

# **Nina Mason Pulliam Charitable Trust**

Accountants' Report and Financial Statements

December 31, 2008 and 2007

**Nina Mason Pulliam Charitable Trust**  
**December 31, 2008 and 2007**

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## Independent Accountants' Report

Board of 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, 2008 and 2007, 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, 2008 and 2007, 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.

As discussed in Note 5, the Trust changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, in 2008.

BKD<sub>LLP</sub>

July 23, 2009

# Nina Mason Pulliam Charitable Trust

## Statements of Financial Position December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 11,358,706	\$ 2,208,093
Accrued dividends and interest	395,930	838,359
Receivables - investments	13,571,313	991
Investments	258,441,142	397,806,305
Federal current and deferred excise tax	255,680	-
Equipment and leasehold improvements - net	124,137	119,583
Other	304,445	371,026
	<u>\$ 284,451,353</u>	<u>\$ 401,344,357</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 415,032	\$ 505,375
Federal current and deferred excise tax	-	401,649
Grant and scholarship commitments	4,495,641	5,489,520
Total liabilities	<u>4,910,673</u>	<u>6,396,544</u>
<b>Net Assets</b> - unrestricted	<u>279,540,680</u>	<u>394,947,813</u>
Total liabilities and net assets	<u>\$ 284,451,353</u>	<u>\$ 401,344,357</u>

# Nina Mason Pulliam Charitable Trust

## Statements of Activities Years Ended December 31, 2008 and 2007

	2008	2007
<b>Investment Income and Fees</b>		
Interest and dividends	\$ 7,241,265	\$ 9,659,492
Net realized gain (loss) on investments	(25,881,720)	46,620,777
Net unrealized loss on investments	(76,402,320)	(23,488,683)
Total investment income (loss)	(95,042,775)	32,791,586
Investment management fees and expenses	(2,195,112)	(1,795,838)
Net investment income (loss)	(97,237,887)	30,995,748
<b>Expenses</b>		
Employees' salaries and benefits	2,404,325	2,286,087
Trustees' fees	116,250	117,500
Legal and audit expense	71,368	53,869
Occupancy expense	350,556	344,974
Depreciation expense	47,693	35,883
Communications and consulting expenses	365,632	273,908
Other expenses	427,498	380,044
Total expenses	3,783,322	3,492,265
<b>Excess (Deficit) of Investment Income Over Expenses Before Grants and Scholarships and Excise Tax</b>	(101,021,209)	27,503,483
<b>Grants and Scholarships Approved</b>	14,693,253	16,877,093
<b>Federal Excise Tax (Benefit) Expense</b>	(307,329)	613,139
<b>Change in Unrestricted Net Assets</b>	(115,407,133)	10,013,251
<b>Unrestricted Net Assets, Beginning of Year</b>	394,947,813	384,934,562
<b>Unrestricted Net Assets, End of Year</b>	\$ 279,540,680	\$ 394,947,813

# Nina Mason Pulliam Charitable Trust

## Statements of Cash Flows Years Ended December 31, 2008 and 2007

	2008	2007
<b>Operating Activities</b>		
Cash receipts from interest and dividends	\$ 7,683,694	\$ 9,739,876
Cash paid for grants and scholarships	(15,687,132)	(15,162,363)
Cash paid to employees for salaries and benefits	(2,524,379)	(2,257,050)
Cash paid to investment managers and advisors	(2,236,708)	(1,812,405)
Cash paid to vendors	(1,174,462)	(1,126,595)
Cash paid for excise taxes	(350,000)	(974,561)
Cash paid for Trustee fees	(116,250)	(117,500)
Net cash used in operating activities	(14,405,237)	(11,710,598)
<b>Investing Activities</b>		
Purchase of equipment	(52,247)	(39,287)
Purchase of investments	(233,742,219)	(781,376,310)
Proceeds from sales and maturities of investments	257,350,316	789,655,524
Net cash provided by investing activities	23,555,850	8,239,927
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	9,150,613	(3,470,671)
<b>Cash and Cash Equivalents, Beginning of Year</b>	2,208,093	5,678,764
<b>Cash and Cash Equivalents, End of Year</b>	\$ 11,358,706	\$ 2,208,093
<b>Reconciliation of Change in Net Assets to Net Cash Used in Operating Activities</b>		
Change in net assets	\$ (115,407,133)	\$ 10,013,251
Items not requiring (providing) cash		
Realized (gain) loss on sale of investments	25,881,720	(46,620,777)
Unrealized loss on investments	76,402,320	23,488,683
Deferred excise tax expense	(263,960)	(469,317)
Depreciation	47,693	35,883
Changes in		
Accrued dividends and interest	442,429	80,384
Other assets	(30,715)	(122,192)
Federal excise tax payable	(393,369)	107,895
Accounts payable and accrued expenses	(90,343)	60,862
Grant and scholarship commitments	(993,879)	1,714,730
Net cash used in operating activities	\$ (14,405,237)	\$ (11,710,598)

# Nina Mason Pulliam Charitable Trust

## Notes to Financial Statements

December 31, 2008 and 2007

### 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*

The Trust considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2008 and 2007, cash equivalents consisted primarily of money market funds.

The financial institution holding the Trust's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

# **Nina Mason Pulliam Charitable Trust**

## **Notes to Financial Statements December 31, 2008 and 2007**

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013. At December 31, 2008, the Trust's interest-bearing cash accounts exceeded federally insured limits by approximately \$10,918,000.

### ***Investments***

Investments in marketable equity and fixed income securities with readily determinable market values are recorded at their publicly quoted market prices. The market values for alternative investments and hedge funds represent the Trust's pro-rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by management. Alternative investments and hedge funds are not publicly traded on national security market exchanges, are generally illiquid and may be valued differently than if readily available markets existed for such investments. Because of the inherent uncertainties of valuation of alternative investments and hedge funds, the reported values of such investments may differ significantly from realizable values.

