

## I NDEPENDENT ACCOUNTANTS' REPORT

Trustees  
Nina Mason Pulliam Charitable Trust  
Indianapolis, Indiana

We have audited the accompanying statements of financial position of the Nina Mason Pulliam Charitable Trust as of December 31, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Trust'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nina Mason Pulliam Charitable Trust as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**BKD** LLP  
Indianapolis, Indiana  
January 27, 2004

## S TATEMENTS OF FINANCIAL POSITION - December 31, 2003 & 2002

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Cash and cash equivalents	\$7,206,800	\$6,036,114
Accrued dividends and interest	480,993	871,795
Investments	332,645,165	287,682,941
Equipment and leasehold improvements - net	289,909	384,291
Other	574,113	1,007,321
Total assets	<u>\$341,196,980</u>	<u>\$295,982,462</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$281,770	\$281,164
Grant and scholarship commitments	3,078,404	4,367,359
Total liabilities	<u>3,360,174</u>	<u>4,648,523</u>
<b>Net Assets - unrestricted</b>	<u>337,836,806</u>	<u>291,333,939</u>
Total liabilities and net assets	<u>\$341,196,980</u>	<u>\$295,982,462</u>

See notes to financial statements.

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED - December 31, 2003 & 2002

<b>Investment Income and Fees</b>	<b>2003</b>	<b>2002</b>
Interest and dividends	\$8,158,232	\$8,068,119
Net realized gain (loss) on investments	4,316,192	(17,580,684)
Net unrealized gain (loss) on investments	50,923,194	(42,245,793)
Total investment income	63,397,618	(51,758,358)
Investment management fees	(1,179,137)	(1,267,496)
Net investment income	62,218,481	(53,025,854)
 <b>Expenses</b>		
Employees' salaries and benefits	1,941,292	1,932,645
Trustees' fees	111,500	108,500
Legal and audit expense	51,097	30,509
Occupancy expense	338,584	327,459
Depreciation expense	119,792	130,311
Consulting expenses	183,008	163,794
Other expenses	412,719	407,195
Total expenses	3,157,992	3,100,413
 <b>Excess of Investment Income Over Expenses Before Grants and Scholarships and Excise Tax</b>		
	59,060,489	(56,126,267)
 <b>Grants and Scholarships Approved</b>		
	11,937,039	15,097,964
 <b>Federal Excise Tax Expense (Benefit)</b>		
	620,583	(337,251)
 <b>Change in Unrestricted Net Assets</b>		
	46,502,867	(70,886,980)
 <b>Unrestricted Net Assets, Beginning of Year</b>		
	291,333,939	362,220,919
 <b>Unrestricted Net Assets, End of Year</b>		
	\$337,836,806	\$291,333,939

See notes to financial statements.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED - December 31, 2003 & 2002

<b>Operating Activities</b>	<b>2003</b>	<b>2002</b>
Change in net assets	\$46,502,867	\$(70,886,980)
Items not requiring (providing) cash		
Realized (gain) loss on sale of investments	(4,316,192)	17,580,684
Unrealized (gain) loss on investments	(50,923,194)	42,245,793
Deferred excise tax benefit	509,232	(422,458)
Depreciation	119,792	130,311
Changes in		
Accrued dividends and interest	390,802	789,995
Other assets	(125,375)	(141,661)
Federal excise tax payable	49,351	9,736
Accounts payable and accrued expenses	606	(139,434)
Grant and scholarship commitments	(1,288,955)	(545,613)
Net cash used in operating activities	(9,081,066)	(11,379,627)
 <b>Investing Activities</b>		
Purchase of equipment	(25,410)	(19,006)
Purchase of investments	(439,716,371)	(586,389,123)
Proceeds from sales and maturities of investments	449,993,533	596,840,855
Net cash provided by investing activities	10,251,752	10,432,726
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
	1,170,686	(946,901)
 <b>Cash and Cash Equivalents, Beginning of Year</b>		
	6,036,114	6,983,015
 <b>Cash and Cash Equivalents, End of Year</b>		
	\$7,206,800	\$6,036,114
 <b>Supplemental Cash Flow Information</b>		
Excise tax paid	\$62,000	\$75,471

See notes to financial statements.

