



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

FINANCIAL STATEMENTS
October 31, 2006 and 2005

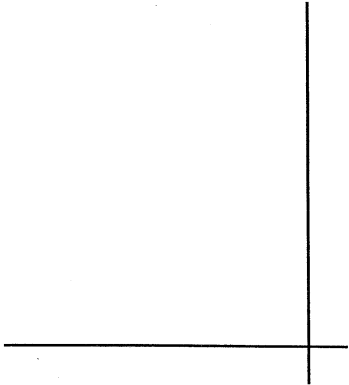


TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
 FINANCIAL STATEMENTS	
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, 2006 and 2005, 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, 2006 and 2005 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 4, 2007

PUBLIC WELFARE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
October 31, 2006 and 2005

ASSETS

	2006	2005
Cash	\$ 1,247,035	\$ 835,193
Due from stockbrokers for securities with settlements pending	549,600	179,834
Accrued interest and dividends receivable	40,418	50,522
Investments, at fair value:		
Short-term investments	3,390,660	3,655,534
Equity securities:		
Stocks	61,876,857	85,299,384
Commingled funds	205,239,779	146,651,419
Debt securities:		
Commingled funds	97,534,979	94,333,827
Other investment funds	153,867,618	130,057,535
Total investments	521,909,893	459,997,699
Prepaid expenses, taxes and other assets	86,085	39,566
Property and equipment, net	12,073,387	12,508,021
TOTAL ASSETS	\$ 535,906,418	\$ 473,610,835

LIABILITIES

Accrued expenses, taxes and other liabilities	\$ 1,386,982	\$ 434,543
Grants payable	4,231,537	5,260,000
Bonds payable	11,000,000	11,000,000
Total liabilities	16,618,519	16,694,543

NET ASSETS

Total net assets – unrestricted	519,287,899	456,916,292
TOTAL LIABILITIES AND NET ASSETS	\$ 535,906,418	\$ 473,610,835

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
INVESTMENT INCOME AND EXPENSE		
Interest and dividends	\$ 8,539,847	\$ 8,069,724
Other investment funds gain, net	<u>16,375,300</u>	<u>7,850,532</u>
Total net revenues	<u>24,915,147</u>	<u>15,920,256</u>
Realized gain on sale of equity and debt securities, and other investments, net	23,505,678	15,938,057
Unrealized gain on equity and debt securities, net	<u>39,052,756</u>	<u>31,919,748</u>
Total net investment gains	<u>62,558,434</u>	<u>47,857,805</u>
Total investment income	87,473,581	63,778,061
Investment advisory and custodial fees	<u>(854,672)</u>	<u>(980,767)</u>
Net investment income	<u>86,618,909</u>	<u>62,797,294</u>
EXPENSES		
Grants approved, net of returns	19,106,009	17,992,599
Administrative expenses:		
Salaries and fringe benefits	2,112,109	2,115,660
Professional and consulting fees	397,088	228,121
Other	<u>1,870,682</u>	<u>1,662,276</u>
	23,485,888	21,998,656
PROVISION FOR FEDERAL EXCISE TAX	<u>875,178</u>	<u>739,921</u>
Total expenses	<u>24,361,066</u>	<u>22,738,577</u>
Operating income	<u>62,257,843</u>	<u>40,058,717</u>
OTHER INCOME (EXPENSE)		
Class action settlements	15,234	22,535
Rental income	98,530	101,031
Realized loss on disposal of property and equipment	<u>-</u>	<u>(3,261)</u>
	<u>113,764</u>	<u>120,305</u>
INCREASE IN UNRESTRICTED NET ASSETS	62,371,607	40,179,022
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>456,916,292</u>	<u>416,737,270</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$519,287,899</u>	<u>\$456,916,292</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, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 62,371,607	\$ 40,179,022
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	446,951	474,545
Reinvested dividends and interest from mutual funds	(8,231,029)	(2,964,899)
Loss on disposition of property and equipment	-	3,261
Net realized gain on disposition of equity and debt securities and other investments	(23,505,678)	(15,938,057)
Net unrealized gain on equity and debt securities	(39,052,756)	(31,919,748)
Other investment funds gain	(16,375,300)	(7,850,532)
Effects of changes in operating assets and liabilities:		
Accrued interest and dividends receivable	10,104	38,467
Prepaid expenses, taxes and other assets	(46,519)	145,420
Accrued expenses, taxes and other liabilities	952,439	256,015
Grants payable	(1,028,463)	(2,078,749)
Net cash used in operating activities	(24,458,644)	(19,655,255)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(12,318)	(100,130)
Investments in marketable securities:		
Proceeds from sale and certain distributions	136,682,808	81,891,986
Purchases	(111,430,238)	(63,861,721)
Change in due from/to stockbrokers	(369,766)	633,836
Net cash provided by investing activities	24,870,486	18,563,971
NET INCREASE (DECREASE) IN CASH	411,842	(1,091,284)
CASH, BEGINNING OF YEAR	835,193	1,926,477
CASH, END OF YEAR	\$ 1,247,035	\$ 835,193

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, 2006 and 2005

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, 2006. A change in the estimated value may occur in the near term.