

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, 2005 and 2004

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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, 2005 and 2004 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 Auditing Standards Board of 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, 2005 and 2004 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.

Grant Thornton LLP

New York, New York
April 5, 2006

Doris Duke Charitable Foundation and Related Entities

CONSOLIDATED BALANCE SHEETS

As of December 31, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 17,450,758	\$ 12,164,916
Investments (Note C)	1,710,162,290	1,628,204,001
Contributions receivable from the Estate of Doris Duke, net (Note D)	-	783,052
Other contributions receivable, net	8,627,379	6,918,641
Prepaid expenses and other receivables	4,291,932	5,924,905
Other assets (Note F)	11,656,476	11,899,892
Property and equipment, net (Note G)	<u>83,250,253</u>	<u>82,358,054</u>
Total assets	<u>\$1,835,439,088</u>	<u>\$1,748,253,461</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,295,155	\$ 5,317,073
Grants payable, net (Note I)	55,874,853	41,235,485
Accrued postretirement benefit obligation (Note H)	10,061,537	8,803,232
Deferred Federal and state excise taxes payable (Note J)	<u>6,034,033</u>	<u>6,199,409</u>
Total liabilities	78,265,578	61,555,199
Net assets - unrestricted	<u>1,757,173,510</u>	<u>1,686,698,262</u>
Total liabilities and net assets	<u>\$1,835,439,088</u>	<u>\$1,748,253,461</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, 2005 and 2004

	2005	2004
Revenues:		
Investment income:		
Dividends	\$ 13,358,911	\$ 12,289,935
Interest	<u>10,451,916</u>	<u>9,314,076</u>
	23,810,827	21,604,011
Less:		
Investment expenses	5,884,163	6,052,094
Provision for Federal and state taxes (Note J)	<u>4,809,463</u>	<u>2,370,838</u>
Net investment income	13,117,201	13,181,079
Change in value of other contributions receivable	2,552,339	4,262,996
(Loss) gain on sale of collectibles (Note F)	(146,239)	19,161,503
Other revenues	<u>1,043,116</u>	<u>2,412,135</u>
Total revenues	<u>16,566,417</u>	<u>39,017,713</u>
Expenses:		
Grants	62,490,691	33,130,418
Program	20,340,224	21,194,884
Administration	<u>5,881,330</u>	<u>6,153,611</u>
Total expenses	<u>88,712,245</u>	<u>60,478,913</u>
Decrease in net assets before investment gains	<u>(72,145,828)</u>	<u>(21,461,200)</u>
Investment gains:		
Net realized gains	151,168,884	73,750,786
Net unrealized (losses) gains (Note J)	<u>(8,547,808)</u>	<u>83,225,437</u>
Net investment gains	<u>142,621,076</u>	<u>156,976,223</u>
Increase in net assets	70,475,248	135,515,023
Net assets, beginning of year	<u>1,686,698,262</u>	<u>1,551,183,239</u>
Net assets, end of year	<u>\$ 1,757,173,510</u>	<u>\$1,686,698,262</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, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Increase in net assets	\$ 70,475,248	\$ 135,515,023
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	2,696,141	2,660,159
Amortization of present value discount on grants payable	1,057,459	-
Discount allowance on grants payable	(2,613,812)	(1,372,886)
Amount received from the Estate of Doris Duke in excess of the receivable	(716,948)	-
Gain on sale of property and equipment	-	(86,795)
Losses (gains) on sale of collectibles	146,239	(19,161,503)
Net realized and unrealized gains on investments	(142,455,701)	(158,665,632)
Increase in mortgages and notes receivable	(53,995)	(402,160)
Change in value of contributions receivable	(1,834,675)	(4,012,996)
(Increase) decrease in interest, dividend and other receivables	(52,003)	2,129
Increase in due from brokers	(164,369,481)	(15,237,825)
Decrease (increase) in prepaid expenses	480,262	(20,537)
Decrease (increase) in other assets	97,179	(829,207)
Increase in due to brokers	140,711,991	10,555,007
Increase in accounts payable and accrued expenses	978,082	596,156
Increase in accrued postretirement benefit obligation	1,258,305	1,773,317
Increase (decrease) in grants payable	16,195,721	(9,466,599)
(Decrease) increase in deferred Federal and state excise taxes payable	(165,376)	1,689,409
Net cash used in operating activities	<u>(78,165,364)</u>	<u>(56,464,940)</u>
Cash flows from investing activities:		
Purchase of investments	(3,876,987,492)	(3,545,074,030)
Proceeds from sale of investments	3,961,194,394	3,552,214,509
Purchase of property and equipment	(3,588,340)	(3,405,148)
Proceeds from sale of property and equipment	-	194,144
Proceeds from sale of collectibles	1,206,707	32,843,334
Net cash provided by investing activities	<u>81,825,269</u>	<u>36,772,809</u>
Cash flows from financing activities:		
Amounts received from J.B. Duke 1917 Trust	-	103
Amounts received from charitable remainder trusts	125,937	44,615
Amounts received from the Estate of Doris Duke	1,500,000	19,216,948
Net cash provided by financing activities	<u>1,625,937</u>	<u>19,261,666</u>
Net increase (decrease) in cash and cash equivalents	5,285,842	(430,465)
Cash and cash equivalents, beginning of year	12,164,916	12,595,381
Cash and cash equivalents, end of year	<u>\$ 17,450,758</u>	<u>\$ 12,164,916</u>
Supplemental cash flow information:		
Cash paid for Federal and state excise taxes	<u>\$ 4,042,431</u>	<u>\$ 1,800,007</u>

