

Nina Mason Pulliam Charitable Trust

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

Nina Mason Pulliam Charitable Trust

December 31, 2017 and 2016

Contents

Independent Auditor's Report.....	1
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Financial Statements

Statements of Financial Position	3
Statements of Activities.....	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Auditor's Report

Board of Trustees
Nina Mason Pulliam Charitable Trust
Indianapolis, Indiana

We have audited the accompanying financial statements of Nina Mason Pulliam Charitable Trust, which comprise the statements financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
June 26, 2018

Nina Mason Pulliam Charitable Trust
Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 14,231,739	\$ 8,054,731
Receivables - investments	3,086,253	3,429,974
Investments	364,827,865	344,374,523
Equipment and leasehold improvements - net	100,229	99,349
Other	880,884	900,600
Total assets	\$ 383,126,970	\$ 356,859,177
Liabilities		
Accounts payable and accrued expenses	\$ 711,736	\$ 696,419
Deferred excise tax - federal	1,476,253	719,573
Grant and scholarship commitments	12,908,755	6,606,649
Total liabilities	15,096,744	8,022,641
Net Assets - unrestricted	368,030,226	348,836,536
Total liabilities and net assets	\$ 383,126,970	\$ 356,859,177

Nina Mason Pulliam Charitable Trust
Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016
Investment Income and Fees		
Interest and dividends	\$ 2,123,866	\$ 1,194,220
Net realized and unrealized gains on investments	47,119,228	16,364,257
Total investment income	49,243,094	17,558,477
Investment management fees and expenses	(1,550,505)	(1,445,746)
Net investment income	47,692,589	16,112,731
Expenses		
Employees' salaries and benefits	2,866,411	2,704,414
Trustees' fees	137,500	147,000
Legal and audit expense	107,901	70,781
Occupancy expense	338,000	334,213
Depreciation expense	38,960	37,459
Communications expenses	33,551	57,268
Other expenses	581,686	497,377
Total expenses	4,104,009	3,848,512
Excess of Investment Income Over Expenses Before Grants and Scholarships and Excise Tax	43,588,580	12,264,219
Grants and Scholarships Approved	23,638,210	16,144,285
Federal Excise Tax Expense	756,680	248,899
Change in Unrestricted Net Assets	19,193,690	(4,128,965)
Unrestricted Net Assets, Beginning of Year	348,836,536	352,965,501
Unrestricted Net Assets, End of Year	\$ 368,030,226	\$ 348,836,536

Nina Mason Pulliam Charitable Trust
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Cash receipts from interest and dividends	\$ 2,123,866	\$ 1,194,220
Cash paid for grants, scholarships and direct charitable activities	(17,336,104)	(15,648,421)
Cash paid to employees for salaries and benefits	(2,890,264)	(2,756,350)
Cash paid to investment managers and advisors	(1,550,505)	(1,445,746)
Cash paid to vendors	(1,050,496)	(942,665)
Cash paid for excise taxes	-	(117,791)
Cash paid for Trustee fees	(137,500)	(147,000)
Net cash used in operating activities	(20,841,003)	(19,863,753)
Investing Activities		
Purchase of equipment	(39,840)	(71,377)
Purchase of investments	(83,824,747)	(53,261,869)
Proceeds from sales and maturities of investments	110,882,598	67,964,589
Net cash provided by investing activities	27,018,011	14,631,343
Net Increase (Decrease) in Cash and Cash Equivalents	6,177,008	(5,232,410)
Cash and Cash Equivalents, Beginning of Year	8,054,731	13,287,141
Cash and Cash Equivalents, End of Year	\$ 14,231,739	\$ 8,054,731
Reconciliation of Change in Net Assets to Net Cash Used in		
Operating Activities		
Change in net assets	\$ 19,193,690	\$ (4,128,965)
Items not requiring (providing) cash		
Realized and unrealized gains on investments	(47,119,228)	(16,364,257)
Deferred excise tax expense	550,000	155,000
Depreciation	38,960	37,459
Changes in		
Other assets	(28,528)	18,042
Federal excise tax payable	206,680	(23,892)
Accounts payable and accrued expenses	15,317	(53,004)
Grant and scholarship commitments	6,302,106	495,864
Net cash used in operating activities	\$ (20,841,003)	\$ (19,863,753)

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

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, at a minimum annually, the 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. The Trust also sponsors the Nina Mason Pulliam Legacy Scholars program, which seeks individuals who have dependents in the family unit and wish to acquire 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 a history of abuse, neglect, or a lack of effective family support and/or experience in public foster care; 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

Trust management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities, in preparing these financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues, gains and losses, program grants and operating expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Trust considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market funds and certificates of deposit.

