2018 Financials

THE DUKE ENDOWMENT

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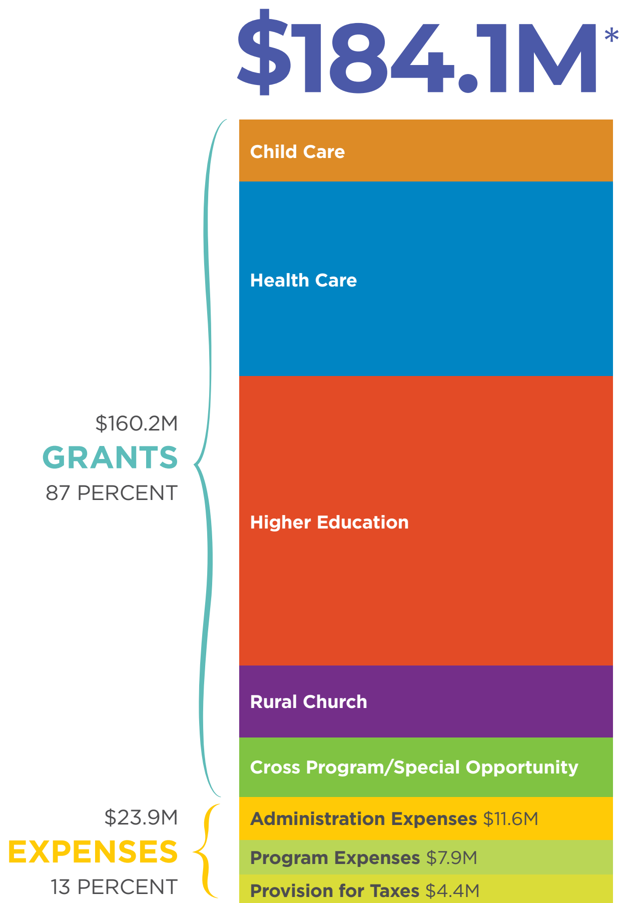
2018 Financials

Grants & Expenses

Since James B. Duke's death in 1925, the assets of The Duke Endowment have achieved significant growth, from $107 million to $3.61 billion. During the same time, approximately $3.8 billion has been distributed in grants.



*May not sum to total due to rounding

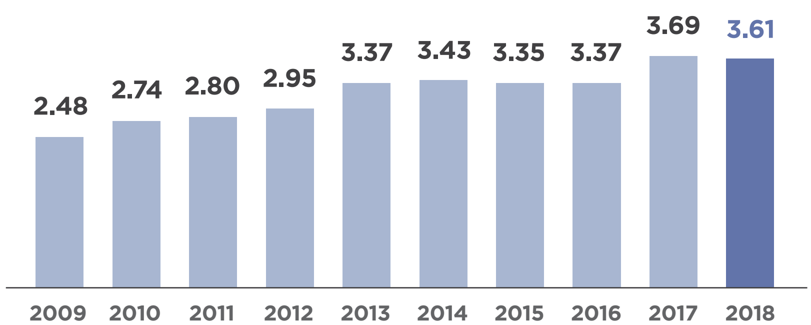
Investments

During 2018, the investment return on the Endowment's portfolio was 5.6 percent. Investment performance benefited from increases in hedged strategies and private investments. The Endowment's assets decreased in value from $3.69 billion to $3.61 billion from December 31, 2017, to December 31, 2018, due to investment returns, grants and expenses.

For the 10-year period ending December 31, 2018, the Endowment's investment portfolio, net of fees, returned 9.5 percent annualized, outperforming its policy benchmark, which was up 6.6 percent, and a 70 percent MSCI All Country World Index/30 percent Bloomberg Barclays U.S. Aggregate Bond Index benchmark, which was up 7.9 percent annualized over the same period.

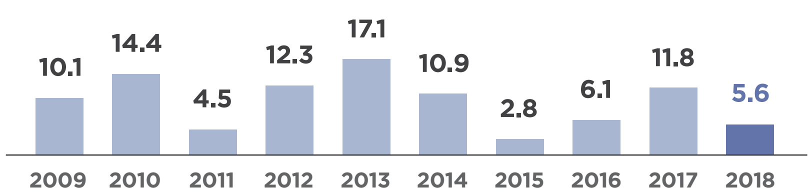
$3.61B

2018 TOTAL ASSETS (IN $ BILLIONS)



5.6%

2018 INVESTMENT RETURNS (PERCENT)



Grantmaking

Program	Distributed	New grants approved
Child Care	$17.7M distributed	$15,086,258 in new grants approved
Health Care	$43.2M distributed	$56,729,311 in new grants approved
Higher Education	$63.5M distributed	$99,200,000 in new grants approved
Rural Church	$16.6M distributed	$20,634,391 in new grants approved
Cross Program/ Special Opportunity	$19.2M distributed	$29,664,500 in new grants approved

Total Grantmaking

$160.2M* distributed

392 grants

$221.3M in new grants

198 new commitments

*May not sum to total due to rounding

Find more information about our grantmaking and audited financial statements at **dukeendowment.org.**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

BOARD OF TRUSTEES OF THE DUKE ENDOWMENT:

We have audited the accompanying financial statements of The Duke Endowment (the "Endowment") which comprise the Statement of Financial Position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes 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 audit. We conducted our audit 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 Endowment'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 Endowment'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 Duke Endowment as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter
As explained in Note 6, the financial statements include certain private equity investments valued at $1,182,933,488 or 33 percent of net assets as of December 31, 2018. The fair values of such investments have been estimated by management in the absence of readily determinable fair market values. Management's estimates are based on information provided by the fund managers or the general partners of the private equity investments. Our opinion is not modified with respect to this matter.