**Note 1: Organization**

The Nina Mason Pulliam Charitable Trust (Trust) is a continuing trust established under the provisions of Article 5 of the Nina Mason Pulliam Revocable Trust Agreement. The term of the Trust shall be for 50 years after the date of death of Nina Mason Pulliam, which was March 26, 1997. During the Trust's term, the Trustees are directed to distribute annually the higher of all of the Trust's net income or the distributable amount necessary to comply with federal tax laws from the Trust property to qualified organizations. Upon the expiration of the Trust term, the principal and remaining income shall be distributed to qualified organizations.

The Trust seeks to help people in need, especially women, children and families; to protect animals and nature; and to enrich community life through grantmaking in the metropolitan areas of Indianapolis, Indiana, and Phoenix, Arizona. In 2001 the Trust implemented the Nina Mason Pulliam Legacy Scholars program, which seeks individuals 25 years and older who have dependents and share the goal of acquiring a college degree to enhance future opportunities for their families. Others assisted through this program include financially independent young adults seeking to enter college for the first time who have grown up in the child welfare system and college-age youth and adults with physical disabilities.

**Note 2: Summary of Significant Accounting Policies**

The Trust maintains its records on the accrual basis of accounting. Some of the more significant accounting policies used by the Trust are as follows:

***Use of Estimates***

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

***Cash and Cash Equivalents***

Cash and cash equivalents consist of bank deposits in federally insured accounts and money market funds. At December 31, 2003, the Trust's cash accounts exceeded federally insured limits by approximately \$7,000,000. For purposes of the statements of cash flows, the Trust considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

***Investments***

Investments (including other investments) are carried at fair value. Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Realized and unrealized gains and losses are reflected in the statements of activities.

***Securities Lending***

The Trust has entered into a securities lending agreement and guaranty with the Bank of New York. Cash, U. S. Government securities, and/or letters of credit can collateralize loaned securities. Collateral required is equal to 102 percent of the current market value of the loaned securities. Income earned from the secured lending transactions is recorded as investment income. The Trust continues to carry the loaned securities as its assets. As of December 31, 2003, the total amount of securities subject to this program was \$49,645,468.

***Revenue and Expense Recognition***

Revenues and expenses are reported on the accrual method.

***Federal Excise Tax***

The Trust is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (Code) and a private foundation under Section 509 of the Code. As a result, the Trust has not provided for state or federal income taxes. The Trust is subject to a federal excise tax of 1 percent or 2 percent on net investment income, as defined by the Code, and has recorded excise tax liabilities in the financial statements. Deferred federal excise taxes (benefits) result from the tax effects associated with unrealized appreciation (depreciation) on the Trust's investments.

***Equipment and Leasehold Improvements***

Equipment, leasehold improvements and automobiles are carried at cost. Depreciation is computed using the straight-line method based upon the estimated useful lives that range from three to 10 years.

**Net Asset Classifications**

All net assets of the Trust are unrestricted and may be used at the discretion of the Trustees to support the Trust's purposes and operations.

**Note 3: Federal Excise Taxes**

Federal excise taxes, which are provided at 1 percent in the statements of activities for the years ended December 31, 2003 and 2002, included the following components:

	<b>2003</b>	<b>2002</b>
Current expense	\$111,351	\$85,207
Deferred expense (benefit)	509,232	(422,458)
Federal excise tax expense (benefit)	<u>\$620,583</u>	<u>\$(337,251)</u>

Refundable and deferred excise tax benefits at December 31, 2003 and 2002, of \$15,136 and \$573,719, respectively, are included in other assets.

