

# **The Mary Duke Biddle Foundation**

Financial Report  
December 31, 2015

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## Independent Auditor's Report

Board of Trustees  
The Mary Duke Biddle Foundation  
Durham, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of The Mary Duke Biddle Foundation (the Foundation), which comprise the statements of financial position – modified cash basis as of December 31, 2015 and 2014, and the related statements of activities – modified cash basis and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements (collectively, financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Mary Duke Biddle Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Raleigh, North Carolina  
May 13, 2016

The Mary Duke Biddle Foundation

Statements of Financial Position – Modified Cash Basis  
December 31, 2015 and 2014

|   | 2015                 | 2014                 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Cash  | \$ 1,475,392         | \$ 571,158           |
| Investments (Note 2)  | 30,970,702           | 26,195,003           |
| Furniture and equipment, net of accumulated depreciation of<br>\$11,067 and \$10,692 in 2015 and 2014, respectively | 561                  | 937                  |
| Other assets  | 866                  | 2,127                |
|   | <u>32,447,521</u>    | <u>26,769,225</u>    |
| <b>Total assets</b>   | <b>\$ 32,447,521</b> | <b>\$ 26,769,225</b> |
| <b>Liabilities and Net Assets</b>   |                      |                      |
| Federal excise taxes payable (Note 3)   | \$ 50,196            | \$ 26,115            |
| Commitments (Notes 4, 5 and 6)  |                      |                      |
| Net assets – temporarily restricted   | <u>32,397,325</u>    | <u>26,743,110</u>    |
| <b>Total liabilities and net assets</b>   | <b>\$ 32,447,521</b> | <b>\$ 26,769,225</b> |

See notes to financial statements.

## The Mary Duke Biddle Foundation

### Statements of Activities – Modified Cash Basis Years Ended December 31, 2015 and 2014

|   | 2015             |                           |                  | 2014             |                           |                  |
|---|------------------|---------------------------|------------------|------------------|---------------------------|------------------|
|   | Unrestricted     | Temporarily<br>Restricted | Total            | Unrestricted     | Temporarily<br>Restricted | Total            |
| Support and revenue:                              |                  |                           |                  |                  |                           |                  |
| Contributions received                            | \$ -             | \$ 755,601                | \$ 755,601       | \$ -             | \$ 102,388                | \$ 102,388       |
| Investment revenue (Note 2):                      |                  |                           |                  |                  |                           |                  |
| Dividends   | -                | 444,628                   | 444,628          | -                | 636,028                   | 636,028          |
| Interest on corporate bonds                       | -                | 86,869                    | 86,869           | -                | 231,795                   | 231,795          |
| Interest on U.S. Government obligations           | -                | 31,556                    | 31,556           | -                | 89,981                    | 89,981           |
| Interest on cash held                             | -                | 4,017                     | 4,017            | -                | 270                       | 270              |
| Net realized gain on sale of investments (Note 2) | -                | 5,910,588                 | 5,910,588        | -                | 2,192,033                 | 2,192,033        |
| Net assets released from donor<br>restrictions    | 1,579,044        | (1,579,044)               | -                | 1,546,490        | (1,546,490)               | -                |
| <b>Total support and revenue</b>                  | <b>1,579,044</b> | <b>5,654,215</b>          | <b>7,233,259</b> | <b>1,546,490</b> | <b>1,706,005</b>          | <b>3,252,495</b> |
| Expenses:   |                  |                           |                  |                  |                           |                  |
| Grants, Duke University                           | 500,000          | -                         | 500,000          | 522,000          | -                         | 522,000          |
| Grants, North Carolina                            | 266,950          | -                         | 266,950          | 237,755          | -                         | 237,755          |
| Grants, New York                                  | 71,500           | -                         | 71,500           | 47,500           | -                         | 47,500           |
| Administrative (Note 4)                           | 625,216          | -                         | 625,216          | 673,235          | -                         | 673,235          |
| Federal excise taxes (Note 3)                     | 115,378          | -                         | 115,378          | 66,000           | -                         | 66,000           |
| <b>Total expenses</b>                             | <b>1,579,044</b> | <b>-</b>                  | <b>1,579,044</b> | <b>1,546,490</b> | <b>-</b>                  | <b>1,546,490</b> |
| <b>Change in net assets</b>                       | <b>-</b>         | <b>5,654,215</b>          | <b>5,654,215</b> | <b>-</b>         | <b>1,706,005</b>          | <b>1,706,005</b> |
| Net assets:                                       |                  |                           |                  |                  |                           |                  |
| Beginning   | -                | 26,743,110                | 26,743,110       | -                | 25,037,105                | 25,037,105       |
| Ending  | \$ -             | \$ 32,397,325             | \$ 32,397,325    | \$ -             | \$ 26,743,110             | \$ 26,743,110    |

See notes to financial statements.

