

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

FINANCIAL STATEMENTS
October 31, 2008 and 2007

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6

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. (the Foundation) as of October 31, 2008 and 2007, and the related statements of activities and cash flows for the years then 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, 2008 and 2007 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

Calverton, Maryland
June 5, 2009

FINANCIAL STATEMENTS

PUBLIC WELFARE FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
October 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 10,285,110	\$ 24,242,924
Due from stockbrokers for securities with settlements pending	467,171	294,992
Accrued interest and dividends receivable	69,036	45,939
Investments, at fair value:		
Short-term investments	16,812,287	13,234,751
Equity securities:		
Stocks	29,495,374	62,326,301
Commingled funds	95,485,023	201,667,453
Debt securities:		
Commingled funds	91,920,677	101,352,446
Other investments	182,090,490	191,902,804
Total investments	415,803,851	570,483,755
Prepaid expenses, taxes and other assets	951,044	119,705
Deferred federal excise taxes receivable	1,051,087	-
Property and equipment, net	11,475,683	11,705,597
TOTAL ASSETS	\$ 440,102,982	\$ 606,892,912
LIABILITIES		
Accrued expenses, taxes and other liabilities	426,116	\$ 605,717
Deferred federal excise taxes payable	-	2,869,715
Grants payable	6,557,458	3,147,974
Bonds payable	11,000,000	11,000,000
Total liabilities	17,983,574	17,623,406
NET ASSETS		
Total net assets - unrestricted	422,119,408	589,269,506
TOTAL LIABILITIES AND NET ASSETS	\$ 440,102,982	\$ 606,892,912

The accompanying notes are an integral part of the financial statements.

PUBLIC WELFARE FOUNDATION, INC..
STATEMENTS OF ACTIVITIES
Years Ended October 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
INVESTMENT INCOME (LOSS) AND EXPENSE		
Interest and dividends	\$ 10,818,047	\$ 11,682,168
Other investment funds gain, net	<u>27,864,724</u>	<u>25,628,140</u>
Total net revenues	<u>38,682,771</u>	<u>37,310,308</u>
Realized gain on sale of equity and debt securities, and other investments, net	18,399,611	35,614,398
Unrealized gain (loss) on equity, debt securities, and other investments, net	<u>(196,089,078)</u>	<u>26,376,229</u>
Total net investment gains (losses)	<u>(177,689,467)</u>	<u>61,990,627</u>
Total investment income (loss)	(139,006,696)	99,300,935
Investment advisory, custodial fees and investment expense	<u>(1,391,598)</u>	<u>(721,227)</u>
Net investment income (loss) and expense	<u>(140,398,294)</u>	<u>98,579,708</u>
EXPENSES		
Program expenses:		
Grants approved, net of returns	24,956,242	19,754,026
Administrative expenses:		
Salaries and fringe benefits	2,335,141	2,413,853
Professional and consulting fees	451,060	485,611
Other	<u>1,872,649</u>	<u>1,758,747</u>
	29,615,092	24,412,237
Provision (benefit) for federal excise and other taxes	<u>(2,643,825)</u>	<u>2,215,562</u>
Total expenses	<u>26,971,267</u>	<u>26,627,799</u>
Net operating income (loss)	<u>(167,369,561)</u>	<u>71,951,909</u>
OTHER INCOME		
Class action settlements	72,044	222,765
Rental income	<u>147,419</u>	<u>148,505</u>
Total other income	<u>219,463</u>	<u>371,270</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>(167,150,098)</u>	<u>72,323,179</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>589,269,506</u>	<u>516,946,327</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 422,119,408</u>	<u>\$ 589,269,506</u>

The accompanying notes are an integral part of the financial statements.

