

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION TOGETHER  
WITH REPORT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS

**DORIS DUKE CHARITABLE FOUNDATION  
AND RELATED ENTITIES**

For the years ended December 31, 2006 and 2005

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Trustees of the  
**Doris Duke Charitable Foundation:**

We have audited the accompanying consolidated balance sheets of the Doris Duke Charitable Foundation and related entities (collectively, the "Foundation") as of December 31, 2006 and 2005 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Doris Duke Charitable Foundation and related entities as of December 31, 2006 and 2005 and the consolidated changes in their net assets and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

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May 3, 2007

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Doris Duke Charitable Foundation and Related Entities

**CONSOLIDATED BALANCE SHEETS**

As of December 31, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 10,425,154	\$ 17,450,758
Prepaid expenses and other receivables	954,306	716,888
Investments (Note C)	1,893,063,456	1,710,162,290
Beneficial interest in trusts held by others	10,681,320	8,627,379
Collectibles (Note E)	11,233,087	11,656,476
Property and equipment, net (Note F)	<u>84,200,422</u>	<u>83,250,253</u>
Total assets	<u>\$2,010,557,745</u>	<u>\$1,831,864,044</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,280,824	\$ 6,295,155
Grants payable, net (Note H)	45,338,691	55,874,853
Accrued postretirement benefit obligation (Note G)	7,428,165	6,486,493
Deferred federal and state excise taxes payable (Note I)	<u>7,823,702</u>	<u>6,034,033</u>
Total liabilities	66,871,382	74,690,534
Net assets - unrestricted	<u>1,943,686,363</u>	<u>1,757,173,510</u>
Total liabilities and net assets	<u>\$2,010,557,745</u>	<u>\$1,831,864,044</u>

*The accompanying notes are an integral part of these consolidated statements.*

Doris Duke Charitable Foundation and Related Entities  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

For the years ended December 31, 2006 and 2005

	2006	2005
Revenues:		
Investment income:		
Dividends	\$ 15,840,906	\$ 13,358,911
Interest	<u>8,569,531</u>	<u>10,451,916</u>
	24,410,437	23,810,827
Less:		
Investment expenses	(5,687,439)	(5,884,163)
Provision for federal and state taxes (Note I)	<u>(3,578,326)</u>	<u>(4,809,463)</u>
Net investment income	15,144,672	13,117,201
Change in value of beneficial interest in trusts held by others	2,053,941	2,552,339
Loss on sale of collectibles (Note E)	-	(146,239)
Other revenues	<u>1,068,245</u>	<u>1,043,116</u>
Total revenues	<u>18,266,858</u>	<u>16,566,417</u>
Expenses:		
Grants	47,227,532	62,490,691
Program	20,438,582	20,340,224
Administration	<u>5,990,571</u>	<u>5,881,330</u>
Total expenses	<u>73,656,685</u>	<u>88,712,245</u>
Decrease in net assets before investment gains	<u>(55,389,827)</u>	<u>(72,145,828)</u>
Investment gains:		
Net realized gains	165,345,112	151,168,884
Net unrealized gains (losses) (Note I)	<u>76,557,568</u>	<u>(8,547,808)</u>
Net investment gains	<u>241,902,680</u>	<u>142,621,076</u>
Increase in net assets	186,512,853	70,475,248
Net assets - unrestricted, beginning of year	<u>1,757,173,510</u>	<u>1,686,698,262</u>
Net assets - unrestricted, end of year	<u>\$1,943,686,363</u>	<u>\$1,757,173,510</u>