Report on 2017 summarized comparative information
We have previously audited the Endowment's 2017 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 17, 2018. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Charlotte, North Carolina
May 17, 2019

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 (WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2017)

ASSETS	2018	2017
Cash and cash equivalents	$ 18,580,910	$ 9,341,596
Securities transactions receivable	3,569,305	3,139,602
Investments, at fair market value (Note 6)	3,549,867,282	3,631,435,249
Land, building, furniture and equipment, net	39,691,537	41,148,089
Other assets	1,086,776	3,205,986
TOTAL ASSETS	**$ 3,612,795,810**	**$ 3,688,270,522**
LIABILITIES AND NET ASSETS		
Liabilities:		
Grants payable	$ 19,036,398	$ 25,220,192
Securities transactions payable	3,659,452	2,503,657
Notes payable	33,549,988	34,730,016
Net deferred excise tax liability	8,593,117	10,062,318
Other liabilities	16,160,758	16,805,768
TOTAL LIABILITIES	**$ 80,999,713**	**$ 89,321,951**
Net assets:		
Without donor restrictions	$ 2,597,663	$ 3,825,765
With donor restrictions		
Purpose restrictions	3,269,517,356	3,335,441,728
Restricted in perpetuity	259,681,078	259,681,078
TOTAL NET ASSETS	**$ 3,531,796,097**	**$ 3,598,948,571**
TOTAL LIABILITIES AND NET ASSETS	**$ 3,612,795,810**	**$ 3,688,270,522**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF ACTIVITIES

FOR THE PERIOD ENDED DECEMBER 31, 2018 (WITH SUMMARIZED AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017)

			TOTAL	
REVENUE (LOSS):	**WITHOUT DONOR RESTRICTIONS**	**WITH DONOR RESTRICTIONS**	**2018**	**2017**
Dividends and interest income, net	$ 38,944,529	$ —	$ 38,944,529	$ 39,143,009
Contributions received		6,450,000	6,450,000	—
Other income	289,392	—	289,392	198,492
Net realized gains on investment transactions	—	209,608,293	209,608,293	57,275,987
Loss on disposal of assets	(1,635)	—	(1,635)	—
(Decrease) increase in net unrealized appreciation on assets	—	(145,453,661)	(145,453,661)	368,610,356
TOTAL REVENUE	**$ 39,232,286**	**$ 70,604,632**	**$ 109,836,918**	**$ 465,227,844**
EXPENSES				
Administrative	$ 11,588,585	$ —	$ 11,588,585	$ 12,265,290
Program (grantmaking)	7,894,534	—	7,894,534	5,639,555
Provision for taxes	4,417,689	—	4,417,689	3,826,837
(Decrease) increase in pension and post retirement benefit obligation	(970,996)	—	(970,996)	2,886,031
TOTAL EXPENSES	**$ 22,929,812**	**$ —**	**$ 22,929,812**	**$ 24,617,713**
RELEASED FROM RESTRICTIONS (NOTE 3)	**136,529,004**	**(136,529,004)**	**—**	**—**
GRANTS APPROVED				
Education	$ 63,527,491	$ —	$ 63,527,491	$ 56,181,026
Health Care	43,016,643	—	43,016,643	38,989,784
Child Care	13,755,462	—	13,755,462	12,071,034
Superannuated Preachers	1,980,592	—	1,980,592	1,947,131
Building Rural Churches	83,000	—	83,000	443,000
Operating Rural Churches	13,960,958	—	13,960,958	12,194,580
Administrative Grants	323,500	—	323,500	940,000
Special Opportunities	17,411,934	—	17,411,934	13,022,863
TOTAL GRANTS APPROVED	**$ 154,059,580**	**$ —**	**$ 154,059,580**	**$ 135,789,418**
CHANGE IN NET ASSETS	**$ (1,228,102)**	**$ (65,924,372)**	**$ (67,152,474)**	**$ 304,820,713**
NET ASSETS AT BEGINNING OF YEAR	**$ 3,825,765**	**$ 3,595,122,806**	**$ 3,598,948,571**	**$ 3,294,127,858**
NET ASSETS AT END OF YEAR	**$ 2,597,663**	**$ 3,529,198,434**	**$ 3,531,796,097**	**$ 3,598,948,571**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2017)

CASH FLOWS FROM OPERATING ACTIVITIES	**2018**	**2017**
Change in net assets	$ (67,152,474)	$ 304,820,713
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expenses	1,553,749	1,550,834
Net realized gains on investment transactions	(209,608,293)	(57,275,987)
(Increase) decrease in net unrealized appreciation on assets	145,453,661	(368,610,356)
Changes in assets and liabilities:		
(Increase) decrease in securities transactions receivable	(429,703)	8,773,348
Decrease in other assets	2,119,210	154,163
(Decrease) increase in grants payable	(6,183,794)	3,444,250
Increase in securities transactions payable	1,155,795	226,103
(Decrease) increase in other liabilities	(645,010)	3,132,668
NET CASH USED IN OPERATING ACTIVITIES	**$ (133,736,859)**	**$ (103,784,264)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 2,058,758,116	$ 1,652,357,260
Disbursements for purchase of investments	(1,914,503,084)	(1,552,444,271)
Proceeds from sale of land, building, furniture and equipment	400	—
Disbursements for purchase of land, building, furniture and equipment	(99,231)	(98,259)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**$ 144,156,201**	**$ 99,814,730**
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	$ (1,180,028)	$ (1,135,876)
NET CASH USED IN FINANCING ACTIVITIES	**$ (1,180,028)**	**$ (1,135,876)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**$ 9,239,314**	**$ (5,105,410)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,341,596**	**14,447,006**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 18,580,910**	**$ 9,341,596**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for taxes	$ 4,417,689	$ 3,826,837
Cash paid during the year for interest	$ 1,325,856	$ 1,370,008

