

INDEPENDENT ACCOUNTANTS' REPORT ▼

Trustees

Nina Mason Pulliam Charitable Trust

Indianapolis, Indiana

We have audited the accompanying statements of financial position of Nina Mason Pulliam Charitable Trust (Trust) as of December 31, 2005 and 2004, 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 Nina Mason Pulliam Charitable Trust as of December 31, 2005 and 2004, 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, 2006

STATEMENTS OF FINANCIAL POSITION ▼ December 31, 2005 and 2004

Assets	2005	2004
Cash and cash equivalents	\$ 4,306,463	\$ 5,934,770
Accrued dividends and interest	772,915	496,108
Investments	356,501,499	347,601,890
Equipment and leasehold improvements - net	156,873	252,851
Other	194,710	136,935
Total assets	\$361,932,460	\$354,422,554
Liabilities		
Accounts payable and accrued expenses	\$ 458,018	\$ 402,488
Federal current and deferred excise tax	360,978	138,087
Grant and scholarship commitments	4,753,723	3,402,032
Total liabilities	5,572,719	3,942,607
Net Assets - unrestricted	356,359,741	350,479,947
Total liabilities and net assets	\$361,932,460	\$354,422,554

See notes to financial statements.

STATEMENTS OF ACTIVITIES ▼ Years Ended December 31, 2005 and 2004

	2005	2004
Investment Income and Fees		
Interest and dividends	\$ 9,600,313	\$ 7,870,948
Net realized gain on investments	11,298,294	5,309,760
Net unrealized gain on investments	5,173,855	17,131,628
Total investment income	26,072,462	30,312,336
Investment management fees	(1,229,361)	(1,347,562)
Net investment income	24,843,101	28,964,774
Expenses		
Employees' salaries and benefits	2,096,547	2,011,676
Trustees' fees	113,750	117,500
Legal and audit expense	32,301	36,874
Occupancy expense	347,797	362,321
Depreciation expense	101,352	107,460
Communications and consulting expenses	272,795	231,233
Other expenses	333,141	300,283
Total expenses	3,297,683	3,167,347
Excess of Investment Income Over Expenses Before Grants and Scholarships and Excise Tax	21,545,418	25,797,427
Grants and Scholarships Approved	15,056,109	12,750,760
Federal Excise Tax Expense	609,515	403,526
Change in Unrestricted Net Assets	5,879,794	12,643,141
Unrestricted Net Assets, Beginning of Year	350,479,947	337,836,806
Unrestricted Net Assets, End of Year	\$356,359,741	\$350,479,947

See notes to financial statements.

STATEMENTS OF CASH FLOWS ▼ Years Ended December 31, 2005 and 2004

	2005	2004
Operating Activities		
Change in net assets	\$ 5,879,794	\$ 12,643,141
Items not requiring (providing) cash		
Realized gain on sale of investments	(11,298,294)	(5,309,760)
Unrealized gain on investments	(5,173,855)	(17,131,628)
Deferred excise tax expense	220,294	171,287
Depreciation	101,352	107,460
Changes in		
Accrued dividends and interest	(276,807)	(15,115)
Other assets	(57,775)	422,042
Federal excise tax payable	2,597	(18,064)
Accounts payable and accrued expenses	55,530	120,718
Grant and scholarship commitments	1,351,691	323,628
Net cash used in operating activities	(9,195,473)	(8,686,291)
Investing Activities		
Purchase of equipment	(5,374)	(70,402)
Purchase of investments	(368,801,065)	(342,967,225)
Proceeds from sales and maturities of investments	376,373,605	350,451,888
Net cash provided by investing activities	7,567,166	7,414,261
Net Decrease in Cash and Cash Equivalents	(1,628,307)	(1,272,030)
Cash and Cash Equivalents, Beginning of Year	5,934,770	7,206,800
Cash and Cash Equivalents, End of Year	4,306,463	5,934,770
Supplemental Cash Flow Information		
Excise tax paid	\$ 386,624	\$ 250,303

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, 2005, the Trust's cash accounts exceeded federally insured limits by approximately \$4,200,000. 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

The Trust carries investments (including other investments) at fair value. Quoted market prices determine fair value, if available. If a quoted market price is not available, the Trust estimates fair value using market prices for similar securities. The statements of activities reflect realized and unrealized gains and losses.

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, 2005, the total amount of securities subject to this program was \$62,756,922.

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

The Trust carries equipment, leasehold improvements and automobiles 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 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 Trust used a 2 percent Federal excise tax rate for the current and deferred tax provisions for the year ended December 31, 2005. For the year ended December 31, 2004, the Trust used a 2 percent tax rate for the current provision and a 1 percent rate for the deferred provision. The Federal excise tax expense components are as follows:

	2005	2004
Current expense	\$ 389,221	\$ 232,239
Deferred expense	220,294	171,287
Federal excise tax expense	\$ 609,515	\$ 403,526

NOTE 4: Investments

As of December 31, 2005 and 2004, the investments of the Trust included:

	2005		2004	
	Market Value	Amortized Cost	Market Value	Amortized Cost
U. S. Government				
Treasury securities	\$ 41,837,428	\$ 42,150,760	\$ 35,617,898	\$ 35,642,270
Corporate bonds	9,832,443	9,582,460	9,899,776	9,337,376
Equity securities	101,664,220	87,314,748	105,730,473	88,047,524
Mutual funds	171,938,519	169,645,567	179,127,795	185,427,138
Other	31,228,889	30,948,790	17,225,948	17,462,263
	\$356,501,499	\$339,642,325	\$347,601,890	\$335,916,571

NOTE 5: Derivative Financial Instruments

The Trust employs 12 investment managers to manage its portfolio. The Trust requires these managers to follow its 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.

	2005	2004
U. S. Treasury and agency futures	\$ 7,061	\$ 938,276
Fixed income options	56,392	—
Money market futures	(156,171)	149,518
Interest rate swaps and other	—	5,506
	\$ (92,718)	\$ 1,093,300

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 \$326,301 and \$344,591 for the years ended December 31, 2005 and 2004.

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

2006	\$ 318,136
2007	325,505
2008	328,269
2009	168,197
2010	170,416
Thereafter	<u>571</u>
Total	<u>\$ 1,311,094</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 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 \$157,480 in 2005 and \$151,889 in 2004.

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 the Trust terminated in 2003. The Trust contributes to the plan based on the employee's position and a percentage of salary. Total Trust contributions to the plan were \$27,595 in 2005 and \$27,624 in 2004.

NOTE 8: Program Expenses

The components of program and support services expenses for the years ended December 31, 2005 and 2004, included:

	<u>2005</u>	<u>2004</u>
Direct philanthropy program expenses	\$ 16,313,044	\$ 13,963,971
General and administrative expenses	2,040,748	1,954,136
Investment management and excise tax expenses	<u>1,838,876</u>	<u>1,751,088</u>
	<u>\$ 20,192,668</u>	<u>\$ 17,669,195</u>

NOTE 9: Grant and Scholarship Commitments

At December 31, 2005, grant and scholarship commitments are expected to be paid to qualifying organizations as follows:

2006	\$ 2,739,333
2007	1,258,229
2008	554,406
2009	256,968
2010	<u>133,575</u>
Present Value Discount	<u>(188,788)</u>
Total	<u>\$ 4,753,723</u>

For the years ended December 31, 2005 and 2004, the total amount of grant expense for prior, current and future years was \$15,056,109 and \$12,750,760, respectively. The discount rates used on grant commitments for the years 2005 through 2010 range from 4.0 percent to 8.5 percent.