*The accompanying notes are an integral part of these consolidated statements.*

Doris Duke Charitable Foundation and Related Entities

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Increase in net assets	\$ 186,512,853	\$ 70,475,248
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	2,754,702	2,696,141
Amortization of present value discount on grants payable	1,624,971	1,057,459
Discount allowance on grants payable	(1,059,220)	(2,613,812)
Loss on sale of collectibles	-	146,239
Gifted collectibles	328,500	-
Net realized and unrealized gains on investments	(243,692,349)	(142,455,701)
Increase in mortgages and notes receivable	-	(53,995)
Change in value of beneficial interest in trusts held by others	(2,053,941)	(1,834,675)
Decrease (increase) in interest, dividend and other receivables	133,052	(52,003)
Decrease (increase) in due from brokers	169,353,898	(164,369,481)
(Increase) decrease in prepaid expenses	(237,418)	4,055,306
Decrease in other assets	94,889	97,179
(Decrease) increase in due to brokers	(144,696,940)	140,711,991
(Decrease) increase in accounts payable and accrued expenses	(14,331)	978,082
Increase (decrease) in accrued postretirement benefit obligation	941,672	(2,316,739)
(Decrease) increase in grants payable	(11,101,913)	16,195,721
Increase (decrease) in deferred federal and state excise taxes payable	1,789,669	(165,376)
Amount received from the Estate of Doris Duke in excess of receivable	-	(716,948)
Net cash used in operating activities	(39,321,906)	(78,165,364)
Cash flows from investing activities:		
Purchase of investments	(2,068,597,548)	(3,876,987,492)
Proceeds from sale of investments	2,104,598,721	3,961,194,394
Purchase of property and equipment	(3,704,871)	(3,588,340)
Proceeds from sale of collectibles	-	1,206,707
Net cash provided by investing activities	32,296,302	81,825,269
Cash flows from financing activities:		
Amounts received from charitable remainder trusts	-	125,937
Amounts received from the Estate of Doris Duke	-	1,500,000
Net cash provided by financing activities	-	1,625,937
Net (decrease) increase in cash and cash equivalents	(7,025,604)	5,285,842
Cash and cash equivalents, beginning of year	17,450,758	12,164,916
Cash and cash equivalents, end of year	\$ 10,425,154	\$ 17,450,758
Supplemental cash flow information:		
Cash paid for federal and state excise taxes	\$ 5,041,173	\$ 4,042,431

*The accompanying notes are an integral part of these consolidated statements.*

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2006 and 2005

**NOTE A - DESCRIPTION OF ORGANIZATION AND RELATED ENTITIES**

Doris Duke Charitable Foundation (“DDCF”) is a private foundation that was established by the Last Will and Testament of Doris Duke in 1996. DDCF was formed as a trust under the laws of the State of New York and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the “Code”) as an organization described in Section 501(c)(3). It is a private foundation within the meaning of Section 509(a) of the Code.

The mission of DDCF’s grants program is to improve the quality of people’s lives by nurturing the arts, protecting and restoring the environment, seeking cures for diseases, and helping to protect children from abuse and neglect. In addition, DDCF supports three operating foundations that manage Doris Duke’s properties in New Jersey, Hawaii, and Rhode Island. The mission and the strategy of DDCF are guided by Doris Duke’s Last Will and Testament, which reflects the interests she pursued during her life. Doris Duke bequeathed DDCF significant resources to support those interests in addition to a legacy of properties and collections.

DDCF’s Board of Trustees controls one Delaware foundation which was established by Doris Duke during her lifetime and three operating foundations which were established through a Plan of Reorganization, effectuated in January 1999 (collectively, the “Foundation”). The following summarizes the entities comprising the Foundation. All material interorganizational balances and transactions have been eliminated in consolidation.

*Duke Farms Foundation*

Duke Farms Foundation was incorporated under the laws of the State of New York for the purpose of receiving title to real property located in Somerville, Hillsborough, Raritan, and Readington, New Jersey. The property comprises 2,700 acres, and includes a 700-acre park, a working farm, and display gardens. It is used for environmental, agricultural, and horticultural purposes. During 2006, the Foundation’s Board of Trustees approved a resolution for design and study costs based on a refined mission of environmental stewardship for Duke Farms. The thrust of this plan will lead to the ecological restoration of the property, consistent with sound environmental practices. In addition, certain existing structures may be renovated during 2008 and 2009 for both public education and administrative use.