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 (WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2017 AND SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2017)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) ORGANIZATION

The Duke Endowment ("the Endowment") was established by James B. Duke by Indenture and Deed of Trust of Personalty, dated December 11, 1924, for specific charitable, educational and religious purposes. The Endowment is to have perpetual existence. Subsequently, additional amounts were contributed to the Endowment under Items VIII, X and XI of the Will of James B. Duke and by gifts from members of Mr. Duke's family. Additional amounts were also received from The Doris Duke Trust. The Endowment has been classified as a private foundation and, accordingly, is subject to federal excise taxes imposed on net investment income, including realized capital gains. The Endowment is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(B) DUMAC

On July 1, 2007, the Trustees of the Endowment entered into a formal agreement with Duke Management Company ("DUMAC"), an organization providing investment management services for the Duke University endowment assets, whereby Duke Management Company would perform investment management services on behalf of the Endowment.

Pursuant to the terms of the arrangement, DUMAC is compensated by the Endowment for its investment management services at a rate proportionate to the Endowment's share of the total investment assets managed by DUMAC in comparison to the total operating expenses of DUMAC, paid annually. For the years ending 2018 and 2017, the Endowment incurred investment management fees to DUMAC in the amount of $4,106,054 and $3,935,408, respectively. Such fees are netted against dividends and interest income within the accompanying statement of activities.

(C) METHOD OF ACCOUNTING

The Endowment presents its financial statements on an accrual basis in accordance with accounting principles generally accepted in the United States of America (US GAAP). Certain items are maintained on a cash basis, which is not materially different from the accrual basis of accounting.

During the years ended December 31, 2018 and 2017, the Endowment had leased certain office facilities and equipment. Such leases were operating leases and costs were expensed as incurred.

(D) BASIS OF PRESENTATION

The Endowment is required by the Indenture to use the interest and dividends (Endowment Income) earned on investments for purposes defined in the Indenture, subject to the defined authority of the Trustees to withhold Endowment Income. More specifically, the Endowment is required by the Indenture to distribute to Duke University a certain amount of Endowment Income from the Original Corpus, Corpus Item VIII and Corpus Item XI, subject to a limited right to withhold by the Trustees of the Endowment. The Indenture provides for additional Trustee discretion with respect to the disbursement of Endowment Income to Endowment beneficiaries other than Duke University and also to Duke University out of accounts other than the three Corpus accounts listed above. In accordance with terms of the Indenture, which established the Endowment, realized gains and losses arising from investment transactions are considered part of Corpus. For purposes of presentation within the financial statements, all Corpus accounts are classified as net assets with donor restrictions.

The Endowment has elected to implement the requirements of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). As a result of this implementation, the Trustees determined that they would classify as donor restricted net assets maintained in perpetuity (a) the original value of Original Corpus, Corpus VII and Corpus XI, plus (b) the original value of subsequent gifts to Corpus, less (c) distributions specified by the donor.

The net assets of the Endowment and changes therein are classified and reported as follows:

- Net Assets without Donor Restrictions — These amounts are free from donor restrictions and are available for appropriation to the beneficiaries of the Endowment or for similar charitable purposes in accordance with terms of the Indenture.

- Net Assets with Donor Restrictions — These funds are subject to donor restrictions that will be met by the actions of the Trustees for appropriation to the beneficiaries of the Endowment or for similar charitable purposes in accordance with terms of the Indenture or under circumstances described in Note 3. Using UPMIFA guidelines, the Trustees have determined that $259,681,078 be classified as net assets with donor restrictions maintained in perpetuity as of December 31, 2018 and 2017. For the same periods, the remaining balance of $3,269,517,356 and $3,335,441,728, respectively, represent the appreciation in the original values listed above.

Dividends and interest are reported as increases in net assets without donor restrictions. Realized and unrealized gains and losses are reported as increases or decreases in net assets with donor restrictions. Expenses and appropriations are recorded as decreases in net assets without donor restrictions.

NET ASSET CLASS	AS ORIGINALLY PRESENTED	AFTER ADOPTION OF ASU 2016–14
Unrestricted net assets	$ 2,597,663	$ —
Temporarily restricted net assets	3,269,517,356	—
Permanently restricted net assets	259,681,078	—
Net assets without donor restrictions	—	2,597,663
Net assets with donor restrictions	—	3,529,198,434
TOTAL NET ASSETS	**$ 3,531,796,097**	**$ 3,531,796,097**

The financial statements include certain prior-year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Endowment's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

(E) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and certain short-term interest-bearing investments held with banks for beneficiary and expense purposes. The Endowment maintains cash on deposit and the balance, at times, may be in excess of federally insured limits.

(F) SECURITIES TRANSACTIONS RECEIVABLE

Securities transactions receivable represents investment transactions that have been sold, but not settled. The Endowment recognizes investment transactions on a trade-date basis. Amounts are recognized in the statements of financial position at fair market value.

(G) INVESTMENTS

The Endowment accounts for investments under Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, through which the Endowment has elected to record investments at estimated fair market value with gains and losses included in the statements of activities. Realized gains and losses are recognized when securities are sold based on the first-in, first-out method.