The current FDIC insurance limit for cash accounts is \$250,000. At December 31, 2017, the Trust's interest-bearing cash accounts exceeded federally insured limits by approximately \$12.3 million.

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

Investments

The Trust's long-term financial objectives are to preserve and enhance the inflation adjusted value of its assets and provide a relatively stable stream of earnings consistent with spending needs. The Trust's primary long-term absolute investment objective is to earn an average annual inflation adjusted total return of at least 5 percent, net of all investment management fees, operating expenses and taxes over long-term periods.

Investments are recorded at fair value in the accompanying financial statements. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price).

Fair value for Level 1 assets is determined based on quoted market prices in active markets for identical assets and liabilities. Where quoted market prices are not available, the Trust uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs in determining fair value. Investments in commingled funds, trusts and limited partnerships (funds) are valued at net asset value per share (NAV) as provided by the funds' administrator or general partner. Where available, the Trust uses net assets from the funds' audited financial statements multiplied by the Trust's interest in the funds to record the fair value of its investments. Investments measured at NAV are not classified within the fair value hierarchy. The Trust's policy is to recognize transfers between levels, if any, at the end of each year.

The inputs used in valuing the Trust's investments are not necessarily an indication of investment risks. The Trust's investments are exposed to various risks, such as interest rate, credit, currency and overall market volatility risk. Due to these risks, it is possible that changes in the values of investments could occur in the near term and that such changes could materially affect the net assets recorded in the accompanying financial statements.

Investment receivables represent distributions from fund managers that were in-transit at year end.

Excise and Income Taxes

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. Accordingly, the Trust is not subject to federal income tax, except to the extent that it has unrelated business taxable income. In the opinion of management, the Trust did not have material unrelated business taxable income in 2017 or 2016.

The Trust is subject to a private foundation 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 result from the tax effects associated with unrealized appreciation on the Trust's investments.

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements December 31, 2017 and 2016

Equipment and Leasehold Improvements

The Trust records 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 ten 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.

Subsequent Events

The Trust has evaluated and disclosed, if any, subsequent events that occurred after December 31, 2017 and through June 26, 2018, which is the date the financial statements were available to be issued.

Note 3: Federal Excise Taxes

Current excise taxes are provided at 1% for the years ended December 31, 2017 and 2016, respectively. Deferred federal excise taxes are provided at 2% for the years ended December 31, 2017 and 2016. The following are the Federal excise tax components:

	<u>2017</u>	<u>2016</u>
Current expense	\$ 206,680	\$ 93,899
Deferred expense	<u>550,000</u>	<u>155,000</u>
Federal excise tax expense	<u><u>\$ 756,680</u></u>	<u><u>\$ 248,899</u></u>

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements December 31, 2017 and 2016

Note 4: Investments

As of December 31, 2017 and 2016, the investments of the Trust included:

	2017	2016
Domestic equities and equity funds	\$ 53,201,809	\$ 39,038,862
International equity funds	71,911,937	67,038,047
Global equity funds	18,395,862	15,564,291
Fixed income securities and funds	52,669,496	49,220,139
Alternative investments and hedge funds	68,210,567	84,129,434
Natural resources and commodities funds	18,083,909	16,517,747
Nonmarketable alternative investment funds	82,354,285	72,866,003
	<u>\$ 364,827,865</u>	<u>\$ 344,374,523</u>

Note 5: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Quoted market prices for similar assets and liabilities in an active market; quoted prices for identical or similar assets or liabilities in an inactive market and calculation techniques utilizing observable market inputs
- Level 3** Valuations derived from techniques in which one or more significant inputs are unobservable

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements December 31, 2017 and 2016

Recurring Measurements

Fair value of the Trust's investments has been determined using the valuation hierarchy at December 31, 2017 and 2016:

