



**DORIS DUKE CHARITABLE FOUNDATION  
AND RELATED ENTITIES**

Consolidated Financial Statements  
and Consolidating Schedules

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

The Board of Trustees  
Doris Duke Charitable Foundation:

We have audited the accompanying consolidated balance sheets of Doris Duke Charitable Foundation and related entities (the Foundation) as of December 31, 2003 and 2002, 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. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Doris Duke Charitable Foundation and related entities as of December 31, 2003 and 2002, and the changes in their net assets and their 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 consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 4 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual foundations and is not a required part of the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

**KPMG LLP**

March 5, 2004



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**DORIS DUKE CHARITABLE FOUNDATION  
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Consolidated Balance Sheets

December 31, 2003 and 2002

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Cash and cash equivalents	\$ 12,595,381	51,348,929
Investments (note 2)	1,471,998,159	1,192,057,614
Contributions receivable from the Estate of Doris Duke, net (note 3)	20,000,000	20,000,000
Contributions receivable from J. B. Duke 1917 Trust, net (note 4)	103	2,474,142
Mortgages and notes receivable, net	776,519	774,032
Other contributions receivable, net	2,950,260	2,582,833
Prepaid expenses	993,587	854,188
Other assets	24,836,911	24,769,118
Property and equipment, net (note 5)	81,720,414	78,589,014
Total assets	\$ 1,615,871,334	1,373,449,870
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,720,917	5,625,513
Grants payable (note 6)	52,074,970	79,279,707
Deferred federal excise tax payable (note 7)	4,510,000	—
Total liabilities	61,305,887	84,905,220
Net assets – unrestricted	1,554,565,447	1,288,544,650
Total liabilities and net assets	\$ 1,615,871,334	1,373,449,870

See accompanying notes to consolidated financial statements.

**DORIS DUKE CHARITABLE FOUNDATION  
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Consolidated Statements of Activities

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenues and (losses):		
Investment income:		
Dividends	\$ 14,721,922	15,969,800
Interest	<u>12,380,011</u>	<u>14,630,327</u>
	27,101,933	30,600,127
Less:		
Investment expenses	5,291,290	4,969,133
Provision for current taxes (note 7)	<u>600,556</u>	<u>885,845</u>
Net investment income	21,210,087	24,745,149
Contributions from the Estate of Doris Duke (note 3)	—	26,156,250
Change in value of contributions receivable from J. B. Duke 1917 Trust (note 4)	1,407,923	1,423,617
Change in value of other contributions receivable	580,327	(693,000)
Other revenues	<u>3,278,889</u>	<u>229,235</u>
	<u>26,477,226</u>	<u>51,861,251</u>
Expenses:		
Grants, net (note 6)	10,517,354	52,337,382
Program	17,824,257	18,296,767
Administration	<u>5,631,632</u>	<u>5,787,153</u>
	<u>33,973,243</u>	<u>76,421,302</u>
Investment gains (losses):		
Net realized gains (losses)	8,259,818	(65,952,739)
Net unrealized gains (losses), net (note 7)	<u>265,256,996</u>	<u>(77,911,497)</u>
Net investment gains (losses)	273,516,814	(143,864,236)
Increase (decrease) in net assets	266,020,797	(168,424,287)
Net assets at beginning of year	<u>1,288,544,650</u>	<u>1,456,968,937</u>
Net assets at end of year	<u>\$ 1,554,565,447</u>	<u>1,288,544,650</u>

See accompanying notes to consolidated financial statements.