(H) LAND, BUILDING, FURNITURE AND EQUIPMENT

Land, building, furniture and equipment owned by the Endowment are stated at cost at date of acquisition. Useful lives range from 39 years for buildings, 7 years for furniture and 5 years for technological equipment. Depreciation is calculated on the straight-line basis over the assets' estimated useful lives, except for land. The Endowment reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value. There was no impairment recognized for the years ended December 31, 2018 and 2017.

(I) GRANTS PAYABLE

The Endowment records grants payable once the Board of Trustees approves the grant. Once approved, each grantee organization must sign a grant agreement which stipulates guidelines and related requirements. The grantee must meet the terms of the signed grant agreement before funds are distributed.

(J) SECURITIES TRANSACTIONS PAYABLE

Securities transactions payable represents investment transactions that have been purchased, but not settled. The Endowment recognizes investment transactions on a trade-date basis. Amounts are recognized in the statements of financial position at fair market value.

(K) PROVISION FOR TAXES

The Endowment is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and is classified as a private foundation. Accordingly, the Endowment is subject to federal excise taxes imposed on net investment income, including realized gains. The annual federal excise tax, normally 2 percent, can be reduced to 1 percent of net investment income provided certain requirements are met. In 2018, management estimates that the Endowment will pay the 1 percent excise tax rate. In 2017, the Endowment was subject to the 2 percent excise tax rate.

In addition, the Endowment may be required to pay unrelated business income tax incurred through certain private equity investments. This tax is not material to the financial statements.

The Endowment records deferred excise taxes using the asset and liability method. Under this method, deferred excise taxes are determined based on temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to be in effect when such amounts are realized or settled.

(L) RISKS AND UNCERTAINTIES

A significant portion of the Endowment's assets are held in a variety of investment forms. Investment securities, and other investments, including alternative investments in general, are exposed to various risks, such as interest rate risk, credit risk, liquidity risk, foreign currency risk and overall market volatility. Additionally, certain of the Endowment's alternative investments contain redemption rights which may be restricted or eliminated by the underlying funds based on the provisions of the fund agreements. Alternative investment transactions are conducted primarily through secondary markets, and accordingly the risk exists that the secondary markets could experience fluctuations in liquidity and/or volume, which could impact the estimated fair value of these alternative investments.

Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities will occur and that such changes could materially affect the amounts reported in the financial statements.

(M) USE OF ESTIMATES

Management of the Endowment has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in preparing these financial statements in conformity with US GAAP. Actual results could differ from these estimates.

Significant items in the Endowment's financial statements subject to such estimates and assumptions include valuations for certain investments without readily determinable fair values, and actuarially determined benefit liabilities related to the Endowment's pension and other postretirement benefit plans.

(N) CHANGE IN ACCOUNTING PRINCIPLES

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016–14, Not-for-Profit Entities (Topic 958). The Endowment implemented ASU 2016-14 in the current year, applying changes retrospectively. The new standards change the following aspects of the financial statements:

- Temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class, "net assets with donor restrictions,"
- The unrestricted net asset class has been renamed net assets without donor restrictions,
- The statement of cash flows continues to be presented in the indirect method,
- The financial statements include a disclosure about liquidity and availability of resources presented in Note 4, and
- A statement of expense by nature and function as well as corresponding cost allocation methods is presented in Note 11.

(2) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been determined by the Endowment as follows:

Cash and cash equivalents, securities transactions receivable, and liabilities are carried at cost which approximates fair value because of the short maturity of these instruments.

Investments are carried at estimated fair value, which is generally based on year-end published quotations, except as discussed below.

Certain Endowment assets that are held in various alternative investments, including limited partnerships that invest in the securities of companies, hedge funds and other investments, may not be immediately liquid and do not have a readily determinable fair value, that is, instruments not listed on national exchanges or over-the-counter markets. The partnerships' general partners, who must follow the valuation guidelines stipulated in their respective limited partnership agreements, determine the fair value of such partnership investments. Given the inherent risks associated with this type of investment, there can be no guarantee that there will not be widely varying gains or losses on these limited partnership investments in future periods. For its alternative investments, the Endowment is eligible and has utilized the practical expedient method to measure fair value under generally accepted accounting principles. In accordance with the practical expedient method, the net asset value (NAV) reported by the underlying alternative investment is concluded to represent the fair value.

(3) RELEASE FROM RESTRICTION

In December 2009, the Indenture was modified by court order to allow the Trustees to expend net assets with donor restrictions to the extent necessary in the judgment of the Trustees for the Endowment to make available to beneficiaries of the Endowment funds reasonably needed for purposes described in the Indenture, consistent with the fiduciary duty of the Trustees to preserve the Endowment in perpetuity. The modifications were not in effect until after the Trustees' final meeting of the year and did not affect the financial statements of the Endowment for years ended prior to January 5, 2010.

Under certain circumstances described above, the Trustees may be required to transfer net assets with donor restrictions to net assets without donor restrictions to the extent necessary to comply with the provisions set forth in Section 4942 of the Internal Revenue Code. As reported on the statement of activities, the Trustees determined that in 2018 and 2017 transfers of funds with donor restrictions in the amounts of $136,529,004 and $121,386,031, respectively, were required. Although the Endowment does not intend to transfer funds in excess of amounts approved for general expenditures as part of its annual budget process for operating expenditures and appropriations, Trustees could release additional funds from net assets with donor restrictions if necessary.