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, 2005 and 2004

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.

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, 2005 and 2004

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 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.

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, 2005 and 2004

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, 2005 and 2004, 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.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

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. 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 limited partnerships are based on estimates and assumptions determined by the respective general partners and managers. The Foundation believes that such valuations are reasonable and appropriate.

5. *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 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.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE B (continued)

6. *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. 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 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.

7. *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.

8. *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 and expenses related to the farm operations, Middle Eastern arts, and Asian culture.

9. *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 are, however, classified as investments. At December 31, 2005 and 2004, the Foundation had \$15,774,237 and \$12,072,615, respectively, in money market funds which have been classified as cash equivalents.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE B (continued)

10. *Financial Instruments*

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

11. *Reclassifications*

Certain reclassifications were made to the 2004 presentation to conform to the 2005 consolidated financial statements.

NOTE C - INVESTMENTS

Investments at December 31, 2005 and 2004, consisted of the following:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Equity investments	\$ 665,960,158	\$ 810,796,430	\$ 791,729,962	\$ 985,889,187
Marketable alternative investments	434,743,392	578,206,217	254,695,674	359,783,828
Nonmarketable alternative investments	63,584,052	76,039,093	33,942,843	40,471,803
Fixed income investments	<u>245,957,837</u>	<u>246,905,343</u>	<u>262,914,977</u>	<u>267,553,469</u>
Subtotal	1,410,245,439	1,711,947,083	1,343,283,456	1,653,698,287
Interest, dividend and other receivables	2,040,921	2,040,921	1,988,918	1,988,918
Due to brokers	(185,324,948)	(185,324,948)	(44,612,957)	(44,612,957)
Due from brokers	<u>181,499,234</u>	<u>181,499,234</u>	<u>17,129,753</u>	<u>17,129,753</u>
Total	<u>\$ 1,408,460,646</u>	<u>\$ 1,710,162,290</u>	<u>\$ 1,317,789,170</u>	<u>\$ 1,628,204,001</u>

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.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE C (continued)

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.

Because of the uncertainty of valuations for certain of the underlying limited partnerships 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.

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 that are held by the investment managers, as part of the long-term investment strategy of the Foundation, have been classified into the investment categories and amounted to \$16,101,920 and \$11,494,430 at December 31, 2005 and 2004, respectively.

