



**PUBLIC WELFARE FOUNDATION, INC.**  
Washington, D.C.

**FINANCIAL STATEMENTS**  
October 31, 2005 and 2004

## TABLE OF CONTENTS

	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>1</b>
 <b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position.....	2
Statements of Activities .....	3
Statements of Cash Flows.....	4
 Summary of Significant Accounting Policies .....	 5
Notes to Financial Statements.....	7



## Independent Auditor's Report

Board of Directors  
Public Welfare Foundation, Inc.  
Washington, D.C.

We have audited the accompanying statements of financial position of Public Welfare Foundation, Inc. as of October 31, 2005 and 2004, and the related statements of activities and cash flows for the years ended. These financial statements are the responsibility of the Foundation'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Welfare Foundation, Inc. as of October 31, 2005 and 2004 and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Clifton Gunderson LLP*

Baltimore, Maryland  
January 6, 2006

**PUBLIC WELFARE FOUNDATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**October 31, 2005 and 2004**

**ASSETS**

	<u>2005</u>	<u>2004</u>
Cash	\$ 835,193	\$ 1,926,477
Due from stockbrokers for securities with settlements pending	<u>179,834</u>	<u>813,670</u>
Accrued interest and dividends receivable	<u>50,522</u>	<u>88,989</u>
Investments, at fair value:		
Short-term investments	3,655,534	7,223,154
Equity securities:		
Stocks	85,299,384	82,463,658
Commingled funds	146,651,419	137,119,708
Debt securities:		
Commingled funds	94,333,827	93,851,759
Other investment funds	<u>130,057,535</u>	<u>98,696,449</u>
Total investments	<u>459,997,699</u>	<u>419,354,728</u>
Prepaid expenses, taxes and other assets	<u>39,566</u>	<u>184,986</u>
Property and equipment, net	<u>12,508,021</u>	<u>12,885,697</u>
<b>TOTAL ASSETS</b>	<u>\$ 473,610,835</u>	<u>\$ 435,254,547</u>

**LIABILITIES**

Accrued expenses, taxes and other liabilities	\$ 434,543	\$ 178,528
Grants payable	5,260,000	7,338,749
Bonds payable	<u>11,000,000</u>	<u>11,000,000</u>
Total liabilities	16,694,543	18,517,277

**NET ASSETS**

Total net assets – unrestricted	<u>456,916,292</u>	<u>416,737,270</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 473,610,835</u>	<u>\$ 435,254,547</u>

These financial statements should be read only in connection  
with the accompanying summary of significant accounting  
policies and notes to financial statements.

**PUBLIC WELFARE FOUNDATION, INC.**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended October 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>INVESTMENT INCOME AND EXPENSE</b>		
Interest and dividends	\$ 8,069,724	\$ 6,906,054
Other investment funds gain, net	<u>7,850,532</u>	<u>5,054,858</u>
Total net revenues	<u>15,920,256</u>	<u>11,960,912</u>
Realized gain on sale of equity and debt securities, and other investments, net	15,938,057	13,991,097
Unrealized gain on equity and debt securities, net	<u>31,919,748</u>	<u>21,228,798</u>
Total net investment gains	<u>47,857,805</u>	<u>35,219,895</u>
Total investment income	63,778,061	47,180,807
Investment advisory and custodial fees	<u>(980,767)</u>	<u>(943,678)</u>
Net investment income	<u>62,797,294</u>	<u>46,237,129</u>
<b>EXPENSES</b>		
Grants approved, net of returns	17,992,599	18,400,030
Administrative expenses:		
Salaries and fringe benefits	2,115,660	2,109,854
Professional and consulting fees	228,121	200,066
Other	<u>1,662,276</u>	<u>1,606,091</u>
	21,998,656	22,316,041
<b>PROVISION FOR FEDERAL EXCISE TAX</b>	<u>739,921</u>	<u>517,805</u>
Total expenses	<u>22,738,577</u>	<u>22,833,846</u>
Operating income	<u>40,058,717</u>	<u>23,403,283</u>
<b>OTHER INCOME (EXPENSE)</b>		
Class action settlements	22,535	69,967
Rental income	101,031	102,153
Realized loss on disposal of property and equipment	<u>(3,261)</u>	<u>(25,993)</u>
	<u>120,305</u>	<u>146,127</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	40,179,022	23,549,410
<b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	<u>416,737,270</u>	<u>393,187,860</u>
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	<u>\$456,916,292</u>	<u>\$416,737,270</u>

These financial statements should be read only in connection  
with the accompanying summary of significant accounting  
policies and notes to financial statements.

**PUBLIC WELFARE FOUNDATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended October 31, 2005 and 2004**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in unrestricted net assets	\$ 40,179,022	\$ 23,549,410
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	474,545	513,927
Reinvested dividends and interest from mutual funds	(2,964,899)	(1,115,600)
Loss on disposition of property and equipment	3,261	25,993
Net realized gain on disposition of equity and debt securities and other investments	(15,938,057)	(13,991,097)
Net unrealized gain on equity and debt securities	(31,919,748)	(21,228,798)
Other investment funds gain	(7,850,532)	(5,054,858)
Effects of changes in operating assets and liabilities:		
Accrued interest and dividends receivable	38,467	6,612
Prepaid expenses, taxes and other assets	145,420	114,342
Accrued expenses, taxes and other liabilities	256,015	87,352
Grants payable	(2,078,749)	(164,022)
Net cash used in operating activities	(19,655,255)	(17,256,739)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(100,130)	(57,052)
Proceeds from sale of property and equipment	-	3,050
Investments in marketable securities:		
Proceeds from sale and certain distributions	81,891,986	156,318,355
Purchases	(63,861,721)	(136,164,878)
Change in due from/to stockbrokers	633,836	(1,072,366)
Net cash provided by investing activities	18,563,971	19,027,109
<b>NET INCREASE (DECREASE) IN CASH</b>	(1,091,284)	1,770,370
<b>CASH, BEGINNING OF YEAR</b>	1,926,477	156,107
<b>CASH, END OF YEAR</b>	\$ 835,193	\$ 1,926,477

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

**PUBLIC WELFARE FOUNDATION, INC.**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**October 31, 2005 and 2004**

Public Welfare Foundation, Inc. (the "Foundation") was established in 1947, incorporated in Texas and reincorporated in Delaware in 1951, for the purpose of supporting benevolent, charitable, educational or missionary organizations that provide direct services meeting the basic human needs of seriously disadvantaged people and/or working for lasting improvements addressing these needs. Revenues earned are generated by the Foundation's investments. The Foundation uses that investment income (including gains) to fund grants to those organizations and other related expenses.

**USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**BASIS OF ACCOUNTING**

The financial statements of the Foundation have been prepared on the accrual basis of accounting, which includes recognition of revenue as earned and expenses as incurred.

**AMOUNTS DUE FROM/TO STOCKBROKERS**

The amounts due from (to) stockbrokers for securities with settlements pending result from sales (purchases) of securities made prior to the end of the fiscal year but settled after the fiscal year-end.

**INVESTMENTS**

Short-term investments held for reinvestment are included with investments.

Investments are stated at fair value. Fair value of investments in marketable securities that are traded on a national securities exchange or listed on NASDAQ is based on current quoted market prices. Investments in limited partnership and other investment funds that invest in marketable securities are valued based on market values of the underlying securities.

In the absence of an active market for such investments, the fair values of investments in limited partnerships and other investment funds that invest in nonmarketable securities, real estate and oil and gas interests are based upon audited partnership financial statements, adjusted for cash flows and significant unrealized losses through September 30, 2005. A change in the estimated value may occur in the near term.