

INDEPENDENT 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, 2004 and 2003, 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, 2004 and 2003, 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 26, 2005

STATEMENTS OF FINANCIAL POSITION ▼

December 31, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents	\$5,934,770	\$7,206,800
Accrued dividends and interest	496,108	480,993
Investments	347,601,890	332,645,165
Equipment and leasehold improvements - net	252,851	289,909
Other	136,935	574,113
Total assets	<u>\$354,422,554</u>	<u>\$341,196,980</u>
Liabilities		
Accounts payable and accrued expenses	\$402,488	\$281,770
Federal current and deferred excise tax	138,087	-
Grant and scholarship commitments	3,402,032	3,078,404
Total liabilities	<u>3,942,607</u>	<u>3,360,174</u>
Net Assets - unrestricted	<u>350,479,947</u>	<u>337,836,806</u>
Total liabilities and net assets	<u>\$354,422,554</u>	<u>\$341,196,980</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED ▼

December 31, 2004 and 2003

	2004	2003
Investment Income and Fees		
Interest and dividends	\$7,870,948	\$8,158,232
Net realized gain on investments	5,309,760	4,316,192
Net unrealized gain on investments	17,131,628	50,923,194
Total investment income	30,312,336	63,397,618
Investment management fees	(1,347,562)	(1,179,137)
Net investment income	28,964,774	62,218,481
Expenses		
Employees' salaries and benefits	2,011,676	1,941,292
Trustees' fees	117,500	111,500
Legal and audit expense	36,874	51,097
Occupancy expense	362,321	338,584
Depreciation expense	107,460	119,792
Consulting expenses	147,075	183,008
Other expenses	384,441	412,719
Total expenses	3,167,347	3,157,992
Excess of Investment Income Over Expenses Before Grants and Scholarships and Excise Tax	25,797,427	59,060,489
Grants and Scholarships Approved	12,750,760	11,937,039
Federal Excise Tax Expense	403,526	620,583
Change in Unrestricted Net Assets	12,643,141	46,502,867
Unrestricted Net Assets, Beginning of Year	337,836,806	291,333,939
Unrestricted Net Assets, End of Year	\$350,479,947	\$337,836,806

See notes to financial statements.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED ▼

December 31, 2004 and 2003

	2004	2003
Operating Activities		
Change in net assets	\$12,643,141	\$46,502,867
Items not requiring (providing) cash		
Realized gain on sale of investments	(5,309,760)	(4,316,192)
Unrealized gain on investments	(17,131,628)	(50,923,194)
Deferred excise tax benefit	171,287	509,232
Depreciation	107,460	119,792
Changes in		
Accrued dividends and interest	(15,115)	390,802
Other assets	422,042	(125,375)
Federal excise tax payable	(18,064)	49,351
Accounts payable and accrued expenses	120,718	606
Grant and scholarship commitments	323,628	(1,288,955)
Net cash used in operating activities	(8,686,291)	(9,081,066)
Investing Activities		
Purchase of equipment	(70,402)	(25,410)
Purchase of investments	(342,967,225)	(439,716,371)
Proceeds from sales and maturities of investments	350,451,888	449,993,533
Net cash provided by investing activities	7,414,261	10,251,752
Net Increase (Decrease) in Cash and Cash Equivalents	(1,272,030)	1,170,686
Cash and Cash Equivalents, Beginning of Year	7,206,800	6,036,114
Cash and Cash Equivalents, End of Year	\$5,934,770	\$7,206,800
Supplemental Cash Flow Information		
Excise tax paid	\$250,303	\$62,000

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. 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, 2004, the Trust's cash accounts exceeded federally insured limits by approximately \$5,640,000. 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, 2004, the total amount of securities subject to this program was \$36,487,900.

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.

NOTES TO FINANCIAL STATEMENTS ▼

Net Asset Classification

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

The current provision for Federal excise taxes are provided at 2 percent and 1 percent for the years ended December 31, 2004 and 2003, respectively, and deferred taxes are provided at 1 percent in both years. The following are the Federal excise tax components:

	2004	2003
Current expense	\$232,239	\$111,351
Deferred expense	171,287	509,232
Federal excise tax expense	<u>\$403,526</u>	<u>\$620,583</u>

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

Note 4: Investments

As of December 31, 2004 and 2003, the investments of the Trust included:

	2004		2003	
	Market Value	Amortized Cost	Market Value	Amortized Cost
U. S. Government Treasury securities	\$35,617,898	\$35,642,270	\$34,240,382	\$34,318,484
Corporate bonds	9,899,776	9,337,376	9,517,148	8,737,584
Equity securities	105,730,473	88,047,524	114,863,582	101,504,181
Mutual funds	179,127,795	185,427,138	122,388,652	142,518,671
Other	17,225,948	17,462,263	51,635,401	51,012,554
	<u>\$347,601,890</u>	<u>\$335,916,571</u>	<u>\$332,645,165</u>	<u>\$338,091,474</u>

Note 5: Derivative Financial Instruments

The Trust employs 11 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.

	2004	2003
U. S. Treasury futures	\$938,276	\$(101,805)
Fixed income options	-	226,155
Money market futures	149,518	134,340
Interest rate swaps and other	5,506	334,233
	<u>\$1,093,300</u>	<u>\$592,923</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 \$344,591 and \$321,173 for the years ended December 31, 2004 and 2003.

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

2005	\$318,136
2006	318,136
2007	325,505
2008	328,269
2009	222,112
Thereafter	170,987
Total	<u>\$1,683,145</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 employee's 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 \$151,889 in 2004 and \$153,736 in 2003.

In 2004 the Trust adopted a key employee wage deferral plan under Section 457(b) of the Internal Revenue Code. The 457(b) plan replaces a split-dollar life insurance program that was terminated in 2003. The Trust makes contributions to the plan based on the employee's position and a percentage of salary. Total Trust contributions to the plan were \$27,624 in 2004.

Note 8: Program Expenses

The components of program and support services expenses for the years ended December 31, 2004 and 2003, included:

	2004	2003
Direct philanthropy program expenses	\$13,963,971	\$13,083,237
General and administrative expenses	1,954,136	2,011,794
Investment management and excise tax expenses	1,751,088	1,799,720
	<u>\$17,669,195</u>	<u>\$16,894,751</u>

Note 9: Grant and Scholarship Commitments

At December 31, 2004, grant and scholarship commitments are expected to be paid to qualifying organizations as follows:

2005	\$1,775,651
2006	922,646
2007	530,872
2008	244,570
2009	127,727
	<u>3,601,466</u>
Present Value Discount	(199,434)
Total	<u>\$3,402,032</u>

For the years ended December 31, 2004 and 2003, the total amount of grant expense for prior, current and future years was \$12,750,760 and \$11,937,039, respectively. The discount rates used on grant commitments for the years 2005 through 2009 range from 4.0 percent to 8.5 percent.