Duke Farms Foundation is exempt from federal income taxes under Section 501(a) of the Code as an organization described in Section 501(c)(3). It is a private foundation within the meaning of Section 509(a) of the Code and qualifies as a private operating foundation described in Section 4942(j)(3) of the Code.

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE A (continued)**

*Doris Duke Foundation for Islamic Art*

Doris Duke Foundation for Islamic Art (“DDFIA”) was incorporated under the laws of the State of New York for the purpose of receiving title to real property located in Honolulu, Hawaii, which includes a collection of Islamic art. It is used to promote the study and understanding of Middle Eastern art and culture.

DDFIA is exempt from federal income taxes under Section 501(a) of the Code as an organization described in Section 501(c)(3). It is a private foundation within the meaning of Section 509(a) of the Code and qualifies as a private operating foundation described in Section 4942(j)(3) of the Code.

Additionally, DDFIA was specifically prohibited in its charter from operating a museum. In order to carry out the purposes mandated for DDFIA, the kinds of educational and historic house activities to take place at the Hawaiian property, Shangri La, required the formation of a new entity under the jurisdiction of the Board of Regents of the State of New York. Accordingly, in 2002, a new entity named the Doris Duke Foundation for Islamic Art was chartered by the Board of Regents of the State of New York as a museum. The Board of Regents then approved the consolidation of the not-for-profit corporation known as Doris Duke Foundation for Islamic Art with the new organization by the same name, as chartered by the Board of Regents.

*Doris Duke Management Foundation*

Doris Duke Management Foundation (“DDMF”) was incorporated under the laws of the State of New York for the purpose of creating a centralized source of personnel to provide various services, including management, clerical, financial, and operational services, to DDCCF and the foundations it controls. Doris Duke Management Foundation also serves as a centralized source of certain facilities and equipment, both shared and separate.

DDMF is exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3). It is a private foundation within the meaning of Section 509(a) of the Code and it qualifies as a private operating foundation described in Section 4942(j)(3) of the Code.

All appropriate expenses are assigned to each operating foundation pursuant to an Operating Agreement created at the inception of DDMF for the services performed by DDMF on their behalf.



Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE A (continued)**

*Doris Duke Foundation*

Doris Duke Foundation (“DDF”) is a private grant-making organization, exempt from federal income taxes under Section 501(a) of the Code as an organization described in Section 501(c)(3). It is a private foundation within the meaning of Section 509(a) of the Code. DDF houses the remaining Southeast Asian Art and Culture (“SEAAC”) Foundation assets, with the intent to dispose. The SEAAC assets were transferred to DDF upon the closing of the SEAAC Foundation, effective December 31, 2002.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

*1. Basis of Accounting*

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Foundation’s net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed stipulations. At December 31, 2006 and 2005, the net assets of the Foundation were unrestricted in nature and represent resources that are not subject to donor-imposed stipulations, and are, therefore, available for the general operations of the Foundation.

In the event the Foundation receives contributions or other assets which are restricted in nature due to specific time or use restrictions, such resources would be classified as temporarily restricted or permanently restricted net assets accordingly, based on the nature of such restrictions. Temporarily restricted net assets represent net assets which are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. Permanently restricted net assets represent net assets that are subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or removed by actions of the Foundation.

*2. Collectibles*

Collectibles consisting of personal property transferred to the Foundation from the Estate of Doris Duke were recorded at fair value based upon appraisals. In 2007, the Foundation intends to examine its remaining collectibles to determine which items will be gifted to other non-profit organizations, kept as part of the Foundation’s archives or sold. Collectibles held for sale will be sold at an auction held by the Foundation during 2008.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE B (continued)**

*3. Use of Estimates*

The presentation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the valuation of nonmarketable alternative investments; the determination of the Foundation's postretirement benefit obligation; and its remainderman interest under split-interest agreements. Actual results could differ from those estimates.