**DORIS DUKE CHARITABLE FOUNDATION  
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Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	<b>2003</b>	<b>2002</b>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 266,020,797	(168,424,287)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	2,844,181	2,810,826
Net realized and unrealized (gains) losses on investments	(278,026,814)	144,524,867
Increase in contributions receivable from the Estate of Doris Duke	—	(26,156,250)
Change in value of contributions receivable from J. B. Duke 1917 Trust	(1,407,923)	(1,423,617)
Write-off of uncollectible mortgages and notes receivable	—	140,000
Change in value of other contributions receivable	(580,327)	693,000
Increase in mortgages and notes receivable	(2,487)	—
(Increase) decrease in prepaid expenses	(139,399)	1,475,196
(Increase) decrease in other assets	(67,793)	212,345
(Decrease) increase in accounts payable and accrued expenses	(904,596)	448,959
Increase in grants payable	(27,204,737)	(9,596,105)
Increase (decrease) in deferred federal excise tax payable	4,510,000	(660,631)
Net cash used in operating activities	(34,959,098)	(55,955,697)
Cash flows from investing activities:		
Purchase of investments	(559,493,937)	(643,889,524)
Proceeds from sale of investments	557,580,206	480,356,550
Purchase of property and equipment	(5,975,581)	(6,535,649)
Proceeds from sale of property and equipment	—	2,377
Net cash used in investing activities	(7,889,312)	(170,066,246)
Cash flows from financing activities:		
Amounts received from J. B. Duke 1917 Trust	3,881,962	225,806,231
Amounts received from the Estate of Doris Duke	—	20,000,000
Amounts received from a charitable remainder trust	212,900	—
Net cash provided by financing activities	4,094,862	245,806,231
Net (decrease) increase in cash and cash equivalents	(38,753,548)	19,784,288
Cash and cash equivalents at beginning of year	51,348,929	31,564,641
Cash and cash equivalents at end of year	\$ 12,595,381	51,348,929
Supplemental cash flow information:		
Cash paid for federal excise tax	\$ 466,000	315,000

See accompanying notes to consolidated financial statements.



**DORIS DUKE CHARITABLE FOUNDATION  
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Notes to Consolidated Financial Statements

December 31, 2003 and 2002

**(1) Organization and Summary of Significant Accounting Policies**

***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 left DDCF significant resources to support those interests in addition to a legacy of properties and collections.

DDCF's Board of Trustees controls two Delaware foundations which were established by Doris Duke during her lifetime and three operating foundations which were established through a Plan of Reorganization, which was effectuated in January 1999 (collectively, the Foundation). The following provides a summary of the foundations included in the consolidated financial statements. 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.

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 Foundation for Islamic Art***

Doris Duke Foundation for Islamic Art 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.

The not-for-profit corporation known as Doris Duke Foundation for Islamic Art (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.

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The not-for-profit corporation known as 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. The 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 chartered by the Board of Regents. The new organization has filed its Form 1023 and, has received a determination letter from the Internal Revenue Service.

***Doris Duke Management Foundation***

Doris Duke Management Foundation 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 DDCF and the foundations it controls. Doris Duke Management Foundation also serves as a centralized source of certain facilities and equipment, both shared and separate.

Doris Duke Management Foundation (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 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.

***Foundation for Southeast Asian Art and Culture***

Foundation for Southeast Asian Art and Culture owns Thai and Burmese objects and art. It is a private operating foundation 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.

The Board of Trustees approved the closing of the Foundation for Southeast Asian Art and Culture as of December 31, 2002. All remaining assets were transferred to DDF at December 31, 2002.

***Basis of Accounting***

The accompanying consolidated financial statements are presented on the accrual basis of accounting.



**DORIS DUKE CHARITABLE FOUNDATION  
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***Other Assets***

Other assets consisting of personal property transferred to the Foundation from the Estate of Doris Duke are recorded at fair value based upon appraisals.

***Use of Estimates***

The presentation 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 and expenses during the reporting period. Actual results could differ from those estimates.

***Investments***

Public securities are stated at fair value based upon quoted market prices. Marketable alternative investments are stated at fair value as reported by the managers and are based upon quoted market prices of the underlying assets when available. Investments in nonmarketable alternative investments are stated at fair value based upon information provided by the managers.

***Property and Equipment***

Property and equipment are stated at cost, or at appraised values if received from the Estate of Doris Duke. Building and improvements and 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 estimated useful life, whichever is shorter. The Foundation capitalizes computers with a unit price of \$5,000 or greater and property and equipment above \$2,500.

***Other Contributions Receivable***

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. Receivables and contribution revenues have been recognized at the present value of the estimated future benefits to be received when the trust assets are distributed.

***Grants***

Grants are recorded as an expense and liability of the Foundation when approved by the Foundation's Board of Trustees.

***Functional Allocation of Expenses***

The costs of operating the Foundation have been allocated among program-related investment 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 and expenses related to the farm operations, Middle Eastern arts, and Asian culture.



