

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, 2006 and 2005, 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, 2006 and 2005, 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  
 February 20, 2007

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2006 and 2005

	2006	2005
<b>Investment Income and Fees</b>		
Interest and dividends	\$ 10,176,307	\$ 9,600,313
Net realized gain on investments	17,261,094	11,298,294
Net unrealized gain on investments	19,813,507	5,173,855
Total investment income	47,250,908	26,072,462
Investment management fees	(1,297,714)	(1,229,361)
Net investment income	45,953,194	24,843,101
<b>Expenses</b>		
Employees' salaries and benefits	2,189,422	2,096,547
Trustees' fees	125,000	113,750
Legal and audit expense	40,494	32,301
Occupancy expense	342,209	347,797
Depreciation expense	69,676	101,352
Communications and consulting expenses	264,231	272,795
Other expenses	356,817	333,141
Total expenses	3,387,849	3,297,683
<b>Excess of Investment Income Over Expenses Before Grants and Scholarships and Excise Tax</b>	42,565,345	21,545,418
<b>Grants and Scholarships Approved</b>	13,076,996	15,056,109
<b>Federal Excise Tax Expense</b>	913,528	609,515
<b>Change in Unrestricted Net Assets</b>	28,574,821	5,879,794
<b>Unrestricted Net Assets, Beginning of Year</b>	356,359,741	350,479,947
<b>Unrestricted Net Assets, End of Year</b>	\$384,934,562	\$ 356,359,741

See notes to financial statements.

# STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 5,678,764	\$ 4,306,463
Accrued dividends and interest	918,743	772,915
Investments	382,953,425	356,501,499
Equipment and leasehold improvements - net	116,179	156,873
Other	249,825	194,710
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Total assets	\$ 389,916,936	\$ 361,932,460
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 444,513	\$ 458,018
Federal current and deferred excise tax	763,071	360,978
Grant and scholarship commitments	3,774,790	4,753,723
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Total liabilities	4,982,374	5,572,719
<b>Net Assets - unrestricted</b>	<hr/>	<hr/>
	384,934,562	356,359,741
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Total liabilities and net assets	\$ 389,916,936	\$ 361,932,460

See notes to financial statements.

# STATEMENTS OF CASH FLOWS Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Operating Activities</b>		
Cash receipts from interest and dividends	\$ 10,030,479	\$ 9,323,506
Cash paid for grants and scholarships	(14,055,929)	(13,704,418)
Cash paid to employees for salaries and benefits	(2,190,993)	(2,114,303)
Cash paid to investment managers	(1,401,416)	(1,182,978)
Cash paid to vendors	(967,098)	(1,016,906)
Cash paid for excise taxes	(511,435)	(386,624)
Cash paid for Trustee fees	(125,000)	(113,750)
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Net cash used in operating activities	(9,221,392)	(9,195,473)
<b>Investing Activities</b>		
Purchase of equipment	(28,982)	(5,374)
Purchase of investments	(504,385,215)	(368,801,065)
Proceeds from sales and maturities of investments	515,007,890	376,373,605
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Net cash provided by investing activities	10,593,693	7,567,166
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,372,301	(1,628,307)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<hr/>	<hr/>
	4,306,463	5,934,770
<b>Cash and Cash Equivalents, End of Year</b>	<hr/>	<hr/>
	\$ 5,678,764	\$ 4,306,463
<b>Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities</b>		
Change in net assets	\$ 28,574,821	\$ 5,879,794
Items not requiring (providing) cash		
Realized gain on sale of investments	(17,261,094)	(11,298,294)
Unrealized gain on investments	(19,813,507)	(5,173,855)
Deferred excise tax expense	396,159	220,294
Depreciation	69,676	101,352
Changes in		
Accrued dividends and interest	(145,828)	(276,807)
Other assets	(55,115)	(57,775)
Federal excise tax payable	5,934	55,530
Accounts payable and accrued expenses	(13,505)	2,597
Grant and scholarship commitments	(978,933)	1,351,691
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Net cash used in operating activities	\$ (9,221,392)	\$ (9,195,473)

See notes to financial statements.

## NOTE 1: ORGANIZATION

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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

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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, 2006, the Trust's cash accounts exceeded federally insured limits by approximately \$5,493,000. 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 quoted 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, 2006, the total amount of securities subject to this program was \$71,635,500.

### *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 years ended December 31, 2006 and 2005. The Federal excise tax expense components are as follows:

	<u>2006</u>	<u>2005</u>
Current expense	\$ 517,369	\$ 389,221
Deferred expense	396,159	220,294
Federal excise tax expense	<u>\$ 913,528</u>	<u>\$ 609,515</u>

**NOTE 4: INVESTMENTS**

As of December 31, 2006 and 2005, the investments of the Trust included:

	<u>2006</u>		<u>2005</u>	
	<u>Market Value</u>	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Amortized Cost</u>
U. S. Government				
Treasury securities	\$ 68,264,515	\$ 68,912,764	\$ 41,837,428	\$ 42,150,760
Corporate bonds	8,969,909	8,695,504	9,832,443	9,582,460
Equity securities	111,542,869	96,352,368	101,664,220	87,314,748
Mutual funds	189,523,015	167,887,423	171,938,519	169,645,567
Other	4,653,117	4,432,685	31,228,889	30,948,790
	<u>\$ 382,953,425</u>	<u>\$ 346,280,744</u>	<u>\$ 356,501,499</u>	<u>\$ 339,642,325</u>

**NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS**

The Trust employs 11 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.

	<u>2006</u>	<u>2005</u>
U. S. Treasury and agency futures	\$ 101,839	\$ 7,061
Fixed income options	(6,910)	56,392
Money market futures	(168,151)	(156,171)
Interest rate swaps and other	2,351	-
	<u>\$ (70,871)</u>	<u>\$ (92,718)</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 \$332,684 and \$326,301 for the years ended December 31, 2006 and 2005, respectively.

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

2007	\$ 325,505
2008	328,269
2009	168,197
2010	170,416
2011	<u>571</u>
Total	\$ 992,958

**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 a 7 percent contribution 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 \$163,454 in 2006 and \$157,480 in 2005.

In 2004 the Trust adopted a key employee wage deferral plan under Section 457(b) of the Internal Revenue Code. The Trust contributes to the plan based on the employee’s position and a percentage of salary. Total Trust contributions to the plan were \$29,402 in 2006 and \$27,595 in 2005.

**NOTE 8: PROGRAM EXPENSES**

The components of program and support services expenses for the years ended December 31, 2006 and 2005, included:

	<u>2006</u>	<u>2005</u>
Direct philanthropy program expenses	\$ 14,385,436	\$ 16,313,044
General and administrative expenses	2,079,409	2,040,748
Investment management and excise tax expenses	<u>2,211,242</u>	<u>1,838,876</u>
	\$ 18,676,087	\$ 20,192,668

**NOTE 9: GRANT AND SCHOLARSHIP COMMITMENTS**

At December 31, 2006, grant and scholarship commitments are expected to be paid to qualifying organizations as follows:

2007	\$ 2,341,052
2008	1,005,738
2009	347,915
2010	146,310
2011	<u>32,156</u>
	3,873,171
Present Value Discount	<u>(98,381)</u>
Total	\$ 3,774,790

For the years ended December 31, 2006 and 2005, the total amount of grant expense for prior, current and future years was \$13,076,996 and \$15,056,109, respectively. The discount rates used on grant commitments for the years 2005 through 2011 range from 4.0 percent to 8.5 percent.