Investment income consists of the Trust's distributive share of any interest, dividends, and realized and unrealized gains and losses generated from the Trust's investments. Gains and losses attributable to the Trust's investments are realized and reported upon sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statements of activities.

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

### ***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 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.



# Nina Mason Pulliam Charitable Trust

## Notes to Financial Statements December 31, 2008 and 2007

### **Reclassifications**

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

### **Note 3: Federal Excise Taxes**

The Trust used a 1 percent and 2 percent Federal excise tax rate for the current and deferred tax provisions for the years ended December 31, 2008 and 2007, respectively. The Federal excise tax expense components are as follows:

	2008	2007
Current expense	\$ (43,369)	\$ 1,082,456
Deferred expense	(263,960)	(469,317)
Federal excise tax expense (benefit)	\$ (307,329)	\$ 613,139

### **Note 4: Investments**

As of December 31, 2008 and 2007, the investments of the Trust included:

	2008		2007	
	Market Value	Amortized Cost	Market Value	Amortized Cost
Domestic equities and equity funds	\$ 48,941,218	\$ 66,519,497	\$ 124,217,834	\$ 110,191,336
International equity funds and partnerships	60,595,173	86,526,440	98,843,829	100,925,634
Fixed income securities and funds	58,750,040	56,159,744	91,078,304	88,947,737
Alternative investments and hedge funds	65,777,289	78,690,640	47,941,046	48,252,161
Natural resources and commodities funds	14,118,484	18,208,146	24,750,512	23,873,746
Real estate investments	7,486,360	12,439,204	10,786,942	12,248,039
Other	2,772,578	3,022,683	187,838	187,838
	\$ 258,441,142	\$ 321,566,354	\$ 397,806,305	\$ 384,626,491

At December 31, 2008, the Trust had outstanding capital commitments to various fund managers of approximately \$32 million.

# Nina Mason Pulliam Charitable Trust

## Notes to Financial Statements December 31, 2008 and 2007

### Note 5: Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Trust adopted Statement of Financial Accounting Standards No. 157 (FAS 157), *Fair Value Measurements*. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities 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 and liabilities pursuant to the valuation hierarchy.

#### **Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include domestic equities and mutual funds, international equity funds and some fixed income securities and funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include some fixed income securities and marketable alternative investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include non-marketable alternative investments.

# Nina Mason Pulliam Charitable Trust

## Notes to Financial Statements December 31, 2008 and 2007

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

	Fair Value measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Investments	\$ 63,871,957	\$ 184,000,471	\$ 10,568,714	\$ 258,441,142

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Investments
Balance, January 1, 2008	\$ 5,231,533
Total unrealized losses included in the change in net assets	(2,020,756)
Purchases, issuances and settlements	7,357,937
Balance, December 31, 2008	\$ 10,568,714
Total losses for the year included in change in net assets attributable to the change in unrealized losses related to investments still held at the reporting date	\$ (2,020,756)

# Nina Mason Pulliam Charitable Trust

## Notes to Financial Statements December 31, 2008 and 2007

### Note 6: Derivative Financial Instruments

The Trust employs a wide range of investment managers to manage its portfolio. The Trust requires these managers to follow its investment policy with regards to investment risk and yield. During 2007, in connection with manager contracts, the Trust invested 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. No such derivative financial instruments were held by the Trust at December 31, 2008. Credit loss exposure existed 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 year ended December 31, 2007.

	<u>2007</u>
U.S. Treasury and agency futures	\$ (679,592)
Fixed income options	31,810
Money market futures	1,472,712
Interest rate swaps and other	<u>5,672</u>
	<u>\$ 830,602</u>

### Note 7: 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 \$350,556 and \$344,974 for the years ended December 31, 2008 and 2007, respectively.

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

2009	\$ 168,197
2010	170,416
2011	<u>571</u>
Total	<u>\$ 339,184</u>

# Nina Mason Pulliam Charitable Trust

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 8: 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 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 \$187,443 in 2008 and \$167,387 in 2007.

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 \$31,950 in 2008 and \$30,510 in 2007.

### Note 9: Program Expenses

The components of program and support services expenses for the years ended December 31, 2008 and 2007, included:

	<u>2008</u>	<u>2007</u>
Direct philanthropy program expenses	\$ 16,096,474	\$ 18,275,736
General and administrative expenses	2,380,101	2,093,622
Investment management and excise tax expenses	<u>1,887,783</u>	<u>2,408,977</u>
	<u>\$ 20,364,358</u>	<u>\$ 22,778,335</u>

### Note 10: Grant and Scholarship Commitments

At December 31, 2008, grant and scholarship commitments are expected to be paid to qualifying organizations as follows:

2009	\$ 2,907,958
2010	1,230,401
2011	305,748
2012	139,018
2013	<u>58,851</u>
	4,641,976
Present value discount	<u>(146,335)</u>
Total	<u>\$ 4,495,641</u>

# Nina Mason Pulliam Charitable Trust

## Notes to Financial Statements

December 31, 2008 and 2007

For the years ended December 31, 2008 and 2007, the total amount of grant expense for current and future years was \$14,693,253 and \$16,877,093, respectively. The discount rates used on grant commitments for the years 2009 through 2013 range from 3.45 percent to 5.50 percent.

### **Note 11: Significant Estimates and Concentrations**

#### ***Current Economic Conditions***

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Trust.

Current economic conditions have resulted in significant investment losses for the Trust. A continued significant decline in the fair value of the Trust's investments could have an adverse impact on future operating results.

In addition, given the volatility of current economic conditions, the values of assets recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Trust's ability to maintain sufficient liquidity.