

**WILLIAM CASPAR GRAUSTEIN
MEMORIAL FUND
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005**

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
William Caspar Graustein Memorial Fund

We have audited the accompanying statement of financial position of the William Caspar Graustein Memorial Fund (the "Memorial Fund") as of December 31, 2007, and the related statement of activities, and cash flow 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 Corporation for the years ended December 31, 2006 and 2005 were audited by Goldstein Golub Kessler LLP, independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP on October 3, 2007. Goldstein Golub Kessler LLP's report dated April 2, 2007, 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 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.

In our opinion, the 2007 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, 2007, 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.

McGladrey & Pullen, LLP

New York, New York
June 16, 2008

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
ASSETS			
CASH	\$ 492,382	\$ 227,761	\$ 85,128
INVESTMENTS			
Short-term investments	5,935,931	8,959,522	5,702,921
Equity securities	82,062,417	81,184,295	77,323,398
Debt securities	20,223,188	16,232,051	16,421,438
Venture capital partnerships	15,105,032	8,922,428	6,494,593
Program-related	179,833	179,833	179,833
INTEREST AND DIVIDENDS RECEIVABLE	67,977	73,932	98,856
OTHER ASSETS	19,209	13,626	13,948
FURNITURE, LEASEHOLD IMPROVEMENTS AND EQUIPMENT - Net	93,041	57,608	72,949
TOTAL ASSETS	<u>\$ 124,179,010</u>	<u>\$ 115,851,056</u>	<u>\$ 106,393,064</u>
 LIABILITIES AND NET ASSETS			
LIABILITIES			
GRANTS PAYABLE	\$ 3,950,650	\$ 1,817,400	\$ 2,137,920
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	695,549	88,834	109,349
DEFERRED TAXES	266,300	273,100	199,200
TOTAL LIABILITIES	4,912,499	2,179,334	2,446,469
UNRESTRICTED NET ASSETS	<u>119,266,511</u>	<u>113,671,722</u>	<u>103,946,595</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 124,179,010</u>	<u>\$ 115,851,056</u>	<u>\$ 106,393,064</u>

See Notes to Financial Statements.

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS			
OPERATIONS			
Operating Revenues			
Trustee appropriations for operations			
Investment funds designated for operations	\$ 5,396,000	\$ 4,931,000	\$ 4,597,000
Additional appropriation	2,750,000		
Contributions appropriated for operations	328,000	275,000	200,000
Total operating revenues	8,474,000	5,206,000	4,797,000
Operating Expenses			
Grants and program activities	7,301,111	4,949,330	4,888,531
Other charitable activities	235,499	264,003	247,526
Management and general	355,733	344,399	291,149
Accountability activities	85,486	83,182	75,468
Total operating expenses	7,977,829	5,640,914	5,502,674
RESULTS OF OPERATIONS	496,171	(434,914)	(705,674)
NONOPERATING ACTIVITIES			
Investment return:			
Dividend and interest income	5,405,833	3,051,544	2,496,629
Net gain on investments	8,543,168	12,495,111	6,325,824
Investment management	(267,954)	(287,930)	(357,522)
Excise tax	(409,440)	(167,830)	(87,474)
Total investment return	13,271,607	15,090,895	8,377,457
Contributions	301,011	275,146	1,708,549
Total nonoperating activities before appropriations	13,572,618	15,366,041	10,086,006
Amount appropriated for operations	(8,474,000)	(5,206,000)	(4,797,000)
NONOPERATING ACTIVITIES	5,098,618	10,160,041	5,289,006
CHANGE IN UNRESTRICTED NET ASSETS	5,594,789	9,725,127	4,583,332
UNRESTRICTED NET ASSETS			
Beginning of year	113,671,722	103,946,595	99,363,263
End of year	\$ 119,266,511	\$ 113,671,722	\$ 103,946,595

See Notes to Financial Statements.