(4) LIQUIDITY

The Endowment manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. In addition, the Endowment invests cash in excess of daily requirements in short-term investments or fixed income securities. Although the Endowment does not intend to spend from its donor restricted net assets, other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from net assets with donor restrictions could be made available if necessary. However, donor restricted net assets contain investments with lock-up provisions that reduce the total investments that could be made available. Other than those amounts restricted in perpetuity, all other donor restricted net assets can be spent pursuant to the above limitations. To supplement working capital and investment commitments the Endowment has two line of credit agreements totaling $60,000,000 as of December 31, 2018, equally distributed between Wells Fargo Bank, N.A. and Morgan Stanley Bank, N.A. The borrowing interest rate charged by Wells Fargo Bank, N.A. is equal to the LIBOR Market Index Rate plus .75 percent. The borrowing interest rate charged by Morgan Stanley Bank, N.A. is a variable rate determined by market conditions at the time of borrowing. At December 31, 2018, there were no outstanding borrowings under these agreements. The line of credit agreements have varying expiration dates through fiscal 2023.

		2018
Total assets:		$3,612,795,810
Less:		
	Assets restricted in perpetuity	(259,681,078)
	Illiquid private investments and real assets	(1,472,311,091)
	Land, building, furniture and equipment, net	(39,691,537)
	Other assets	(1,086,776)
	Financial assets available within one year	**$1,840,025,328**

(5) PROVISION FOR TAXES AND DEFERRED EXCISE TAX LIABILITY

During 2018 and 2017, the Endowment recorded a provision for current year estimated excise taxes in the amounts of $4,417,689 and $3,826,837, respectively. This was allocated to the net change in net assets without donor restrictions. The Endowment's net deferred excise tax liability was $8,593,117 and $10,062,318 at December 31, 2018 and 2017, respectively, which primarily relates to unrealized gains on investments. The decrease in deferred excise tax liability was $1,469,201 and was allocated to unrealized appreciation in net assets with donor restrictions for 2018.

(6) INVESTMENTS

Investments are composed of the following:

At December 31, 2018, the Endowment received collaterals totaling $9,578,784 for financial instruments. As of December 31, 2017, ($5,575,899) were posted as collaterals for financial instruments and thus not readily available for use. Collaterals held are included in hedged strategies and short-term investments.

The Endowment's investment classes are described in further detail below. Classes include direct holdings, which are generally marketable securities, and interests in funds for which the related investment strategies are described.

	2018	
	COST	**MARKET**
Short-term investments	$ 342,581,105	$ 342,581,105
Fixed income	111,323,868	99,580,793
Equities	461,386,325	532,013,728
Hedged strategies	599,554,546	791,378,452
Private investments	646,895,259	1,182,933,488
Real assets	479,181,967	549,058,681
Other	49,674,999	52,321,035
	$ 2,690,598,069	**$ 3,549,867,282**

	2017	
	COST	**MARKET**
Short-term investments	$ 395,040,329	$ 395,040,329
Fixed income	67,038,399	63,469,934
Equities	444,901,110	675,401,312
Hedged strategies	619,220,742	849,295,030
Private investments	592,089,344	1,035,106,064
Real assets	468,212,926	587,903,290
Other	38,680,498	25,219,290
	$ 2,625,183,348	**$ 3,631,435,249**

Short-term investments include cash collateral, money market funds, short-term U.S. Treasury, agency, corporate and other highly liquid debt securities with an aggregate duration of less than a year.

Fixed income includes non-government U.S. and non-U.S. debt securities, funds holding similar securities and debt-based derivatives.

Equities include U.S. and non-U.S. stocks, equity-based derivatives and interests in funds that invest predominantly long but also short stocks.

Hedged strategies primarily include interests in funds that invest both long and short in U.S. and non-U.S. stocks, credit-oriented securities and arbitrage strategies. Virtually all of the Endowment's investments in these funds are redeemable, and the underlying assets of the funds are predominately marketable securities and derivatives.

Private investments primarily include interests in funds or partnerships that hold illiquid investments in venture capital, buyouts and credit. These funds typically have periods of 10 or more years during which committed capital may be drawn. Distributions are received through liquidation of the underlying assets of the funds, which are anticipated to occur over the next 4 to 10 years. Certain private placement securities may also be held.

Real assets include interests in funds or partnerships that hold illiquid investments in residential and commercial real estate, oil and gas production, energy, other commodities and related services businesses. These funds typically have periods of 10 or more years during which committed capital may be drawn. Distributions are received through liquidations of the underlying assets of the funds, which are anticipated to occur over the next 5 to 12 years. Additionally, certain liquid commodity- and real estate-related equities, private placement securities and related derivatives are included.

Other includes primarily other derivative instruments.

As of December 31, 2018 and 2017, redemption frequency and the corresponding notice period for all investments are shown within the table below. The values of the unfunded commitments included within the following table are as of December 31, 2018.

The Endowment measures fair value at the price expected to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance prioritizes the assumptions that market participants would use in pricing the asset or liability (the "inputs") into a three-tier fair value hierarchy. This fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs in which little or no market data exists, requiring enterprises to develop their own assumptions. Observable inputs that do not meet the criteria of Level 1 and include quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets and liabilities in markets that are not active, are categorized as Level 2. Level 3 inputs are those that reflect management's estimates about the assumptions market participants would use in pricing the asset or liability, based on the best information available in the circumstances. Alternative investments are typically valued using Level 3 inputs, and such inputs include information provided by the managers of the underlying funds.