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 other beneficiaries and paying debts, claims, expenses of administration, and estate or death taxes.

During 2005 and 2004, the Foundation received the remaining qualifying distributions from the Estate of Doris Duke totaling \$1,500,000 and \$19,216,948, respectively.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE E - 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. The Foundation received the remaining qualifying distributions from the J.B. Duke 1917 Trust totaling \$103 in 2004.

NOTE F - SALE OF COLLECTIBLES

The Doris Duke Collection of personal assets, which was bequeathed to the Foundation, has been gradually sold through auctions held by Christie's and other sales. The total cumulative proceeds from the sales of collectibles are approximately \$34,000,000 and have resulted in an approximate net gain of \$19,000,000. During 2005 and 2004, the Foundation realized a loss of (\$146,239) and a gain of \$19,161,503, respectively, on sales of collectibles. Amounts owed the Foundation from Christie's totaled \$0 and \$1,165,900 at December 31, 2005 and 2004, respectively, and are included as part of prepaid expenses and other assets in the accompanying consolidated balance sheets. The remaining assets from the Estate of Doris Duke as of December 31, 2005 and 2004, totaled \$11,656,476 and \$11,899,892, respectively, and are reflected as other assets in the accompanying consolidated balance sheets.

NOTE G - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at December 31, 2005 and 2004, consisted of the following:

	2005	2004
Land	\$ 51,573,132	\$ 51,573,132
Buildings and improvements	36,631,246	34,331,451
Furniture and equipment	11,994,643	11,204,166
Leasehold improvements	<u>2,307,793</u>	<u>1,809,725</u>
	102,506,814	98,918,474
Less: accumulated depreciation and amortization	<u>(19,256,561)</u>	<u>(16,560,420)</u>
	<u>\$ 83,250,253</u>	<u>\$ 82,358,054</u>

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE H - 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 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, 2005 and 2004 is as follows:

	2005	2004
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 8,803,232	\$ 7,029,915
Service cost	829,967	871,132
Interest cost	489,225	419,822
Amendments	(645,257)	-
Actuarial loss	791,230	573,421
Benefits paid	(206,860)	(91,058)
Benefit obligation, end of year	<u>\$ 10,061,537</u>	<u>\$ 8,803,232</u>
Accrued postretirement benefit obligation	\$ 6,486,493	\$ 4,964,851
Unrecognized prior service cost	1,605,026	2,601,561
Unrecognized actuarial net loss	1,970,018	1,236,820
Benefit obligation, end of year	<u>\$ 10,061,537</u>	<u>\$ 8,803,232</u>
Components of net periodic benefit cost:		
Service cost	\$ 824,167	\$ 869,110
Interest cost	489,225	419,822
Amortization of unrecognized prior service costs	409,310	467,142
Net periodic postretirement benefit cost	<u>\$ 1,722,702</u>	<u>\$ 1,756,074</u>
Discount rate for benefit obligation, year-end	5.51%	5.66%
Discount rate for net periodic benefit cost, year-end	5.66%	6.01%
Assumed Pre-65 medical trend rates at December 31:		
Health care cost trend rate assumed next year	10.5%	5.9%
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	2011

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE H (continued)

	<u>2005</u>	<u>2004</u>
Assumed Post-65 medical trend rates at December 31:		
Health care cost trend rate assumed next year	8.0%	5.9%
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	2011
Assumed prescription drug trend rates at December 31:		
Health care cost trend rate assumed next year	12.75%	11.8%
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	2020

The Foundation's expense associated with this plan totaled \$1,521,642 and \$1,667,038, respectively, for 2005 and 2004.