PUBLIC WELFARE FOUNDATION, INC..
STATEMENTS OF CASH FLOWS
Years Ended October 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$(167,150,098)	\$ 72,323,179
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	441,704	432,586
Reinvested interest, dividends, and realized gains from mutual funds	(49,976,594)	(20,433,249)
Net realized gain on disposition of equity and debt securities and other investments	(18,399,611)	(35,614,398)
Net unrealized loss (gain) on equity and debt securities	196,089,078	(26,376,229)
Other investment funds gain	(27,864,724)	(25,628,140)
Loss from disposal of equipment	4,978	-
Effects of changes in operating assets and liabilities:		
Accrued interest and dividends receivable	(23,097)	(5,521)
Prepaid expenses, taxes and other assets	(831,339)	(33,620)
Accrued expenses, taxes and other liabilities	(179,601)	(781,265)
Deferred federal excise taxes	(3,920,802)	528,145
Grants payable	<u>3,409,484</u>	<u>(1,083,563)</u>
Net cash used in operating activities	<u>(68,400,622)</u>	<u>(36,672,075)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(216,768)	(64,796)
Investments in marketable securities:		
Proceeds from sale and certain distributions	119,023,316	124,219,157
Purchases	(64,191,561)	(64,741,005)
Change in due from/to stockbrokers for securities with settlements pending	<u>(172,179)</u>	<u>254,608</u>
Net cash provided by investing activities	<u>54,442,808</u>	<u>59,667,964</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,957,814)	22,995,889
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>24,242,924</u>	<u>1,247,035</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,285,110</u>	<u>\$ 24,242,924</u>

The accompanying notes are an integral part of the financial statements.

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Cash and Cash Equivalents

The Foundation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Amounts Due From/To Stockbrokers for Securities with Settlements Pending

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 are 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.

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 October 31, 2008 and 2007. A change in the estimated value may occur in the near term.

Because of the inherent uncertainty of valuation, estimated values may differ significantly from values that would have been used had a ready market for investments existed, and the differences could be material.

Purchases and sales of securities are recorded on a trade-date basis. Realized gains or losses are determined using the proceeds from sales on a first-in, first-out basis. Realized gains include distributions of realized gains from mutual funds. Unrealized gains or losses are determined using quoted market prices and fair values at the respective year-ends.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided by the straight-line method over 3 to 40 years. Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful lives of the assets. Expenditures for maintenance, repairs and minor renewals are charged to earnings as incurred. Expenditures for additions, improvements, and replacements are capitalized and property replaced as accounted for as retirement.

Impairment of Long-Lived Assets

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Grants Payable

Grants are recorded when they are approved by the Board of Directors or the President of the Foundation, except for conditional grants, which are recorded when conditions are substantially met.

Tax-Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is a private foundation under Section 509(a) of the Internal Revenue Code. The Foundation is subject to federal excise tax as well as federal and state unrelated business income tax.

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In June 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The Foundation will be required to adopt the provisions of SFAS 157 related to fair value measurements and related disclosures for its fiscal year ending October 31, 2009. The Foundation is currently evaluating the effect that the adoption of SFAS 157 will have on its financial statements.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Foundation will be required to adopt the provisions of SFAS 159 related to measuring financial instruments and other items at fair value and the related disclosures for its fiscal year ending October 31, 2009. The Foundation is currently evaluating the effect that the adoption of SFAS 159 will have on its financial statements.

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 2 – INVESTMENTS

Investments held at October 31 were as follows:

	<u>2008</u>	<u>2007</u>
Short-term	\$ 16,812,287	\$ 13,234,751
Equity securities:		
Individual accounts managed by:		
J.L Kaplan Associates, LLC	9,388,528	20,551,222
Sanford C. Bernstein & Co	<u>20,106,846</u>	<u>41,775,079</u>
	<u>29,495,374</u>	<u>62,326,301</u>
Commingled funds:		
Harding Loevner International Equity Portfolio	22,483,292	41,729,383
Templeton Emerging Markets Series	22,792,157	55,471,975
Boston Company International Small Cap Fund	5,571,778	16,541,529
Boston Company International Core Equity Fund	16,798,601	37,487,156
State Street REIT Index CTF	12,056,447	23,012,579
State Street S&P 500 CTF	<u>15,782,748</u>	<u>27,424,831</u>
	<u>95,485,023</u>	<u>201,667,453</u>
Debt securities:		
Commingled funds:		
Morgan Stanley Institutional Fund Trust - Fixed Income Portfolio	28,443,565	36,835,787
PIMCO - Total Return Fixed Income Portfolio	<u>63,477,112</u>	<u>64,516,659</u>
	<u>91,920,677</u>	<u>101,352,446</u>
Other investment funds:		
Adage Capital Partners, LP	27,991,817	47,622,745
Blakeney LP	14,823,668	20,284,514
Carmel Partners Investment Fund, LP	7,274,633	7,324,081
Carmel Partners Investment Fund, LP II	2,878,921	1,760,901
Carmel Partners Investment Fund, LP III	193,883	-
Commonfund Capital International Partners IV, LP	4,095,308	4,345,646
Commonfund Capital Private Equity VII, LP	852,915	235,000
Commonfund Capital Private Equity V, LP	4,128,352	3,929,493
Commonfund Distressed Debt Partners II, LP	3,277,361	5,232,261
Commonfund Global Distressed Partners III, LP	2,916,717	2,619,410
Goldman Sachs Global Equity Long/Short PLC	834,067	984,171
Goldman Sachs Global Event Driven PLC	1,896,612	2,110,333
Goldman Sachs Global Tactical Trading PLC	5,103,554	4,878,579
Goldman Sachs Global Relative Value PLC	6,341,439	6,543,767
Liquid Realty Partners IV	2,645,341	2,105,019
Liquid Realty Partners IV TE AIVLP	1,713,231	532,630
Merit Energy Partners C - II, LP	31,274,069	23,449,832
Merit Energy Partners D - II, LP	16,403,836	14,475,780
Merit Energy Partners F - II, LP	1,791,810	1,316,107
Merit Energy Canada, LP	5,818,209	5,055,252
Merit Energy Canada II, LP	1,391,662	965,109
Perry Partners International	-	7,239
Regan Partners	-	2,784,232
The Defenders Fund, LP	13,154,722	15,526,546
TIFF Partners I, LLC	432,254	586,980
TIFF Partners IV, LLC	3,929,156	3,889,026
TIFF Realty & Resource Partners, I, LLC	6,702,371	5,333,413
TIFF Partners V - US, LLC	1,976,938	1,555,607
TIFF Partners V - International, LLC	1,129,085	700,834
Tuckerbrook SB Global Distressed Fund I, LP	6,162,582	5,748,297
Tuckerbrook SB Global Special Situations Fund, LP	<u>4,955,977</u>	<u>-</u>
	<u>182,090,490</u>	<u>191,902,804</u>
TOTAL	<u>\$ 415,803,851</u>	<u>\$ 570,483,755</u>

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 2 – INVESTMENTS (CONTINUED)

Investment cost, net appreciation (depreciation), and fair market value by investment type at October 31 were as follows:

	2008		
	Cost	Net Appreciation (Depreciation)	Fair Value
Short-term investments	\$ 17,027,394	\$ (215,107)	\$ 16,812,287
Equity securities:			
Stocks	48,758,692	(19,263,318)	29,495,374
Commingled funds	143,656,928	(48,171,905)	95,485,023
Debt securities:			
Commingled funds	102,575,583	(10,654,906)	91,920,677
Other investments	156,339,581	25,750,909	182,090,490
Total	\$ 468,358,178	\$ (52,554,327)	\$ 415,803,851

	2007		
	Cost	Net Appreciation (Depreciation)	Fair Value
Short-term investments	\$ 13,234,751	\$ -	\$ 13,234,751
Equity securities:			
Stocks	54,353,461	7,972,840	62,326,301
Commingled funds	122,900,262	78,767,191	201,667,453
Debt securities:			
Commingled funds	101,655,125	(302,679)	101,352,446
Other investments	134,854,426	57,048,378	191,902,804
Total	\$ 426,998,025	\$ 143,485,730	\$ 570,483,755

The Foundation has commitments to make additional investments of approximately \$46,884,022 in other investment funds as of October 31, 2008. The Foundation cannot withdraw from these partnerships prior to their termination, pursuant to the partnership agreements, and there are restrictions on the transferability of its interest in these partnerships. Some partnerships have exit dates pursuant to the partnership agreement.

Substantially all of the Foundation's short-term investments and stocks are under the control of a bank custodian.