ASSET CLASS	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY (IN DAYS) (IF CURRENTLY ELIGIBLE)[1]	REDEMPTION NOTICE PERIOD (IN DAYS)
Short-term investments	—	daily	1
Fixed income	—	1 to 30	1 to 30
Equities	—	1 to >365	1 to 90
Hedged strategies	1,200,000	1 to >365	30 to 180
Private investments	271,357,000	N/A	N/A
Real assets	177,981,000	N/A	N/A
Other	—	N/A	N/A

At December 31, 2018, $121,982,968, or 3.4 percent of the Endowment's total investments, are valued using Level 3 inputs. At December 31, 2017, $89,190,286 or 2.5 percent of the Endowment's total investments, are valued using Level 3 inputs. These items consisted of alternative investments in private equity funds as well as other alternative investments. The schedule below presents the Endowment's financial assets and financial liabilities that are recorded at fair value on a recurring basis, categorized by the level of inputs utilized in determining the fair value of each.[2] As of December 31, 2018 and 2017, the Endowment had no material financial assets or financial liabilities that were measured at fair value on a non-recurring basis.

[1] Based on current terms, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreement.

[2] Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Financial Position.

As of December 31, 2018:	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ITEMS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	INVESTMENTS REPORTED AT NAV
Equities	$ 532,013,728	$ 357,565,810	$ 27,089,697	$ —	$ 147,358,221
Fixed income	99,580,793	12,241,028	64,644,921	5,831,500	16,863,344
Private investments	1,182,933,488	673,483	—	102,199,914	1,080,060,091
Real assets	549,058,681	9,937,066	(2,025,675)	7,910,719	533,236,571
Hedged strategies	791,378,452	600,645	10,481,591	—	780,296,216
Short-term investments	342,581,105	—	342,581,105	—	—
Other	52,321,035	(522,156)	46,802,356	6,040,835	—
TOTAL ASSETS MEASURED ON A RECURRING BASIS	**$ 3,549,867,282**	**$ 380,495,876**	**$ 489,573,995**	**$ 121,982,968**	**$ 2,557,814,443**

As of December 31, 2017:	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ITEMS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	INVESTMENTS REPORTED AT NAV
Equities	$ 675,401,312	$ 420,543,954	$ 37,673,798	$ —	$ 217,183,560
Fixed income	63,469,934	7,900,585	55,569,349	—	—
Private investments	1,035,106,064	3,857,085	—	77,600,695	953,648,284
Real assets	587,903,290	30,860,550	18,078,426	5,548,756	533,415,558
Hedged strategies	849,295,030	729,665	20,639,245	—	827,926,120
Short-term investments	395,040,329	—	395,040,329	—	—
Other	25,219,290	1,255,210	17,923,245	6,040,835	—
TOTAL ASSETS MEASURED ON A RECURRING BASIS	**$ 3,631,435,249**	**$ 465,147,049**	**$ 544,924,392**	**$ 89,190,286**	**$ 2,532,173,522**

The Endowment has included a summary of the investment valuation methodologies in Note 2.

The following summarizes the relationship between cost and market value of investments:

	2018	2017
Gross unrealized gain, net of deferred excise tax	$ 1,096,634,151	$ 1,139,943,884
Gross unrealized loss	(245,918,302)	(143,774,374)
EXCESS OF MARKET OVER COST	**$ 850,715,849**	**$ 996,169,510**
(Decrease) increase in net unrealized appreciation on assets	(145,453,661)	368,610,356
Net realized gains from sale of investments	209,608,293	57,275,987
TOTAL NET GAIN	**$ 64,154,632**	**$ 425,886,343**
Net Investment income	39,072,030	39,143,009
TOTAL RETURN	**$ 103,226,662**	**$ 465,029,352**

The gross unrealized gains and losses include $39,738 and $20,073 relating to short-term investments at December 31, 2018 and 2017, respectively, which are recorded in cash and cash equivalents on the statements of financial position.

As discussed in Note 5, a provision for deferred excise taxes of $8,593,117 and $10,062,318 was also allocated to gross unrealized gain in 2018 and 2017, respectively.

At December 31, 2018 and 2017, Duke Energy Corporation common stock represented a concentration of approximately 2 percent of the Endowment's investments.

From time to time the Endowment will participate in a securities lending program. The Endowment loans certain investment securities for short periods of time in exchange for collateral, consisting mainly of cash and U.S. Government securities, equal to at least 102 percent of the fair value of the investment securities on loan. As of December 31, 2018 and 2017, there were no investment securities on loan.

As part of its investment strategy, the Endowment invests in certain derivative instruments, typically intended to economically hedge certain investment positions from fluctuations in market, rate, currency or other identified risks. During fiscal 2018 and 2017, the Endowment, or external investment managers on the Endowment's behalf, entered into swap agreements, futures contracts or forward contracts, and acquired warrants or rights to increase, reduce or otherwise modify investment exposures.

The Endowment's investment related derivative exposures, categorized by primary underlying risk, are as follows:

Primary underlying risk as of December 31, 2018:	LONG NOTIONAL	SHORT NOTIONAL	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	GAIN/LOSS
Equity Price[3]	$ 506,268,620	$ 271,961,458	$ 22,843,967	$ (43,320,569)	$ (57,217,882)
Interest Rate[4]	831,172,460	312,721,852	2,005,791	(783,973)	14,316
Commodity Price[5]	79,842,640	38,181,639	2,180,135	(2,060,225)	(7,202,683)
Credit[6]	971,635,220	383,318,699	52,780,020	(12,279,964)	(2,916,931)
Foreign Currency Exchange Rate[7]	83,774,315	461,880,857	6,679,683	(3,246,340)	19,723,492
TOTAL	**$ 2,472,693,255**	**$ 1,468,064,505**	**$ 86,489,596**	**$ (61,691,071)**	**$ (47,599,688)**