**Note 4: Investments**

As of December 31, 2003 and 2002, the investments of the Trust included:

	<b>2003</b>		<b>2002</b>	
	<b>Market Value</b>	<b>Amortized Cost</b>	<b>Market Value</b>	<b>Amortized Cost</b>
U. S. Government Treasury securities	\$34,240,382	\$34,318,484	\$36,216,996	\$35,256,202
Corporate bonds	9,517,148	8,737,584	30,008,944	29,831,792
Equity securities	114,863,582	101,504,181	90,446,962	104,391,795
Mutual funds	122,388,652	142,518,671	100,204,815	143,721,368
Other	51,635,401	51,012,554	30,805,224	30,851,287
	<u>\$332,645,165</u>	<u>\$338,091,474</u>	<u>\$287,682,941</u>	<u>\$344,052,444</u>

**Note 5: Derivative Financial Instruments**

The Trust employs six investment managers to manage its portfolio. These managers are required to follow the Trust's investment policy with regards to investment risk and yield. In connection with manager contracts, the Trust can invest in U. S. Treasury futures contracts, fixed income options, swaps and money market futures primarily to enhance the overall yield of investments and to place its investment portfolio at a certain position on the yield curve. Credit loss exposure exists in the event of nonperformance by the other parties, principally large brokerage firms, to such instruments.

The following net realized gains and losses relating to the Trust's derivative instruments have been included in the statements of activities for the years ended December 31.

	<b>2003</b>	<b>2002</b>
U. S. Treasury futures	\$(101,805)	\$1,792,138
Fixed income options	226,155	210,371
Money market futures	134,340	518,865
Interest rate swaps and other	334,233	(632,517)
	<u>\$592,923</u>	<u>\$1,888,857</u>

**Note 6: Operating Leases**

The Trust has entered into noncancelable 10-year office space leases in Indianapolis, Indiana, and Phoenix, Arizona. Both leases include provisions for inflationary rent increases and require the Trust to pay for its share of building operating costs above the base year amount. The Trust has the option to extend each lease for an additional five years beyond the expiration of the initial term. Rent expense for space in Indianapolis and Phoenix totaled \$321,173 and \$310,259 for the years ended December 31, 2003 and 2002.

Future minimum rents to be paid under these leases, excluding future escalation for rents, realizable taxes and building operating expenses, are:

2004	\$310,186
2005	318,136
2006	321,821
2007	325,505
2008	328,269
Thereafter	393,099
Total	<u>\$1,997,016</u>

**Note 7: Employee Benefit Plans**

The Trust maintains a wage deferral plan qualified under Section 401(k) of the Internal Revenue Code that covers all participating employees. The Trust makes 7 percent contributions to each employees' 401(k) plan account based upon that employee's wages and provides matching funds on a dollar-for-dollar basis up to the first 4 percent of an employee's discretionary contribution. Total Trust contributions to the plan were \$153,736 in 2003 and \$153,055 in 2002.

**Note 8: Program Expenses**

The components of program and support services expenses for the years ended December 31, 2003 and 2002 included:

	<b>2003</b>	<b>2002</b>
Direct philanthropy program expenses	\$13,083,237	\$16,224,303
General and administrative expenses	2,011,794	1,974,074
Investment management and excise tax expenses	1,799,720	930,245
	<u>\$16,894,751</u>	<u>\$19,128,622</u>

**Note 9: Grant and Scholarship Commitments**

At December 31, 2003, grant and scholarship commitments are expected to be paid to qualifying organizations as follows:

2004	\$1,589,029
2005	759,789
2006	621,592
2007	223,716
2008	115,638
	3,309,764
Present Value Discount	(231,360)
Total	<u>\$3,078,404</u>

For the years ended December 31, 2003 and 2002, the total amount of grant expense for prior, current and future years was \$11,937,039 and \$15,097,964, respectively. The discount rates used on grant commitments ranged from 4.5 percent to 8.5 percent for the years ended December 31, 2003 and 2002.