NOTE I - GRANTS PAYABLE, NET

The following summarizes the changes in grants payable during 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Balance, beginning of year:		
DDCF	\$ 42,608,371	\$ 51,774,970
DDFIA	-	300,000
Present value discount	<u>(1,372,886)</u>	<u>-</u>
	<u>41,235,485</u>	<u>52,074,970</u>
Additions:		
Grants authorized:		
DDCF	64,289,875	36,001,071
DDFIA	977,414	-
Present value discount	<u>(2,613,812)</u>	<u>(1,372,886)</u>
	<u>62,653,477</u>	<u>34,628,185</u>

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE I (continued)

	<u>2005</u>	<u>2004</u>
Deductions:		
Payments made:		
DDCF	(47,639,186)	(43,973,170)
DDFIA	(577,414)	-
Amortization of present value discount	<u>1,057,459</u>	<u>-</u>
	<u>(47,159,141)</u>	<u>(43,973,170)</u>
Rescinded grants:		
DDCF	(854,968)	(1,194,500)
DDFIA	<u>-</u>	<u>(300,000)</u>
	<u>(854,968)</u>	<u>(1,494,500)</u>
Balance, end 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>

The Foundation's grant commitments at December 31, 2005 and 2004 were discounted to present value by applying interest rate factors of 4.375% and 3% percent, respectively.

In 2005 and 2004 grants in the amount of \$365,277 and \$3,267, respectively, were refunded and netted with grants expense in the consolidated statements of activities.

Grants authorized but unpaid at December 31, 2005 are payable as follows:

<u>Year payable</u>	<u>Amount</u>
2006	\$ 28,372,952
2007	17,762,256
2008	10,068,884
2009	<u>2,600,000</u>
	58,804,092
Less: discount to present value	<u>(2,929,239)</u>
	<u>\$ 55,874,853</u>

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE J - 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 2005 and 2004. DDCF and DDF made estimated payments at the 2% rate for 2005 and 2004. In addition, the Foundation is also subject to unrelated business income taxes on certain of its investment earnings. In 2005, the Foundation had an unrelated business income tax credit in the amount of \$253,997. In 2004, unrelated business income taxes totaled \$583,044.

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.

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

	<u>2005</u>	<u>2004</u>
Current Federal and state excise taxes	\$ 5,063,460	\$ 1,787,794
Provision for unrelated business income (credit) taxes	<u>(253,997)</u>	<u>583,044</u>
Total current provision for taxes	<u>\$ 4,809,463</u>	<u>\$ 2,370,838</u>
Deferred Federal excise taxes	<u>\$ 6,034,033</u>	<u>\$ 6,199,409</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, 2005 and 2004, the Foundation had a minimum distribution requirement of approximately \$78,000,000 and \$74,000,000, respectively. Management plans to satisfy the 2005 distribution requirement principally through grant disbursements and grants carried forward from the prior year during fiscal 2006.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE K - 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. The operations of Rough Point are funded by DDCF. NRF was awarded \$2,274,600 in 2005 and \$2,267,160 in 2004 from DDCF.

NOTE L - LEASE COMMITMENT

DDMF is a party to a lease agreement for office space on the 18th and 19th floors of 650 Fifth Avenue, New York, New York. The existing 19th floor lease agreement was amended in 2005 (the "2005 Amendment") to include the rental of a portion of the 18th floor and to extend the expiration date of the original lease for the 19th floor. The 2005 Amendment expires on June 30, 2016. Future minimum rental commitments under these operating leases are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2006	\$ 453,959
2007	549,918
2008	568,134
2009	734,577
2010	734,577
2011 and thereafter	4,375,619
	<u>\$ 7,416,784</u>

Rent expense for 2005 and 2004 totaled approximately \$357,000 and \$356,250, respectively.

Doris Duke Charitable Foundation and Related Entities

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2005 and 2004

NOTE M - 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 2005 and 2004 was \$1,083,381 and \$1,026,271, respectively. Participants are immediately vested in their and the employer's contribution portion and the earnings thereon.

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. Pension expense relative to the Supplemental Plan was approximately \$66,000 and \$64,000 in 2005 and 2004, respectively. The annual limitation used in calculating the 2005 and 2004 pension expense was \$210,000 and \$205,000, respectively.