*4. Investments*

The Foundation reports all investments in equity securities with readily determinable fair values and all investments in debt securities at fair value.

Marketable securities are reported on the basis of quoted market values as reported on the last business day of the fiscal year by the securities exchanges. Realized gains and losses on investments are calculated based on the first-in, first-out method.

Investments in limited partnership interests, alternative investments and certain derivative securities are based upon published current market prices when available. In the absence of readily ascertainable market values, the fair values of these financial instruments are based on estimates and assumptions determined by the respective general partners or managers. The Foundation believes that such valuations are reasonable and appropriate.

*5. Concentrations of Credit Risk*

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, equity and fixed income investments, and limited partnerships and similar interests. The Foundation maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. The Foundation's cash accounts were placed with high credit quality financial institutions. The Foundation has not experienced, nor does it anticipate, any losses in such accounts. The Foundation has significant investments in equities, bonds, limited partnerships, and alternative investments, both marketable and non-marketable, and is therefore subject to concentrations of credit risk. Investment decisions are made by the Foundation's Investment Committee of the Board of Trustees in consultation with management and independent investment managers engaged by the Foundation.

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE B (continued)**

6. *Property and Equipment*

Property and equipment are stated at cost, or at appraised values if received from the Estate of Doris Duke. Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 30 years. Leasehold improvements are amortized on the straight-line basis over the life of the lease or their estimated useful life, whichever is shorter. The Foundation capitalizes computers with a unit price of \$5,000 or greater and property and equipment costing more than \$2,500.

7. *Beneficial Interest in Trusts Held by Others*

In accordance with Doris Duke's Last Will and Testament, the Foundation is the remainderman of several split-interest agreements - specifically, irrevocable charitable remainder trusts held by others. The Foundation initially valued these deferred gifts at the fair value of the underlying investments which are then actuarially discounted to reflect the Foundation's remainderman interest upon death of the respective life beneficiaries. Published IRS discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these split-interest agreements. Annually, the Foundation revalues its remainderman interest in these split-interest agreements and reflects this change in value in the consolidated statement of activities.

8. *Grants*

Grant awards by the Foundation to recipients are recorded as an expense and a liability when approved by the Board of Trustees. Such grant commitments are typically made to a recipient over several fiscal years and are therefore recognized and measured at the present value of the amounts to be paid. The present value discount is determined when the grant is initially recognized and is not subsequently revised. The Foundation amortizes grant discounts, which are recorded as additional grant expense, over the payment period of the respective grant using the effective interest method.

9. *Functional Allocation of Expenses*

The costs of operating the Foundation have been allocated among program-related and administrative expenses. Program-related expenses pertain principally to the general grant-making activities of the Foundation, such as reviewing proposals and awarding, monitoring, and evaluating grants.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2006 and 2005

NOTE B (continued)

10. Consolidated Statements of Cash Flows

For purposes of the consolidated statements of cash flows, the Foundation considers investments with maturities of three months or less at time of purchase and investments in money market funds, with immediate liquidity, to be cash equivalents. Short-term investments held by investment managers as part of the Foundation's long-term investment strategy are, however, classified as investments. At December 31, 2006 and 2005, the Foundation had \$7,149,160 and \$15,774,237, respectively, in money market funds which have been classified as cash equivalents.

11. Financial Instruments

The carrying amount of the Foundation's financial instruments approximates fair value.

12. Reclassifications

Certain reclassifications were made to the 2005 presentation to conform to the 2006 consolidated financial statements.