The Mary Duke Biddle Foundation

Statements of Cash Flows – Modified Cash Basis  
Years Ended December 31, 2015 and 2014

|   | 2015                | 2014              |
|---|---------------------|-------------------|
| Cash flows from operating activities:   |                     |                   |
| Change in net assets  | \$ 5,654,215        | \$ 1,706,005      |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                     |                   |
| Net realized gain on sale of investments  | (5,910,588)         | (2,192,033)       |
| Depreciation  | 376                 | 624               |
| Changes in assets and liabilities:  |                     |                   |
| Other assets  | 1,261               | 1,773             |
| Federal excise taxes payable  | 24,081              | (1,411)           |
| <b>Net cash used in operating activities</b>  | <u>(230,655)</u>    | <u>(485,042)</u>  |
| Cash flows from investing activities:   |                     |                   |
| Purchase of investments   | (31,122,077)        | (11,075,557)      |
| Proceeds from sales and maturities of investments                                       | 32,256,966          | 11,671,746        |
| <b>Net cash provided by investing activities</b>  | <u>1,134,889</u>    | <u>596,189</u>    |
| <b>Net increase in cash</b>   | <b>904,234</b>      | <b>111,147</b>    |
| Cash:   |                     |                   |
| Beginning   | <u>571,158</u>      | 460,011           |
| Ending  | <u>\$ 1,475,392</u> | <u>\$ 571,158</u> |
| Supplemental disclosure of cash flow information:                                       |                     |                   |
| Cash payments for excise taxes  | <u>\$ 91,297</u>    | <u>\$ 67,411</u>  |

See notes to financial statements.

## The Mary Duke Biddle Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies

**Nature of operations:** The Mary Duke Biddle Foundation (the Foundation) is a private foundation created principally for the benefit of Duke University. In accordance with the terms of the Trust Agreement establishing the Foundation, at least one-half of the Foundation's grants must be distributed to Duke University. The Trust Agreement restricts the remainder of the Foundation's grants to religious, educational and charitable activities in the States of New York and North Carolina.

A summary of the Foundation's significant accounting policies follows:

**Basis of presentation:** The Foundation's accounts are maintained, and these statements are presented, on a modified cash basis method of accounting under which only contributions and income collected, expenses paid and assets, liabilities and net assets arising as a result of cash transactions are recognized. Therefore, unrealized net appreciation or depreciation on investments, accrued income and expenses (other than excise taxes), payables (including grants) and deferred expenses, which would be recognized under accounting principles generally accepted in the United States of America, and which may be material in amount, are not recognized in the accompanying financial statements.

All of the Foundation's net assets are considered to be temporarily restricted as the assets and related investment earnings must be used in accordance with the terms of the Trust Agreement.

**Use of estimates:** The preparation of financial statements in conformity with the modified cash basis of accounting 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.

**Cash:** The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits but believes such amounts are not exposed to significant credit risk.

**Investments:** Investments are carried at cost. Fair value amounts presented in Note 2 are based on information reported by the Foundation's investment managers. Guidance provided by the Financial Accounting Standards Board (FASB) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FASB Accounting Standards Codification (ASC) Topic 820 permits reporting entities, as a practical expedient, to estimate the fair value of their investments in certain entities that calculate net asset value (NAV) per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) by using NAV if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of FASB ASC Topic 946, Financial Services – Investment Companies, as of the reporting entity's measurement date. Examples of such investments, which are often referred to as alternative investments, include hedge funds, private equity funds, real estate funds, venture capital funds, commodity funds, offshore fund vehicles and funds of funds, as well as some bank common/collective trust funds and other similar funds.

The Foundation elects to use NAV as a practical expedient to estimate the fair value of its alternative investment. The investee fund manager calculates NAV using fair value estimates of the underlying securities and other financial instruments. The estimated fair values of these underlying investments, which may include private placements and other securities for which prices are not readily available, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation's alternative investment generally represents the amount the Foundation would expect to receive if it were to liquidate its investment, excluding any redemption charges that may apply.



## The Mary Duke Biddle Foundation

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Determining whether an investee fund manager has calculated NAV in a manner consistent with FASB ASC Topic 946 requires the Foundation to independently evaluate the fair value measurement process utilized to calculate the NAV. Such an evaluation is a matter of professional judgment and includes determining that an investee fund manager has an effective process and related internal controls in place to estimate the fair value of its investments that are included in the calculation of NAV. The Foundation's evaluation of the process used by investee fund managers includes initial due diligence, ongoing due diligence and financial reporting controls.