**DORIS DUKE CHARITABLE FOUNDATION  
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***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 to be cash equivalents. Short-term investments held by investment managers are, however, classified as investments. At December 2003 and 2002, the Foundation had \$11,236,026 and \$45,605,207, respectively, in money market funds.

***Financial Instruments***

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

**(2) Investments**

Investments at December 31, 2003 and 2002 consist of the following:

	<b>2003</b>		<b>2002</b>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
Equity investments	\$ 715,184,051	863,550,712	785,173,706	698,877,329
Marketable alternative investments	223,051,150	298,856,521	185,547,156	223,870,936
Nonmarketable alternative investments	13,181,862	16,339,266	7,289,194	7,489,526
Fixed income investments	325,256,083	323,426,635	258,165,667	261,720,262
Cash and equivalents	—	—	34,696	34,696
Subtotal	<u>1,276,673,146</u>	<u>1,502,173,134</u>	<u>1,236,210,419</u>	<u>1,191,992,749</u>
Interest and dividend receivable	1,991,047	1,991,047	725,838	725,838
Due to broker	(34,057,949)	(34,057,949)	(1,272,645)	(1,272,645)
Due from broker	1,891,927	1,891,927	611,672	611,672
Total	<u>\$ 1,246,498,171</u>	<u>1,471,998,159</u>	<u>1,236,275,284</u>	<u>1,192,057,614</u>

**DORIS DUKE CHARITABLE FOUNDATION  
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**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).

**Marketable alternative investments** include limited partnership interests whose underlying assets are readily marketable and include absolute return strategies (merger and convertible arbitrage, distressed debt, equity restructuring, real estate, and special situations) and long/short equity investments.

**Nonmarketable alternative investments** include limited partnership interests whose underlying assets are not readily marketable and include domestic and non-U.S. venture capital and private equity investments.

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

**Cash and equivalents** include short-term investments. Cash and equivalents that are held by the investment managers have been classified into the investment categories and amounted to \$78,892,109 and \$2,896,690, at December 31, 2003 and 2002, respectively.

**(3) 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 other beneficiaries and paying debts, claims, expenses of administration, and estate or death taxes.

At December 31, 2003, the net amount expected to be received from the Estate of Doris Duke is \$20,000,000. In 2003, the Foundation received no amounts from the Estate of Doris Duke. In 2002, the Foundation received \$20,000,000 from the Estate of Doris Duke. In 2002, the Foundation reevaluated the receivables from the estate and recognized approximately \$26.2 million of additional contributions from the Estate of Doris Duke, which included the additional amounts received and the revaluations.

**DORIS DUKE CHARITABLE FOUNDATION  
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Notes to Consolidated Financial Statements

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**(4) Contributions from J. B. Duke 1917 Trust**

The J. B. Duke 1917 Trust was created by James B. Duke in 1917 for the benefit of his daughter, Doris Duke. It was originally in trust with Farmer's Loan and Trust Company, now Citibank, N.A. At December 31, 2003 and 2002, the estimated fair value of the assets distributable to the Foundation by the J. B. Duke 1917 Trust was \$103 and \$2,474,142, respectively. In 2003, these assets consist of cash equivalents. The fair value of the contributions receivable fluctuated with changes in the investments, and as the J. B. Duke 1917 Trust receives income and pays expenses, the contribution receivable from the J. B. Duke 1917 Trust was adjusted accordingly.

The Foundation received qualifying distributions from the J. B. Duke 1917 Trust totaling \$3,881,962 in 2003 and \$12,276,795 in 2002. The trust initially reported to the Foundation that the qualifying distribution for 2002 was \$11,695,998 which was subsequently amended to \$12,276,795. During 2003 and 2002, the Foundation received total distributions of \$3,881,962 and \$225,806,231, respectively. The remainder of the J. B. Duke 1917 Trust at December 31, 2003 of \$103 was paid to DDCF in January 2004.