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2008</u>	<u>2007</u>
Buildings and building improvements	\$11,765,421	\$11,725,186
Land and land improvements	1,836,193	1,782,237
Furniture, fixtures and equipment	<u>1,428,746</u>	<u>1,395,681</u>
	15,030,360	14,903,104
Less: accumulated depreciation and amortization	<u>3,554,677</u>	<u>3,197,507</u>
Total	<u><u>\$11,475,683</u></u>	<u><u>\$11,705,597</u></u>

NOTE 4 - FEDERAL EXCISE AND OTHER TAXES

The Foundation files income tax returns in the U.S. federal jurisdictions, and various state jurisdictions. The Foundation is no longer subject to U.S. federal income tax examinations for the years before 2005. It is no longer subject to income tax examinations by tax authorities for jurisdictions in which the Foundation files state tax returns for the years before 2005 in the District of Columbia and years before 1996 in other states.

The Foundation adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, on November 1, 2007. Management has determined that the Foundation has no material uncertain tax positions that would require recognition under FIN 48.

The Foundation is subject to federal excise tax imposed on private foundations at 2%, or 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on the sale of investments. The Foundation qualified for a 2% rate for the years ending October 31, 2008 and 2007.

The provision for tax (benefit) expense consists of the following components:

	<u>2008</u>	<u>2007</u>
Current	\$ 1,276,977	\$ 1,687,417
Deferred	<u>(3,920,802)</u>	<u>528,145</u>
Total provision for federal excise and other tax expense	<u><u>\$ (2,643,825)</u></u>	<u><u>\$ 2,215,562</u></u>

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 4 - FEDERAL EXCISE AND OTHER TAXES (CONTINUED)

Current taxes of \$1,276,977 and \$1,687,417 for the years ended October 31, 2008 and 2007, respectively, related primarily to federal excise tax and unrelated business income generated as a result of the Foundation's investment income in various states. Current taxes for the year ended October 31, 2008 include a provisional estimate for income taxes on unrelated business income generated at the state level.

The Foundation recorded a deferred excise tax asset in 2008 and a (liability) in 2007 on net unrealized investment gains and losses at a rate of 2% in 2008 and 2007 in the amounts of \$1,051,087 and (\$2,869,715), respectively.

NOTE 5 – BONDS PAYABLE

The Foundation is obligated to pay \$11,000,000 in connection with the March 30, 2000, Public Welfare Foundation, Inc. issue of variable interest rate District of Columbia Revenue Series 2000 Revenue Bonds, maturing on March 1, 2025. The interest rate on the borrowings at October 31, 2008 was 1.85%. The bonds are collateralized by a bank letter of credit expiring March 30, 2010, which also provides for an additional collateral equal to the sum of 50 days interest on the bonds, computed at a rate of 13% per annum, or \$198,611, as security for interest payments to be made to the holders of the bonds. The bondholders may request mandatory redemption whenever there is either a change in the interest period or letter of credit, or a change in the status of the bonds from nontaxable to taxable during the term of the bonds.

In the event a mandatory redemption request is made, an agent will be retained to remarket any such bonds. If the bonds are redeemed, and not remarketed within 367 days, the Foundation must pay the bank the redemption amount plus interest. Assuming a 4.74% discount rate, the fair market value of the 25-year bonds was \$7,903,241 as of October 31, 2008 (fair market value of the 25-year bonds was \$7,713,135 as of October 31, 2007 based on a discount rate of 4.79%).

In addition, the bank has the right to annually call for the following principal payments to reduce the outstanding bond principal as of October 31, 2008:

<u>Year Ended October 31</u>	<u>Principal Payment</u>
2009	\$ 2,320,000
2010	315,000
2011	330,000
2012	350,000
2013	365,000
Thereafter	<u>7,320,000</u>
Total	<u>\$ 11,000,000</u>

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 5 – BONDS PAYABLE (CONTINUED)

The bond agreements place restrictions on the use of the land and building, limit other borrowings and also require the Foundation to maintain a minimum level of net assets.

Interest expense included in other administrative expenses was \$335,092 and \$450,951 in 2008 and 2007, respectively.

NOTE 6 – INVESTMENT INCOME, NET

Interest and dividends from equity and debt securities consist of:

	<u>2008</u>	<u>2007</u>
Dividends	\$ 4,853,104	\$ 6,136,820
Interest	<u>5,964,943</u>	<u>5,545,348</u>
Total	<u>\$10,818,047</u>	<u>\$11,682,168</u>

Other investment funds income, net, consists of the Foundation's proportionate share of each of the partnership's total investment income.