**Income taxes:** The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as a private foundation. The Foundation is also generally exempt from state income taxes under provisions of the North Carolina Nonprofit Corporation Act. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

**Subsequent events:** The Foundation has evaluated its subsequent events (events occurring after December 31, 2015) through May 13, 2016, which represents the date the financial statements were available to be issued.

#### Note 2. Investments

The following is an analysis of the investments by type at December 31, 2015 and 2014:

|                                    | 2015                 |                      | 2014                 |                      |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                    | Cost                 | Fair Value           | Cost                 | Fair Value           |
| Alternative investments            | \$ 30,970,702        | \$ 27,986,861        | \$ -                 | \$ -                 |
| Common stock                       | -                    | -                    | 9,959,335            | 12,248,426           |
| Corporate bonds                    | -                    | -                    | 3,791,985            | 3,904,762            |
| U.S. Government agency obligations | -                    | -                    | 2,855,424            | 2,898,266            |
| U.S. Government obligations        | -                    | -                    | 1,135,549            | 1,221,768            |
| Mutual funds                       | -                    | -                    | 7,605,165            | 9,333,969            |
| Cash held by investment manager    | -                    | -                    | 847,545              | 847,545              |
|                                    | <u>\$ 30,970,702</u> | <u>\$ 27,986,861</u> | <u>\$ 26,195,003</u> | <u>\$ 30,454,736</u> |

## The Mary Duke Biddle Foundation

### Notes to Financial Statements

#### Note 2. Investments (Continued)

The following table summarizes the investment returns for the years ended December 31, 2015 and 2014:

|   | Years Ended December 31, |                     |
|---|--------------------------|---------------------|
|   | 2015                     | 2014                |
| Reduction in unrealized appreciation*                         | \$ (7,243,574)           | \$ (1,235,285)      |
| Realized net gains  | 5,910,588                | 2,192,033           |
| Total net (losses) gains                                      | (1,332,986)              | 956,748             |
| Investment income   | 567,070                  | 958,074             |
| Total (loss) return   | <u>\$ (765,916)</u>      | <u>\$ 1,914,822</u> |
| Annual investment income yield (based on average fair values) | <u>1.94 %</u>            | <u>3.16 %</u>       |
| Annual total return yield (based on average fair values)      | <u>(2.62)%</u>           | <u>6.32 %</u>       |

\*These amounts are not recognized in the Foundation's financial statements prepared on the modified cash basis. The 2015 amount of \$7,243,574 is comprised of \$4,259,733 of previously disclosed unrealized appreciation which was realized during 2015 upon the liquidation and transfer of investments to the TIFF multi-asset fund and \$2,983,841 of unrealized losses arising during 2015.

**Market risk:** Market risk arises primarily from changes in the fair value of financial instruments. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the overall exposure to market risk.

**Concentrations of credit risk:** In February 2015, the Foundation's Board voted to liquidate the investment portfolio and transferred the resulting funds to The Investment Fund for Foundations (TIFF). Concurrent with this transaction, the Foundation realized a gain of approximately \$4,700,000 on the sale of investments.

At December 31, 2014, of the four mutual funds held, three represented 5 percent or more of the total fair value of investments at December 31, 2014. Two of the same funds represented 5 percent or more the total cost of investments at December 31, 2014. At December 31, 2015, all of the Foundation's investments were in the TIFF multi-asset fund.

The following presents a summary of the Foundation's investments reported at net asset value or its equivalent at December 31, 2015:

| Investment                  | Fair Value   | Unfunded Commitment | 2015                          |                      |                          |
|-----------------------------|--------------|---------------------|-------------------------------|----------------------|--------------------------|
|                             |              |                     | Other Redemption Restrictions | Redemption Frequency | Redemption Notice Period |
| Alternative investment fund |              |                     |                               |                      |                          |
| Multi-asset fund            |              |                     |                               |                      |                          |
| TIFF <sup>(a)</sup>         | \$27,986,861 | \$ -                | None                          | Daily                | None                     |

## The Mary Duke Biddle Foundation

### Notes to Financial Statements

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#### **Note 2. Investments (Continued)**

(a) This fund is available primarily to foundations, endowments, other 501(c)(3) organizations and certain other nonprofit organizations, which generally must have in excess of \$5 million in total assets to invest in this fund. The fund seeks to achieve a total return that, over a majority of market cycles, exceeds the Consumer Price Index plus 5 percent per annum by employing a globally diversified portfolio. The fund seeks an appropriate long-term asset mix for nonprofit organizations that seek to maintain the inflation-adjusted value of their assets while distributing 5 percent of these assets annually. There is a 0.50 percent redemption fee associated with this fund and redemptions from this fund may be delayed up to a maximum of seven business days.

