

**PHILIP L. GRAHAM FUND**

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**REPORT AND FINANCIAL STATEMENTS**

**December 31, 2006 and 2005**

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## **Report of Independent Auditors**

To the Board of Trustees  
Philip L. Graham Fund

We have audited the accompanying statements of net assets resulting from cash transactions of the Philip L. Graham Fund (the Fund) as of December 31, 2006 and 2005, and the related statements of revenue collected, expenses disbursed and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Fund'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 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 audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets arising from cash transactions of The Philip L. Graham Fund as of December 31, 2006 and 2005, and the revenue collected and expenses disbursed, and changes in net assets and cash flows for the years then ended, on the basis of accounting described in Note 2.

PricewaterhouseCoopers LLP

McLean, VA  
September 25, 2007

**PHILIP L. GRAHAM FUND**  
**STATEMENTS OF NET ASSETS**  
**RESULTING FROM CASH TRANSACTIONS**

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	December 31,	
	2006	2005
<b>Assets</b>		
Cash and cash equivalents	\$ 32,849,773	\$ 25,235,805
Investments, at cost:		
United States Treasury and Federal Agency Notes (fair value - \$24,560,000 – 2006 and \$34,445,250 – 2005)	25,008,203	35,154,297
Common stock (fair value - \$2,027,133 – 2006 and \$1,701,365 – 2005)	1,791,682	1,791,691
Common stock – The Washington Post Company (fair value - \$34,550,358 – 2006 and \$35,449,335 – 2005)	138,772	138,772
Net assets, unrestricted	\$ 59,788,430	\$ 62,320,565

*The accompanying notes are an integral part of these financial statements.*

**PHILIP L. GRAHAM FUND**  
**STATEMENTS OF REVENUE COLLECTED, EXPENSES DISBURSED**  
**AND CHANGES IN NET ASSETS**

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	Year Ended December 31,	
	2006	2005
Revenue collected:		
Interest	\$ 2,405,238	\$ 2,028,741
Dividends	595,099	466,644
(Loss) gain on disposition of investments	<u>(146,094)</u>	<u>177,455</u>
	<u>2,854,243</u>	<u>2,672,840</u>
Expenses disbursed:		
Grants	5,000,000	5,300,000
Federal excise tax	29,474	50,743
Administrative expenses	<u>356,904</u>	<u>335,203</u>
	<u>5,386,378</u>	<u>5,685,946</u>
Shortfall of revenue collected over expenses disbursed	<u>(2,532,135)</u>	<u>(3,013,106)</u>
Net assets, unrestricted, at beginning of year	<u>62,320,565</u>	<u>65,333,671</u>
Net assets, unrestricted, at end of year	<u>\$ 59,788,430</u>	<u>\$ 62,320,565</u>

*The accompanying notes are an integral part of these financial statements.*

**PHILIP L. GRAHAM FUND**  
**STATEMENTS OF CASH FLOWS**

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	Year Ended December 31,	
	2006	2005
Cash flows from operating activities:		
Shortfall of revenues collected over expenses disbursed	\$ (2,532,135)	\$ (3,013,106)
Adjustments to reconcile shortfall of revenues collected over expenses disbursed to net cash used in operating activities:		
Net realized loss (gain) on disposition of investments	146,094	(177,455)
Net cash used in operating activities	(2,386,041)	(3,190,561)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	10,000,009	10,459,258
Net cash provided by investing activities	10,000,009	10,459,258
Net increase in cash	7,613,968	7,268,697
Cash and cash equivalents at beginning of year	25,235,805	17,967,108
Cash and cash equivalents at end of year	\$ 32,849,773	\$ 25,235,805

*The accompanying notes are an integral part of these financial statements.*

**PHILIP L. GRAHAM FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. Description and Administration of Fund**

The Philip L. Graham Fund (the Fund) was established in 1963 and is a private foundation engaged in making grants exclusively for charitable, scientific, literary and educational purposes primarily in the Washington, D.C. metropolitan community. The Fund is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from state and local taxes in the jurisdictions in which it operates.

The Fund is administered by five trustees who serve without compensation. The trustees are current or former members of the board of directors, officers, or employees of The Washington Post Company. The fund also receives administrative support from employees of The Washington Post Company for which there is no reimbursement.

**2. Significant Accounting Policies**

**Basis of accounting**

The accounts of the Fund are maintained on the cash basis of accounting. Accordingly, interest and dividends are recorded when they are collected; gains and losses on disposition of investments are recorded when the transaction is executed; grants to other organizations and other expenses are recorded when they are disbursed; investments are recorded at cost with no adjustment for unrealized appreciation or depreciation; and contributed services are not recorded. Recording transactions based upon cash receipts and disbursements is a comprehensive basis of accounting other than generally accepted accounting principles which requires the recording of transactions on an accrual basis of accounting and the carrying of investments at fair value.

**Cash and cash equivalents**

All highly liquid investments with an original maturity of three months or less at the date of acquisition are considered cash equivalents.

**Fair value of investments**

The Fund determines the fair market value of its investments in equity and debt securities for disclosure purposes by quoted market prices.

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**PHILIP L. GRAHAM FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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**3. Federal Excise Taxes**

In 2006 and 2005, the Fund's investment income, reduced by certain allowable expenses, was subject to a 1% Federal excise tax. During 2006, the Fund made \$29,500 in estimated tax payments related to the 2006 tax year. As of December 31, 2006, the Fund has determined that estimated tax payments made throughout 2006 exceeded actual 2006 Federal excises taxes due by approximately \$1,500. During 2005, the Fund made \$50,700 in estimated tax payments related to the 2005 tax year. As of December 31, 2005, the Fund determined that estimated tax payments made throughout 2005 exceeded actual 2005 Federal excises taxes due by approximately \$24,600.

**4. Commitments**

Authorized but undisbursed grants amounted to \$1,520,000 as of December 31, 2006 of which \$245,000 is scheduled for disbursement during 2007. Authorized but undisbursed grants amounted to \$2,215,000 as of December 31, 2005 of which \$530,000 was disbursed during 2006.

The Fund is required to make minimum annual charitable distributions within certain time periods. The required distribution is a specified percentage of the fair value of investment assets, less the Federal excise tax on investment income. The Fund's distribution requirements for the year ended December 31, 2005 and all prior years have been satisfied. The 2006 distribution requirement is \$4,769,000 of which \$4,599,000 was satisfied as of December 31, 2006. Therefore, the Fund must distribute \$170,000 by December 31, 2007 to meet the 2006 distribution requirement. The 2005 distribution requirement was \$5,079,000 of which \$4,382,000 was satisfied as of December 31, 2005 and the remaining \$697,000 was satisfied as of December 31, 2006.

**5. Related Party Transactions**

The Fund made contributions totaling approximately \$770,000 and \$755,000 in 2006 and 2005, respectively, to charitable organizations for which a member of the Board of the Fund also serves on the Board(s) of the charitable organizations(s). At December 31, 2006 and December 31, 2005, the Fund has pledged an additional \$4,070,000 and \$4,555,000, respectively, over the next five years to three of these organizations.