NOTE C - INVESTMENTS

Investments at December 31, 2006 and 2005, consisted of the following:

	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Equity investments	\$ 667,011,700	\$ 819,605,536	\$ 630,960,158	\$ 775,356,761
Marketable alternative investments	554,817,364	769,625,770	469,743,392	613,645,886
Nonmarketable alternative investments	130,276,284	153,397,619	63,584,052	76,039,093
Fixed income investments	<u>176,065,076</u>	<u>177,009,334</u>	<u>245,957,837</u>	<u>246,905,343</u>
Subtotal	1,528,170,424	1,919,638,259	1,410,245,439	1,711,947,083
Interest, dividend and other receivables	1,907,869	1,907,869	2,040,921	2,040,921
Due to brokers	(40,628,008)	(40,628,008)	(185,324,948)	(185,324,948)
Due from brokers	<u>12,145,336</u>	<u>12,145,336</u>	<u>181,499,234</u>	<u>181,499,234</u>
Total	<u>\$ 1,501,595,622</u>	<u>\$ 1,893,063,456</u>	<u>\$ 1,408,460,646</u>	<u>\$ 1,710,162,290</u>

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2006 and 2005

NOTE C (continued)

Marketable and nonmarketable investments at December 31, 2006 and 2005, consisted of the following:

	2006			2005		
	Number of Funds	Cost	Fair Value	Number of Funds	Cost	Fair Value
<b>Alternative investment strategy:</b>						
<b>Marketable alternative investments:</b>						
Multi-Strategy	9	\$ 247,417,094	\$ 368,929,651	6	\$ 201,064,588	\$ 293,622,691
Equity Long/Short	12	241,400,270	329,773,367	11	242,678,804	293,937,718
Distressed/High Yield	2	40,000,000	44,411,478	-	-	-
Fund of Funds	1	26,000,000	26,511,274	1	26,000,000	26,085,477
Total marketable alternative investments	24	554,817,364	769,625,770	18	469,743,392	613,645,886
<b>Nonmarketable alternative investments:</b>						
Fund of Funds	6	49,905,675	52,829,308	4	20,248,325	21,711,648
Buyouts/Growth	7	36,262,242	55,365,630	4	24,645,214	35,340,803
Venture Capital	9	6,980,799	6,611,441	2	720,000	685,840
Distressed	2	10,500,000	10,830,444	1	5,000,000	5,184,261
Real Assets (Timber)	3	26,627,568	27,760,796	2	12,970,513	13,116,541
Total nonmarketable investments	27	130,276,284	153,397,619	13	63,584,052	76,039,093
Total alternative investments	51	\$ 685,093,648	\$ 923,023,389	31	\$ 533,327,444	\$ 689,684,979

**Equity investments** include U.S. large and small-capitalization companies, real estate investment trusts, non-U.S. developed and emerging markets, and global equities (U.S. and non-U.S. developed market securities).

**Fixed income investments** represent the broad U.S. bond market, including government, corporate, treasury, and mortgage-backed securities.

**Cash and cash equivalents** include short-term investments. Cash and cash equivalents held by investment managers, as part of the long-term investment strategy of the Foundation, have been classified into the investment categories and amounted to \$18,081,233 and \$16,101,920 at December 31, 2006 and 2005, respectively.

Because of the uncertainty associated with the valuations of certain of the limited partnership interests and alternative investments, which are not readily marketable or do not have quoted market prices, the carrying values of such investments could differ had a ready market for such investments existed. Such difference could be material. The realization of the Foundation's investment in these limited partnership interests is dependent upon the general partner's distributions and operating performance during the life of each partnership.

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE D - CONTRIBUTIONS FROM THE ESTATE OF DORIS DUKE**

In accordance with the provisions of the Last Will and Testament of Doris Duke, the Foundation was named as the beneficiary of (i) certain specific bequests and (ii) the balance of the estate after making certain specific gifts to named beneficiaries and paying the debts, claims, and expenses associated with the administration of the estate as well as all estate or death taxes.

During 2005, the Foundation received the remaining qualifying distributions from the Estate of Doris Duke totaling \$1,500,000.