#### **Note 3. Federal Excise Tax**

An annual federal excise tax is imposed on net investment income, including realized capital gains, of private foundations. The tax rate is 1 percent if qualifying distributions exceed net investment income. If such qualifying distributions do not exceed net investment income, a tax rate of 2 percent is imposed. The actual tax rate was 2 percent for 2015 and 2014.

#### **Note 4. Pension Plan**

The Foundation had a defined benefit plan that covered all of its employees who met the eligibility requirements. The plan provided benefits to eligible employees based upon 100 percent of their final three-year compensation, reduced for benefit service less than 25 years and reduced for benefits received from Duke University or Duke Hospital retirement plans.

During 2013, the Foundation Board approved the termination of the pension plan effective January 31, 2014. Participants were given the option of receiving a lump-sum payment or an annuity based on actuarially determined pension amounts as of the termination date.

The pension assets liquidated during May 2014 and were distributed to participants. Pension expense was \$0 and \$100,505 during 2015 and 2014, respectively.

During 2014, the Foundation established a SIMPLE IRA plan that covers all employees. Under the plan, the Foundation contributes fixed amounts annually that are based upon percentages of the participants' annual compensation. The total expense was \$6,330 and \$3,170 during 2015 and 2014, respectively.

#### **Note 5. Grant Commitments**

The Foundation is required by the IRC to make minimum charitable distributions based on the fair value of Foundation assets. The amount of any charitable distributions made in excess of the required amount in any year may be used to reduce the minimum amount of grants required to be distributed in future years, subject to a five-year carryover limitation. The failure to make the minimum charitable distribution could result in additional taxes and possible loss of the Foundation's tax exempt status. Minimum charitable distributions for 2016 are expected to approximate the actual amount of grant distributions made during 2015.

As of December 31, 2015 and 2014, the Foundation had open grant commitments totaling \$470,750 and \$500,000, respectively.

## **The Mary Duke Biddle Foundation**

### **Notes to Financial Statements**

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#### **Note 6. Operating Lease Commitments**

In August 2013, the Foundation entered into a noncancelable operating lease agreement to provide for the Foundation's office space. The lease agreement expires in July 2016 and management expects to expend \$18,566 during 2016 on this obligation. The Foundation is in negotiations to renew the lease and expects the terms of the renewal to be materially consistent with those of the current lease.

Total rent expense recognized during 2015 and 2014 associated with the Foundation's operating lease was \$31,286 and \$30,375, respectively. Rent expense is recognized in administrative expenses on the statements of activities – modified cash basis.

#### **Note 7. Contributions**

During 2014, the Foundation received \$102,388 from the terminating trusts of Mary Duke Biddle Trent Semans and recorded the proceeds as contributions received in the accompanying statements of activities – modified cash basis.

During 2012, the Foundation received title to certain property and a remainder interest in other properties from the estate. In anticipation of entering into a transaction with a disqualified person, the Foundation requested and received a private letter ruling from the U.S. Internal Revenue Service which concluded that the Foundation met the estate administration exception to self-dealing contained in IRC Section 53.5941(d)-1(b)(3) and therefore the transaction would not be considered an act of self-dealing under IRC Section 4941. Upon selling the property and remainder interest to the disqualified person during 2015, net proceeds of \$755,601 were received and recognized as contributions received in the accompanying statements of activities – modified cash basis.

**The Mary Duke Biddle Foundation**

**Statements of Activities Information – Modified Cash Basis  
Years Ended December 31, 2015 and 2014**

|                                      | <b>2015</b>       | <b>2014</b>       |
|--------------------------------------|-------------------|-------------------|
| Administrative expenses:             |                   |                   |
| Salaries                             | \$ 200,525        | \$ 195,933        |
| Investment fees                      | 180,884           | 78,656            |
| Audit, accounting and tax            | 54,023            | 61,488            |
| Rent                                 | 31,286            | 30,375            |
| Health insurance                     | 26,044            | 29,208            |
| Legal fees                           | 23,131            | 17,933            |
| Trustee stipend                      | 21,500            | 20,000            |
| Social Security/Medicare             | 13,384            | 13,146            |
| Bank fees                            | 12,490            | 47,342            |
| Travel                               | 11,233            | 8,006             |
| Retirement                           | 6,330             | 3,170             |
| Landscaping                          | 4,969             | 7,770             |
| Insurance directors and officers     | 4,308             | 4,656             |
| Consulting/computer support          | 3,616             | 476               |
| Office supplies                      | 2,072             | 2,395             |
| Depreciation                         | 376               | 624               |
| Pension plan expense                 | -                 | 100,505           |
| Pension plan administrative expenses | -                 | 15,832            |
| Other                                | 29,045            | 35,720            |
|                                      | <b>\$ 625,216</b> | <b>\$ 673,235</b> |