)	231,913	(409,440)
<b>Total investment return</b>	16,688,410	(26,841,848)	13,271,607
<b>Contributions</b>	388,571	361,134	301,011
<b>Total non-operating activities before appropriations</b>	17,076,981	(26,480,714)	13,572,618
<b>Amount appropriated for operations</b>	(6,344,000)	(9,115,000)	(8,474,000)
<b>NON-OPERATING ACTIVITIES</b>	<b>10,732,981</b>	<b>(35,595,714)</b>	<b>5,098,618</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>11,670,469</b>	<b>(34,533,252)</b>	<b>5,594,789</b>
<b>UNRESTRICTED NET ASSETS</b>			
<b>Beginning of year</b>	84,733,259	119,266,511	113,671,722
<b>End of year</b>	\$ 96,403,728	\$ 84,733,259	\$ 119,266,511

See Notes to Financial Statements.

**WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Dividend and interest received	\$ 2,688,245	\$ 2,677,882	\$ 5,411,788
Cash received from contributors	388,571	361,134	301,011
Grants paid	(4,377,481)	(5,164,036)	(3,197,062)
Cash paid to employees and suppliers	(3,134,029)	(3,325,350)	(2,570,613)
Change in excise tax	8,815	(303,768)	(156,123)
Grant refunded			27,665
	<u>(4,425,879)</u>	<u>(5,754,138)</u>	<u>(183,334)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investments	16,741,534	19,183,521	23,166,503
Purchase of investments	(11,647,516)	(13,654,710)	(22,651,607)
Purchase of equipment, leasehold improvements and furniture	(1,076)	(63,705)	(66,941)
	<u>5,092,942</u>	<u>5,465,106</u>	<u>447,955</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>			
	<b>667,063</b>	<b>(289,032)</b>	<b>264,621</b>
<b>CASH AND CASH EQUIVALENTS</b>			
<b>BEGINNING OF YEAR</b>	<u>203,350</u>	<u>492,382</u>	<u>227,761</u>
<b>END OF YEAR</b>	<u>\$ 870,413</u>	<u>\$ 203,350</u>	<u>\$ 492,382</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH (USED IN) OPERATING ACTIVITIES</b>			
Change in net assets	\$ 11,670,469	\$ (34,533,252)	\$ 5,594,789
Adjustments to reconcile change in net assets to net cash (used in) operating activities			
Net (gain) loss on investments	(14,407,572)	29,476,339	(8,543,168)
Depreciation and amortization	31,416	27,443	31,508
Change in interest and dividends receivable and other assets	13,304	13,049	372
Change in grants payable	(1,802,416)	2,617	2,133,250
Change in accounts payable and other liabilities	68,920	(740,334)	599,915
	<u>\$ (4,425,879)</u>	<u>\$ (5,754,138)</u>	<u>\$ (183,334)</u>

See Notes to Financial Statements.

# WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

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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, program 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. For the years ended December 31, 2008 and 2007, the Memorial Fund appropriated an additional \$2,950,000 and \$2,750,000 for operations, respectively.

**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 Improvement 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 \$631,766, \$600,350 and \$572,907 at December 31, 2009, 2008 and 2007, 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 and tax returns of the Memorial Fund for the years ended December 31, 2006 through 2009 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.

***Subsequent Events*** - In preparing these financial statements, management has evaluated subsequent events through March 25, 2010, which represents the date the financial statements were available to be issued.

## **2. FAIR VALUE OF INVESTMENTS**

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.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

All of the Memorial Fund's investments within the fair value hierarchy are measured using quoted prices in active markets for identical assets (Level 1) as of December 31, 2009 and 2008, except for \$2,403,202 and \$3,685,104, respectively, which were measured with significant other observable inputs (Level 2) and \$27,840,889 and \$23,441,174, respectively, which were measured with significant unobservable inputs (Level 3).

Some equity and debt securities include those held through mutual fund investments. The classification of investments as Levels 2 and 3 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 (loss) on investments	<u>795,893</u>
Balance, December 31, 2009	<u>\$ 27,840,889</u>

At December 31, 2009, the Memorial Fund had unfunded capital commitments to limited partnerships of approximately \$18,000,000.

### 3. COMMITMENTS

As of December 31, 2009, 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 \$666,527, payable in the years ending December 31, 2010, 2011, 2012, 2013 and 2014 in the following amounts: \$140,675, \$144,895, \$149,242, \$153,719 and \$77,996, respectively.