**(5) Property and Equipment**

Property and equipment at December 31, 2003 and 2002 consist of the following:

	<u>2003</u>	<u>2002</u>
Land	\$ 51,573,132	51,573,132
Building and improvements	31,792,614	27,445,918
Furniture and equipment	10,656,397	9,035,591
Leasehold improvements	1,802,334	1,802,334
	<u>95,824,477</u>	<u>89,856,975</u>
Accumulated depreciation and amortization	<u>(14,104,063)</u>	<u>(11,267,961)</u>
Property and equipment, net	<u>\$ 81,720,414</u>	<u>78,589,014</u>

**DORIS DUKE CHARITABLE FOUNDATION  
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Notes to Consolidated Financial Statements

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**(6) Grants Payable**

The following summarizes the changes in grants payable during 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year:		
DDCF	\$ 78,679,707	87,875,812
DDFIA	600,000	1,000,000
	<u>79,279,707</u>	<u>88,875,812</u>
Additions:		
Grants authorized:		
DDCF	15,560,471	53,011,886
DDF	—	479,709
DDFIA	—	1,150,000
	<u>15,560,471</u>	<u>54,641,595</u>
Deductions:		
Payments made:		
DDCF	(38,261,121)	(59,903,778)
DDF	—	(479,709)
DDFIA	(300,000)	(1,550,000)
	<u>(38,561,121)</u>	<u>(61,933,487)</u>
Rescinded grants – DDCF	<u>(4,204,088)</u>	<u>(2,304,213)</u>
Balance at end of year:		
DDCF	51,774,969	78,679,707
DDFIA	300,000	600,000
	<u>\$ 52,074,969</u>	<u>79,279,707</u>

In 2003, grants in the amount of \$839,029 were refunded and are netted with grants expense in the consolidated statements of activities.



**DORIS DUKE CHARITABLE FOUNDATION  
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Grants authorized but unpaid at December 31, 2003 are payable as follows:

	<b>Amount</b>
Year payable:	
2004	\$ 25,572,773
2005	14,032,855
2006	7,343,521
2007	2,220,607
2008	1,452,607
2009 and thereafter	1,452,607
	\$ 52,074,970

**(7) 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 qualified for the 1% federal excise tax in 2002. DDCF and DDF made estimated payments at 2% rate in 2003, and at the 1% and 2% rate in 2002, respectively. In addition, the Foundation is also subject to unrelated business income taxes on certain of its investment earnings.

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 of investments. There was no deferred tax liability at December 31, 2002 because the fair value of investments was less than cost on that date.

The accompanying consolidated financial statements reflect provisions for current and deferred federal excise tax (benefit) and taxes on unrelated business income as follows:

	<b>2003</b>	<b>2002</b>
Current federal excise tax	\$ 556,595	258,870
Provision for unrelated business income taxes	43,961	626,975
Total current provision for taxes	\$ 600,556	885,845
Deferred federal excise tax (benefit)	\$ 4,510,000	(660,631)

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, 2003, the Foundation had a minimum distribution requirement of approximately \$69,000,000 which included a \$3,881,962 distribution requirement relative to the J. B. Duke 1917 Trust. Management plans to satisfy the 2003 distribution requirement principally through grant disbursements and grants carried forward from the prior year in 2004.

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**(8) 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 73 properties, of which 68 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. The operations of Rough Point are funded by DDCF. In 2003 and 2002, NRF was awarded \$2,268,444 and \$3,247,697, respectively, from DDCF. NRF was awarded no grants from DDF in 2003, and grants of \$479,789 in 2002.

**(9) Lease Commitment**

DDMF is a party to a lease agreement on office space which expires on February 28, 2008. Future minimum rental commitments under this operating lease are as follows:

	<u>Amount</u>
Year ending December 31:	
2004	\$ 356,000
2005	356,000
2006	356,000
2007	356,000
2008	<u>60,000</u>
	<u>\$ 1,484,000</u>

Rent expense for 2003 and 2002 was approximately \$358,000 and \$331,000, respectively.

**(10) 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 2003 and 2002 was approximately \$1,043,000 and \$1,081,000, respectively. Participants are immediately vested in their and the employer's contribution portion and the earnings thereon.

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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 qualified retirement plan established by DDCF. The Supplemental Plan is an unfunded (nonqualified) retirement plan which permits the employer to defer 15% of compensation in excess of the Code's 401(a)(17) limitation for eligible employees. In 2003, pension expense relative to the Supplemental Plan was approximately \$60,000. In 2002, it was approximately \$65,000. The annual cap used in calculating the 2003 pension expense increased to \$200,000, from the previous limitation of \$170,000.