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividend and interest received	\$ 5,411,788	\$ 3,076,468	\$ 2,528,382
Cash received from contributors	301,011	275,146	1,708,549
Grants paid	(3,197,062)	(3,631,315)	(4,015,468)
Cash paid to employees and suppliers	(2,570,613)	(2,569,116)	(2,255,562)
Federal excise tax paid	(156,123)	(110,430)	(74,274)
Grant refunded	27,665		
	<u>(183,334)</u>	<u>(2,959,247)</u>	<u>(2,108,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	23,166,503	23,114,532	17,627,539
Purchase of investments	(22,651,607)	(19,975,367)	(15,516,373)
Purchase of equipment, leasehold improvements and furniture	(66,941)	(37,285)	(3,230)
	<u>447,955</u>	<u>3,101,880</u>	<u>2,107,936</u>
CHANGE IN CASH AND CASH EQUIVALENTS	264,621	142,633	(437)
CASH AND CASH EQUIVALENTS			
BEGINNING OF YEAR	<u>227,761</u>	<u>85,128</u>	<u>85,565</u>
END OF YEAR	<u><u>\$ 492,382</u></u>	<u><u>\$ 227,761</u></u>	<u><u>\$ 85,128</u></u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH (USED IN) OPERATING ACTIVITIES			
Change in net assets	\$ 5,594,789	\$ 9,725,127	\$ 4,583,332
Adjustments to reconcile change in net assets to net cash (used in) operating activities			
Net (gain) on investments	(8,543,168)	(12,495,111)	(6,325,824)
Depreciation and amortization	31,508	52,626	54,012
Change in interest and dividends receivable and other assets	372	25,246	31,431
Change in grants payable	2,133,250	(320,520)	(472,725)
Change in accounts payable and other liabilities	599,915	53,385	21,401
	<u>(183,334)</u>	<u>(2,959,247)</u>	<u>(2,108,373)</u>
Net cash (used in) operating activities	<u><u>\$ (183,334)</u></u>	<u><u>\$ (2,959,247)</u></u>	<u><u>\$ (2,108,373)</u></u>

See Notes to Financial Statements.

WILLIAM CASPAR GRAUSTEIN MEMORIAL FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

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.

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.

Statements of Activities - The Memorial Fund has adopted the "spending rate" method to appropriate a portion of the invested funds to operations. The Memorial Fund used a spending rate of 5.25% based upon the average of the fair value of its cash and investments over the previous 36 months in determining investment return designated for operations. In addition, it is the policy of the Memorial Fund to appropriate a portion of current and prior years' contributions. For the year ended December 31, 2007, the Memorial Fund appropriated an additional \$2,750,000 for operations.

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 accounts.

Investments are recorded at fair value based upon quoted market prices, when available, or estimates of fair value as determined by the Memorial Fund's investment advisors. Equity and debt securities include mutual fund investments totaling \$81,194,329, \$76,500,552 and \$59,888,163 at December 31, 2007, 2006 and 2005, respectively. Although the advisors use their best judgment in estimating the fair value of underlying funds, there are inherent limitations in any estimation technique. Investment managers have estimated the value of 19% of total investments in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market value for the investments existed.

The fair value estimates used in these financial statements are the most recent estimates determined by the fund managers or general partners. As each partnership finalizes its own financial statements further adjustments are usually made. Management has concluded, based on prior experience and discussions with fund managers and general partners, that any adjustments are not likely to have a material impact on net assets at December 31, 2007. During 2007, fund managers and general partners made adjustments, increasing the value of investments from the amount recorded at December 31, 2006 by \$823,539.

At December 31, 2007, the Memorial Fund had unfunded capital commitments to venture capital partnerships of approximately \$22,000,000.

Program-Related Investments are debt or equity investments for appropriate charitable purposes as set forth in the Internal Revenue Code and regulations there under, and are carried at outstanding indebtedness or 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 \$572,907, \$541,398 and \$488,772 at December 31, 2007, 2006 and 2005, 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.

Federal Excise 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. 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 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.

New Pronouncements - In September 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. This statement is effective for fiscal years beginning after November 15, 2007. The Memorial Fund is currently assessing the potential effect of SFAS No. 157 on its financial position, results of operations and cash flows. The adoption of SFAS No. 157 is not expected to have a material impact on the Memorial Fund's financial position, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2007. The

cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. The adoption of FIN 48 is not expected to have a material impact on the Memorial Fund's financial position, results of operations or cash flows.

2. COMMITMENTS

As of December 31, 2007, 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 \$935,705, payable in the years ending December 31, 2008, 2009, 2010, 2011, 2012, 2013 and 2014 in the following amounts: \$132,600, \$136,578, \$140,675, \$144,895, \$149,242, \$153,719 and \$77,996, respectively.