Primary underlying risk as of December 31, 2017:	LONG NOTIONAL	SHORT NOTIONAL	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	GAIN/LOSS
Equity Price[3]	$ 1,149,403,510	$ 804,703,330	$ 36,490,843	$ (26,167,111)	$ 41,321,092
Interest Rate[4]	86,430,079	451,924,195	1,049,734	(236,164)	(94,413)
Commodity Price[5]	91,258,357	6,654,016	1,406,868	(100,735)	627,562
Credit[6]	843,733,585	369,443,491	39,149,783	(10,971,106)	(4,861,989)
Foreign Currency Exchange Rate[7]	50,233,622	385,679,898	807,172	(10,808,125)	(34,312,031)
TOTAL	**$ 2,221,059,153**	**$ 2,018,404,930**	**$ 78,904,400**	**$ (48,283,241)**	**$ 2,680,221**

As part of relative value strategies, the Endowment and investment managers on the Endowment's behalf entered into credit default swap derivative transactions on investment grade and high yield securities which typically have terms of five years or less to buy and sell credit protection. At December 31, 2018 and 2017 the notional of protection sold was $800,765,125 and $810,196,594 and the notional of protection bought with identical underlying assets was $229,447,633 and $170,967,294, respectively. These instruments are included in the Credit line of the preceding table.

[3] Includes options, swaps, and futures contracts.

[4] Includes options, swaps, swaptions, and futures contracts.

[5] Includes options and futures contracts.

[6] Includes credit default swaps, swaptions, and credit total return swaps.

[7] Includes options, futures and forward contracts.

The Endowment's investment related derivative assets and liabilities at December 31, by counterparty, are as follows:

December 31, 2018:	ASSETS	LIABILITIES	CASH COLLATERAL PLEDGED (HELD)	NET AMOUNT
Counterparty A	$ 10,323,974	$ (26,713,066)	$ 17,640,000	$ 1,250,908
Counterparty B	12,403,227	(8,965,900)	(3,536,794)	(99,467)
Counterparty C	18,544,309	(8,223,022)	16,240,000	26,561,287
Counterparty D	26,330,577	(7,259,042)	(18,102,522)	969,013
Counterparty E	6,061,733	(2,577,365)	(3,274,800)	209,568
Counterparty F	3,827,385	(679,037)	(4,150,000)	(1,001,652)
Counterparty G	1,222,341	(621,695)	2,562,284	3,162,930
Counterparty H	5,502,177	(2,610,274)	(3,200,000)	(308,097)
Counterparty I	1,621,192	(1,283,184)	3,000,616	3,338,624
Counterparty J	277,673	(1,093,138)	710,000	(105,465)
Counterparty K	53,493	(1,572,722)	1,690,000	170,771
All Other Counterparties	321,515	(92,626)	—	228,889
TOTAL	**$ 86,489,596**	**$ (61,691,071)**	**$ 9,578,784**	**$ 34,377,309**

December 31, 2017:	ASSETS	LIABILITIES	CASH COLLATERAL PLEDGED (HELD)	NET AMOUNT
Counterparty A	$ 19,589,840	$ (8,080,224)	$ (7,351,253)	$ 4,158,363
Counterparty B	18,750,092	(6,227,752)	(13,844,218)	(1,321,878)
Counterparty C	12,781,655	(7,355,017)	14,440,000	19,866,638
Counterparty D	16,198,101	(8,952,724)	(7,160,000)	85,377
Counterparty E	1,583,717	(2,432,248)	565,900	(282,631)
Counterparty F	6,731	(3,880,890)	2,940,000	(934,159)
Counterparty G	3,597,731	(1,176,085)	3,433,672	5,855,318
Counterparty H	1,902,694	(5,111,944)	3,800,000	590,750
Counterparty I	1,052	(3,049,114)	620,000	(2,428,062)
Counterparty K	4,317,136	(1,836,238)	(3,020,000)	(539,102)
All Other Counterparties	175,651	(181,005)	—	(5,354)
TOTAL	**$ 78,904,400**	**$ (48,283,241)**	**$ (5,575,899)**	**$ 25,045,260**

(7) LAND, BUILDING, FURNITURE AND EQUIPMENT

Land, building, furniture and equipment, net, are summarized as follows at December 31:

	2018	2017
Land	$ 4,303,101	$ 4,303,101
Building	37,913,458	37,896,785
Furniture	2,269,118	2,239,362
Technological equipment	1,351,778	1,304,770
GROSS LAND, BUILDING, FURNITURE AND EQUIPMENT	**$ 45,837,455**	**$ 45,744,018**
Accumulated depreciation	(6,145,918)	(4,595,929)
NET LAND, BUILDING, FURNITURE AND EQUIPMENT	**$ 39,691,537**	**$ 41,148,089**

During 2018, the Endowment disposed of certain technological equipment, which had accumulated depreciation of $3,760.

(8) NOTES PAYABLE

On October 31, 2012, the Endowment (the "Issuer") entered into a $40,000,000 note purchase agreement with Massachusetts Mutual Life Insurance Company, MassMutual Asia Limited and C.M. Life Insurance Company (collectively the "Purchasers"), whereby the Endowment authorized the issue and sale of $40,000,000 aggregate principal amount of its 3.85 percent senior notes due October 31, 2037. The Endowment applied the proceeds of the sale of the notes to the construction of its headquarters located at 800 East Morehead Street, Charlotte, North Carolina and for other general organizational purposes.

The Endowment is required to make payments of principal, in the amounts specified in the note purchase agreement, on the unpaid balance thereof at the rate of 3.85 percent per annum, payable semiannually on the last day of April and October in each year commencing 2013. As of December 31, 2018, and December 31, 2017, the principal balance of the notes payable was $33,549,988 and $34,730,016, respectively, which approximates fair value.