NOTE 7 – SALARIES AND FRINGE BENEFITS

Included in salaries and fringe benefits are contributions of \$137,181 and \$224,801 in 2008 and 2007, respectively, to a qualified defined contribution money purchase pension plan and trust, under which the Foundation is required to make contributions (net of forfeitures) of 12% and 20% in 2008 and 2007, respectively, of eligible employees' total compensation.

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 8 – GRANTS

Grants consist of:

	<u>2008</u>	<u>2007</u>
Current year:		
Grants approved	\$24,870,129	\$19,614,150
Contributed rental income	146,779	146,779
Cancelled grant	-	-
Conditional grants (not met at year-end)	-	-
Deferred multi-year discount expense	<u>2,692</u>	<u>(2,026)</u>
	<u>25,019,600</u>	<u>19,758,903</u>
Prior years:		
Deferred multi-year discount/reversal	(1,437)	3,463
Grants paid in return	(61,921)	(8,340)
Conditions met on prior grants	<u>-</u>	<u>-</u>
	<u>(63,358)</u>	<u>(4,877)</u>
Net grants	<u><u>\$24,956,242</u></u>	<u><u>\$19,754,026</u></u>

Grants of \$6,557,458 at October 31, 2008 are payable in fiscal 2009.

NOTE 9 – MINIMUM DISTRIBUTION REQUIREMENT

The Internal Revenue Code requires that grants be paid in accordance with a specified formula. At October 31, 2008, the Foundation had excess distributions that can be carried over to fiscal year 2009 of approximately \$3,300,000. These carryover distributions can be applied towards the fiscal year 2009 minimum distribution requirement.

NOTE 10 – CASH FLOW DISCLOSURES

Cash paid for interest and taxes was as follows:

	<u>2008</u>	<u>2007</u>
Interest expense paid	\$ 335,091	\$ 484,002
Excise and other taxes paid	2,148,918	1,614,734

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 11 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate the value:

Cash and short-term investments

The carrying value approximates fair value because of the short maturity of those instruments.

Long-term investments

The fair values are based on quoted market prices for marketable investments. For other investments for which there are no quoted market prices, the fair value has been based on audited partnership financial statements, adjusted for cash flows and significant unrealized losses through October 31, 2007, unless it has been determined the asset has been impaired.

Grants payable

The fair value of grants payable is based on present value calculations using rates established for United States Treasury Bills.

Bonds payable

The fair value of the bonds is estimated based on current rates offered on long-term Treasury Bills. The discount rate utilized was 4.74% (4.79% for 2007).

The estimated value of the Foundation's financial instruments is as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and short-term investments	\$27,097,397	\$27,097,397	\$37,477,675	\$37,477,675
Long-term investments	398,991,565	398,991,565	557,249,004	557,249,004
Liabilities				
Grants payable	6,557,458	6,557,458	3,147,974	3,147,974
Bonds payable	11,000,000	7,903,241	11,000,000	7,713,135

PUBLIC WELFARE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
October 31, 2008 and 2007

NOTE 12 – COMMITMENTS

On October 29, 2003, the Foundation entered into a space license agreement with Washington Legal Clinic for the Homeless (WLCH), a non-profit corporation. The agreement provides WLCH free office space beginning November 15, 2003 through November 14, 2008. The fair market value of the rental income and grant expense related to the agreement was \$109,519 and \$109,519 for 2008 and 2007 respectively, and is included in the statements of activities.

The Foundation also provides free space within its building on a month-to-month basis to the African-American Civil War Memorial. The fair market value of the rental income and grants expense related to this agreement was \$37,260 and \$37,260 for the years ended October 31, 2008 and 2007, respectively, and is included in the statements of activities.

NOTE 13 – RISKS AND UNCERTAINTIES

Financial markets as a whole have incurred significant declines in value. As of June 5, 2009, the Foundation's investment portfolio has also incurred a significant decline in the values reported in the accompanying financial statements. However, because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Foundation will recognize in its future financial statements, if any, cannot be determined.