**NOTE E - SALE OF COLLECTIBLES**

The Doris Duke Collection of personal assets, which was bequeathed to the Foundation, has been gradually sold through auctions held primarily in 2004 by Christie's. The total cumulative proceeds from the sales of collectibles approximate \$34,000,000 and have resulted in an approximate net gain of \$19,000,000. During 2005, the Foundation realized a loss of \$146,239 on sales of collectibles. No gain or loss on the sales of collectibles was recognized during 2006. The remaining assets from the Estate of Doris Duke as of December 31, 2006 and 2005, totaled \$11,233,087 and \$11,656,476, respectively, and are reflected as collectibles in the accompanying consolidated balance sheets.

**NOTE F - PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, at December 31, 2006 and 2005, consisted of the following:

	2006	2005
Land	\$ 51,573,132	\$ 51,573,132
Buildings and improvements	38,167,225	36,631,246
Furniture and equipment	12,702,323	11,994,643
Leasehold improvements	3,769,005	2,307,793
	106,211,685	102,506,814
Less: Accumulated depreciation and amortization	(22,011,263)	(19,256,561)
	\$ 84,200,422	\$ 83,250,253

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE G - ACCRUED POSTRETIREMENT BENEFIT OBLIGATION**

The Foundation provides health benefits to substantially all of its employees. Upon retirement, employees may be eligible for continuation of these benefits. Amounts are accrued for such benefits during the years in which employees provide services to the Foundation.

The actuarial present value of the benefit obligation and the amount recognized in the consolidated balance sheets as of December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
<b>Change in benefit obligation:</b>		
Benefit obligation, beginning of year	\$ 10,061,537	\$ 8,803,232
Service cost	526,739	824,167
Interest cost	306,997	489,225
Plan participants' contributions	4,566	5,800
Amendments	-	(645,257)
Actuarial (gain) loss	(4,866,055)	791,230
Benefits paid	<u>(130,229)</u>	<u>(206,860)</u>
Benefit obligation, end of year	<u>\$ 5,903,555</u>	<u>\$ 10,061,537</u>
<b>Change in plan assets:</b>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	125,663	201,060
Plan participants' contributions	4,566	5,800
Benefits paid	<u>(130,229)</u>	<u>(206,860)</u>
Fair value of plan assets, end of year	<u>\$ -</u>	<u>\$ -</u>
<b>Components of accrued benefit cost:</b>		
Funded status	\$ (5,903,555)	\$(10,061,537)
Unamortized prior service cost	1,253,748	1,605,026
Unamortized actuarial net (gain) loss	<u>(2,778,358)</u>	<u>1,970,018</u>
Accrued benefit cost	<u>\$ (7,428,165)</u>	<u>\$ (6,486,493)</u>
<b>Components of net periodic benefit cost:</b>		
Service cost	\$ 526,739	\$ 824,167
Interest cost	306,997	489,225
Amortization of unrecognized prior service costs	<u>233,599</u>	<u>409,310</u>
Net periodic postretirement benefit cost	<u>\$ 1,067,335</u>	<u>\$ 1,722,702</u>
Discount rate for benefit obligation, end of year	5.90%	5.51%
Discount rate for net periodic benefit cost, end of year	5.51%	5.66%

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2006 and 2005

NOTE G (continued)

Future benefit payments to participants are expected to be as follows:

<u>Year ending December 31:</u>	<u>Amount</u>	
2007	\$	146,156
2008		156,113
2009		174,630
2010		206,829
2011		214,564
2012-2016		<u>1,546,269</u>
	\$	<u>2,444,561</u>
	<u>2006</u>	<u>2005</u>
<b>Assumed Pre-65 medical trend rates at December 31:</b>		
Health care cost trend rate assumed next year	9.5%	10.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year rate reaches the ultimate trend rate	2014	2014
<b>Assumed Post-65 medical trend rates at December 31:</b>		
Health care cost trend rate assumed next year	7.5%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year rate reaches the ultimate trend rate	2012	2012
<b>Assumed prescription drug trend rates at December 31:</b>		
Health care cost trend rate assumed next year	12.0%	12.75%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year rate reaches the ultimate trend rate	2014	2014

The Foundation does not anticipate applying for the Medicare Part D prescription drug federal subsidy; therefore, the above disclosure does not reflect the impact of Medicare Part D. The Foundation's expense associated with this plan totaled \$941,672 and \$1,521,642, for 2006 and 2005, respectively.



Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2006 and 2005

NOTE G (continued)

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 ("SFAS No. 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The new statement revises the current reporting and certain required disclosures for pension and other postretirement plans. SFAS No. 158 will require the Foundation to recognize the funded status of its postretirement health plan in its consolidated balance sheets.

Adoption of SFAS No. 158 is required for fiscal 2007. The Foundation is currently in the process of assessing the impact of adoption of this new standard on its consolidated financial statements as of and for the year ending December 31, 2007.

NOTE H - GRANTS PAYABLE, NET

The following summarizes the changes in grants payable during 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year:		
DDCF	\$ 58,404,092	\$ 42,608,371
DDFIA	400,000	-
Present value discount	<u>(2,929,239)</u>	<u>(1,372,886)</u>
	<u>55,874,853</u>	<u>41,235,485</u>
Additions:		
Grants authorized:		
DDCF	46,503,590	64,289,875
DDF	12,000	-
DDFIA	605,921	977,414
Present value discount	<u>(1,059,220)</u>	<u>(2,613,812)</u>
	<u>46,062,291</u>	<u>62,653,477</u>
Deductions:		
Payments made:		
DDCF	(57,441,103)	(47,639,186)
DDF	(12,000)	-
DDFIA	(662,321)	(577,414)
Amortization of present value discount	<u>1,624,971</u>	<u>1,057,459</u>
	<u>(56,490,453)</u>	<u>(47,159,141)</u>
Rescinded grants:		
DDCF	<u>(108,000)</u>	<u>(854,968)</u>
	<u>(108,000)</u>	<u>(854,968)</u>
Balance, end of year:		
DDCF	47,358,579	58,404,092
DDFIA	343,600	400,000
Present value discount	<u>(2,363,488)</u>	<u>(2,929,239)</u>
	<u>\$ 45,338,691</u>	<u>\$ 55,874,853</u>

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2006 and 2005

NOTE H (continued)

The Foundation's grant commitments at December 31, 2006 and 2005 were discounted to present value by applying interest rate factors of 4.815% and 4.375%, respectively.

In 2006 and 2005, grants in the amount of \$351,730 and \$365,277, respectively, were refunded and netted with grants expense in the consolidated statements of activities.

Grants authorized but unpaid at December 31, 2006 are payable as follows:

<u>Year payable</u>	<u>Amount</u>
2007	\$ 24,995,934
2008	15,368,745
2009	3,790,000
2010	3,500,000
2011	<u>47,500</u>
	47,702,179
Less: Present value discount	<u>(2,363,488)</u>
	<u>\$ 45,338,691</u>

NOTE I - TAXES

DDCF and DDF are normally subject to a 2% federal excise tax on their net investment income, as defined, for tax purposes. However, the tax is reduced to 1% if certain conditions are met. DDCF did not qualify for the 1% federal excise tax in 2006 and 2005. DDCF and DDF made estimated payments at the 2% rate for 2006 and 2005. In addition, the Foundation is also subject to unrelated business income taxes on certain of its investment earnings. The Foundation had an unrelated business income tax credit of \$320,677 and \$253,997 for 2006 and 2005, respectively.

Deferred taxes principally arise from differences between the cost and fair value of investments. Since the qualification for the 1% tax is not determinable until the fiscal year in which net gains are realized, the deferred tax liability represents 2% of unrealized gains on investments.