Future maturities of the principal note payments are as follows:

	AMOUNT
2019	1,225,896
2020	1,273,547
2021	1,323,051
2022	1,374,479
2023	1,427,905
Thereafter	26,925,110
	$ 33,549,988

The note purchase agreement contains financial covenants customary for such transactions, including limits on minimum total net assets, maximum total indebtedness to total net assets and priority indebtedness. The Endowment was in compliance with its covenants as of December 31, 2018.

(9) CONTRIBUTION RECEIVED

On August 28, 2018, the Endowment entered into an agreement with Blue Meridian Partners, Inc. (BMPI), a 501(c)(3) public charity. Pursuant to the terms of the agreement, BMPI will invest up to $32.5 million for a period of up to 39 months in the Endowment's regional strategy — Get Ready Guilford Initiative. Because the Endowment is a Regional General Partner of BMPI, the Endowment's funding requirement is one half or $16.25 million of the total amount. The remaining funding requirement of $16.25 million will be funded by other partners of BMPI. In October 2018, the Endowment received its first contribution from BMPI totaling $6,450,000. These funds along with the Endowment's $6,450,000 totals $12,900,000 and will be used on the Get Ready Guilford Initiative, a strategy to break the cycle of intergenerational poverty in Guilford County, North Carolina.

(10) NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets with a purpose restriction consist of the following at December 31:

	2018	2017
Duke University under Original Corpus, Corpus Item VIII and Corpus Item XI	$ 682,964,118	$ 696,734,952
Other charitable purposes	2,586,553,238	2,638,706,776
DONOR RESTRICTED NET ASSETS — PURPOSE RESTRICTION	**$ 3,269,517,356**	**$ 3,335,441,728**

Donor restricted net assets that are restricted in perpetuity consist of the following at December 31:

	2018	2017
Duke University under Original Corpus, Corpus Item VIII and Corpus Item XI	$ 54,244,354	$ 54,244,354
Other charitable purposes	205,436,724	205,436,724
DONOR RESTRICTED NET ASSETS — RESTRICTED IN PERPETUITY	**$ 259,681,078**	**$ 259,681,078**

(11) FUNCTIONAL EXPENSES

The cost of program activities and administrative services have been summarized on a functional basis on the statement of activities. The statement of functional expense presents expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported within that functional area. Indirect expenses that benefit multiple functional areas have been allocated by the Endowment based upon square footage and headcount.

Expenses are reported on the statement of activities in natural categories. Functional expenses were categorized as follows:

2018			
TYPE	**ADMINISTRATIVE SERVICES**	**PROGRAM ACTIVITIES**	**TOTAL**
Compensation	$ 3,098,952	$ 2,889,318	$ 5,988,270
Employee benefits and payroll taxes	2,123,676	1,656,432	3,780,108
Professional fees	1,526,372	2,174,910	3,701,282
Office operation	749,265	434,149	1,183,414
Staff travel, conferences and meetings	120,944	188,644	309,588
Communications	602,867	—	602,867
Other expenses	486,292	551,081	1,037,373
Interest expense	1,326,468	—	1,326,468
Depreciation	1,553,749	—	1,553,749
	$ 11,588,585	**$ 7,894,534**	**$ 19,483,119**

2017			
TYPE	**ADMINISTRATIVE SERVICES**	**PROGRAM ACTIVITIES**	**TOTAL**
Compensation	$ 3,372,032	$ 2,830,413	$ 6,202,445
Employee benefits and payroll taxes	1,170,104	760,826	1,930,930
Professional fees	2,996,587	1,059,138	4,055,725
Office operation	764,111	365,997	1,130,108
Staff travel, conferences and meetings	160,243	175,735	335,978
Communications	456,769	—	456,769
Other expenses	396,038	447,446	843,484
Interest expense	1,398,573	—	1,398,573
Depreciation	1,550,833	—	1,550,833
	$ 12,265,290	**$ 5,639,555**	**$ 17,904,845**

(12) PENSION AND OTHER POSTRETIREMENT PLANS

The Endowment sponsors a noncontributory defined benefit pension plan covering all eligible employees, as defined under the plan. The benefits are based on years of service and the employee's average final creditable compensation. Contributions totaling $1,834,865 were made to the plan during 2018. No contribution to the plan was made during 2017. The benefit obligation as of December 31, 2018 and 2017 was $22,938,504 and $23,476,871, respectively, and the net pension liability, included in the other liabilities in the statements of financial position, was $9,649,815 and $10,620,811, respectively, based on actuarial assumptions at December 31, 2018 and 2017.

The Endowment also sponsors a defined contribution plan with the Endowment providing matching contributions equal to 100 percent of employee contributions up to 3 percent and 50 percent of employee contributions between 3 percent and 5 percent. All full-time employees are eligible after a three-month waiting period. Total Endowment contributions in 2018 and 2017 were $273,158 and $214,384, respectively.

The Endowment provides certain health care and life insurance benefits to retired employees. The accumulated postretirement benefit obligation at the latest measurement date of December 31, 2016 was $3,207,428. It was included in Other Liabilities on the Statement of Financial Position. At December 31, 2018, the Endowment determined that any additional liability for unfunded retirement benefits extended to retirees and to employees upon their retirement since the latest measurement date would not be material to its net assets.

(13) SUBSEQUENT EVENTS

The Endowment has evaluated its December 31, 2018 financial statements for subsequent events through May 17, 2019, the date the financial statements were available to be issued. The Endowment is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

James B. Duke

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