	Fair Value Measurements Using				Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)	
December 31, 2017					
Investments					
Domestic equities and equity funds	\$ 14,105,586	\$ -	\$ -	\$ 39,096,223	\$ 53,201,809
International equity funds	9,801,988	-	-	62,109,949	71,911,937
Global equity funds	-	-	-	18,395,862	18,395,862
Fixed income securities and funds	35,168,431	-	-	17,501,065	52,669,496
Alternative investments and hedge funds	3,433,201	-	-	64,777,366	68,210,567
Natural resources and commodities funds	4,129,394	-	-	13,954,515	18,083,909
Nonmarketable alternative investment funds	-	-	-	82,354,285	82,354,285
	<u>\$ 66,638,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 298,189,265</u>	<u>\$ 364,827,865</u>
December 31, 2016					
Investments					
Domestic equities and equity funds	\$ 7,420,347	\$ -	\$ -	\$ 31,618,515	\$ 39,038,862
International equity funds	17,439,599	-	-	49,598,448	67,038,047
Global equity funds	-	-	-	15,564,291	15,564,291
Fixed income securities and funds	43,885,669	-	-	5,334,470	49,220,139
Alternative investments and hedge funds	-	-	-	84,129,434	84,129,434
Natural resources and commodities funds	3,864,468	-	-	12,653,279	16,517,747
Nonmarketable alternative investment funds	-	-	-	72,866,003	72,866,003
	<u>\$ 72,610,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,764,440</u>	<u>\$ 344,374,523</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017.

Investments

Domestic Equities and Equity Funds: Investments include one publicly-traded mutual fund, one actively managed U.S. equity long/short commingled fund, and one actively managed commingled equity fund. The underlying assets of all commingled funds are marketable equity securities and the fair values are estimated using the net asset values (NAV) of the Trust's ownership interest in each fund. The publicly-traded mutual fund is included within Level 1 of the valuation hierarchy and commingled funds are included within the Investments Measured at NAV category of the valuation hierarchy.

International and Global Market Equities and Equity Funds: Investments include one publicly-traded mutual funds and eight actively managed global/international commingled equity funds. The underlying assets of all commingled funds are marketable equity securities and the fair value of the commingled investment funds are estimated using the NAV of the Trust's ownership interest in each fund. The publicly-traded mutual fund is included within Level 1 of the valuation hierarchy and commingled funds are included within the Investments Measured at NAV category of the valuation hierarchy.

Fixed Income Securities and Funds: Investments include two actively managed separate accounts and one commingled fixed income funds. Fixed income securities owned by the Trust are valued using quoted market prices in active markets and are classified within Level 1 of the valuation hierarchy. The value of the commingled domestic and international fixed income funds are estimated using the NAV of the Trust's ownership interest in each fund and are included within the Investments Measured at NAV category of the valuation hierarchy.

Alternative Investments and Hedge Funds: Investments include ten absolute return and seven long/short hedge funds. Absolute return funds include diversified, event arbitrage and distressed securities strategies that seek to diversify risk and reduce portfolio volatility. Managers of these funds have significant discretion to allocate resources among several strategies including event arbitrage, convertible bond arbitrage, special situations and distressed securities. Managers may have the flexibility to use limited leverage and to implement strategies on a U.S. or global basis. The absolute return funds' composite portfolio for this category includes investments in approximately 23 percent in long and short equities, 23 percent in long and short credits, 26 percent in distressed securities, 14 percent arbitrage investments, 4 percent global macro with the majority of the balance held in cash. The fair values of the investments in this category have been estimated using the NAV per share of the absolute return fund as provided by the investment administrators. Although the initial liquidity restriction period for investments in this category ranged from one to three years, over 94 percent of these investments can be redeemed within the next twelve months.

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements

December 31, 2017 and 2016

Hedge funds invest in both long and short strategies primarily in U.S. and global common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position and can use limited leverage. The fair values of the hedge fund investments in this category have been estimated using the NAV per share of the investments. Although the initial liquidity restriction period for investments in this category ranged from one to three years, over 81 percent of these investments can be redeemed within the next twelve months.

Natural Resources and Commodities Funds: Investments include one publicly-traded commingled global natural resource fund and two commingled commodities funds. The commodities funds invest in a diversified portfolio of global natural resource securities, commodities, and other financial instruments primarily in the energy, precious metals and base metals, agriculture and food; and chemicals, plastics and industrial materials sectors. Certain managers also utilize exchange-traded, U.S. dollar-denominated futures and forward contracts to implement their investment strategy. The fair value of these commingled investments is estimated using the NAV of the Trust's ownership interest in each fund.

The global natural resource fund has a quoted market price on active markets and is classified within Level 1 of the valuation hierarchy. The Investments Measured at NAV category includes the commodities funds and partnerships whose net asset values (or its equivalent) are determined by the managers and that provide liquidity at December 31 or within 12 months after the reporting date.