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE I (continued)**

The accompanying consolidated financial statements reflect provisions for current and deferred federal and state excise taxes and unrelated business income as follows:

	<u>2006</u>	<u>2005</u>
Current federal and state excise taxes	\$ 3,899,003	\$ 5,063,460
Credit for unrelated business income taxes	<u>(320,677)</u>	<u>(253,997)</u>
Total current provision for taxes	<u>\$ 3,578,326</u>	<u>\$ 4,809,463</u>
Deferred federal and state excise taxes payable	<u>\$ 7,823,702</u>	<u>\$ 6,034,033</u>

In addition, the Code requires that certain minimum distributions be made in accordance with a specified formula. These amounts are required to be distributed by the end of the next calendar year. At December 31, 2006 and 2005, the Foundation had minimum distribution requirements of approximately \$85,000,000 and \$78,000,000, respectively. Management plans to satisfy these grant distribution requirements principally through grant disbursements.

**NOTE J - RELATED PARTY**

Newport Restoration Foundation ("NRF") was established as a not-for-profit foundation in 1968 in order to preserve and restore historic architecture of the eighteenth and early nineteenth centuries in Newport, Rhode Island. NRF currently owns 75 properties (not including Rough Point), of which 72 are historic homes rented to the general public. NRF and the Foundation have one trustee in common. In addition, in accordance with the Last Will and Testament of Doris Duke, in 1999 NRF received certain real and personal property located in Newport, Rhode Island, known as Rough Point, and certain real property located in Middletown, Rhode Island, valued at Doris Duke's date of death at approximately \$22 million. Annually, DDCF's Board of Trustees approves a grant to fund the operations of Rough Point. During 2006 and 2005, NRF was awarded \$2,275,000 and \$2,274,600, respectively, from DDCF.

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE K - LEASE COMMITMENT**

DDMF leases its office space located on the 18<sup>th</sup> and 19<sup>th</sup> floors of 650 Fifth Avenue, New York, New York. The existing 19<sup>th</sup> floor lease agreement was amended in 2005 (the “2005 Amendment”) to include the rental of a portion of the 18<sup>th</sup> floor and to extend the expiration date of the original lease for the 19<sup>th</sup> floor. The 2005 Amendment expires on June 30, 2016.

Certain of the Foundation’s operating leases contain annual escalations. In accordance with U.S. generally accepted accounting principles, rent expense is recognized on a straight-line basis, including future rent escalations, over the life of the lease rather than in accordance with the actual lease payments. Deferred rent expense represents the adjustment to future rents as a result of applying the straight-line method.

Future minimum rental commitments under these operating leases are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2007	\$ 549,918
2008	568,134
2009	734,577
2010	734,577
2011	754,980
2012 - 2016	<u>3,620,640</u>
	<u>\$ 6,962,826</u>

Rent expense for 2006 and 2005 totaled approximately \$553,000 and \$357,000, respectively.

**NOTE L - PENSION PLANS**

DDCF sponsors a 401(a) profit sharing plan with a 401(k) feature. Eligible employees may elect to have pretax contributions made to their participant accounts not to exceed federal allowable limits. The Foundation plans to make discretionary contributions to the 401(k) plan. Total pension expense under this 401(k) plan for 2006 and 2005 was \$1,124,012 and \$1,083,381, respectively. Participants are immediately vested in their account balance including the employer’s contribution portion and all earnings thereon.

Doris Duke Charitable Foundation and Related Entities

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

December 31, 2006 and 2005

**NOTE L (continued)**

DDCF also sponsors a Supplemental Employee Retirement Plan (the "Supplemental Plan") to provide certain employees of the Foundation with retirement benefits that are otherwise unavailable from the 401(k) qualified retirement plan established by DDCF. The Supplemental Plan is an unfunded (nonqualified) retirement plan which permits the employer to defer 15% of compensation, at the employees' direction, in excess of the Code's 401(a)(17) limitation for eligible employees. Pension expense relative to the Supplemental Plan was approximately \$54,000 and \$66,000 in 2006 and 2005, respectively. The annual limitation used in calculating the 2006 and 2005 pension expense was \$220,000 and \$210,000, respectively.

In 2006, DDCF adopted a 457(b) deferred compensation plan to provide certain employees of the Foundation with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation in 2006 was \$15,000.