Nonmarketable Alternative Investment Funds includes private equity, venture capital, commodities partnerships, real estate and distressed debt investments. These investments cannot be redeemed from the partnerships but the Trust will receive distributions from each fund as they liquidate their underlying investments. Investment managers estimate the funds will liquidate their investments over a 7 to 12 year timeframe from the initial closing date. Because it is improbable that any individual investment will be sold, the Trust has recorded each individual investment's estimate of fair value using the NAV of the Trust's ownership interest in the partnerships capital. However, the Trust may sell its interests in nonmarketable funds in a secondary market, but as of December 31, 2017, it has no plans to sell any nonmarketable alternative investments before they are liquidated. All nonmarketable alternative investment partnerships are included within the Investments Measured at NAV category of the valuation hierarchy.

Nina Mason Pulliam Charitable Trust
Notes to Financial Statements
December 31, 2017 and 2016

The following tables present information regarding funds with fair value that is determined using the net asset value (or its equivalent) provided by the fund.

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Investments				
Domestic equity funds	\$ 39,096,223	\$ -	Quarterly, annually	30-60 days
International equity funds	62,109,949	-	Monthly, quarterly	6-15 days
Global equity funds	18,395,862	-	Monthly	6 days
Fixed income securities and funds	17,501,065	-	Monthly, quarterly	10-90 days
Alternative investments and hedge funds	64,777,366	-	Quarterly, annually	5-90 days
Natural resources and commodities funds	13,954,515	-	Monthly	5 days
Nonmarketable alternative investment funds	<u>82,354,285</u>	<u>51,460,000</u>	Not eligible	n/a
	<u>\$ 298,189,265</u>	<u>\$ 51,460,000</u>		

	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Investments				
Domestic equity funds	\$ 31,618,515	\$ -	Quarterly, annually	30-60 days
International equity funds	49,598,448	-	Monthly, quarterly	6-15 days
Global equity funds	15,564,291	-	Monthly	6 days
Fixed income securities and funds	5,334,470	-	Monthly	10 days
Alternative investments and hedge funds	84,129,434	-	Quarterly, annually	30-90 days
Natural resources and commodities funds	12,653,279	-	Quarterly, annually	30-90 days
Nonmarketable alternative investment funds	<u>72,866,003</u>	<u>43,700,000</u>	Not eligible	n/a
	<u>\$ 271,764,440</u>	<u>\$ 43,700,000</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 \$338,000 and \$334,213 for the years ended December 31, 2017 and 2016, respectively.

Nina Mason Pulliam Charitable Trust

Notes to Financial Statements December 31, 2017 and 2016

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

2018	\$	351,437
2019		356,092
2020		141,939
2021		141,939
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Total	\$	991,407
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Note 7: Employee Benefit Plans

The Trust provides a retirement benefit plan under Section 401(k) of the Internal Revenue Code (Code) that covers all participating employees. The Trust makes seven 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 four percent of an employee's discretionary contribution. Total Trust contributions to the plan were \$227,589 in 2017 and \$218,282 in 2016.

In 2004, the Trust adopted a key employee wage deferral plan under Section 457(b) of the Code. Prior to 2015, the Trust made contributions to the plan based on the employee's position and a percentage of salary. Beginning in 2015, the Trust discontinued employer contributions to the plan but continues to accept key employee elective contributions.

Note 8: Program Expenses

The components of program and support services expenses for the years ended December 31, 2017 and 2016, included:

	2017	2016
	<hr/>	<hr/>
Direct philanthropy program expenses	\$ 25,248,042	\$ 17,711,062
General and administrative expenses	2,494,177	2,281,735
Investment management and excise tax expenses	2,307,185	1,694,645
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	\$ 30,049,404	\$ 21,687,442
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Nina Mason Pulliam Charitable Trust

Notes to Financial Statements December 31, 2017 and 2016

Note 9: Grant and Scholarship Commitments

At December 31, 2017, grant and scholarship commitments are expected to be paid to qualifying organizations as follows:

2018	\$ 8,832,319
2019	3,663,911
2020	224,125
2021	125,600
2022	<u>62,800</u>
Total	<u>\$ 12,908,755</u>

For the years ended December 31, 2017 and 2016, the total amount of grant expense for current and future years was \$23,638,210 and \$16,144,285, respectively.