

**The Henry Luce Foundation, Inc.**

**Financial Statements**

**December 31, 2012**

**The Henry Luce Foundation, Inc.**

**Index**

**December 31, 2012**

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DONALD F. SCHERER

## Report of Independent Auditors

To the Board of Directors of  
The Henry Luce Foundation, Inc.

We have audited the accompanying financial statements of The Henry Luce Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of December 31, 2012, 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 risk 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 entity'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 entity'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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Henry Luce Foundation as of December 31, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of program and administrative expenses 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 audit 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.

*Quinn J. Flanagan & Co.*

May 22, 2013  
New York, NY

**The Henry Luce Foundation, Inc.**

**Statement of Financial Position**

**December 31, 2012**

**Assets**

Cash	\$ 861,478
Dividends and interest receivable	228,233
Investments	761,960,899
Furniture, fixtures and leasehold improvements, net of accumulated depreciation and amortization of \$728,139	848,193
Other assets	<u>494,208</u>
<b>Total assets</b>	<b><u><u>\$ 764,393,011</u></u></b>

**Liabilities and net assets**

Accounts payable and accrued expenses	\$ 564,982
Grants payable	20,609,993
Postretirement medical benefits	2,433,437
Unfunded supplemental pension	836,481
Deferred federal excise tax	<u>1,064,911</u>
<b>Total liabilities</b>	<b><u>25,509,804</u></b>
Unrestricted - Principal Fund	602,672,150
Temporarily restricted - Clare Boothe Luce Fund	67,865,693
Permanently restricted - Clare Boothe Luce Fund	<u>68,345,364</u>
<b>Total net assets</b>	<b><u>738,883,207</u></b>
<b>Total liabilities and net assets</b>	<b><u><u>\$ 764,393,011</u></u></b>

See notes to financial statements.

# The Henry Luce Foundation, Inc.

## Statement of Activities

Year Ended December 31, 2012

	Unrestricted		Temporarily	Permanently		
	Principal	Clare Boothe Luce Fund	Restricted Clare Boothe Luce Fund	Restricted Clare Boothe Luce Fund		Total
<b>Revenues, gains (losses) and other support</b>						
Dividends, interest and partnership losses	\$ (785,345)	\$ -	\$ (785,345)	\$ (229,802)	\$ -	\$ (1,015,147)
Unrealized appreciation on investments	35,989,407	-	35,989,407	8,325,322	-	44,314,729
Net realized gain on sale of investments	39,737,824	-	39,737,824	9,018,800	-	48,756,624
Less:						
Directly reported investment counseling and custody fees	(3,005,124)	-	(3,005,124)	(677,432)	-	(3,682,556)
Excise tax	(1,072,513)	-	(1,072,513)	(252,475)	-	(1,324,988)
Net assets released from restrictions:						
Satisfaction of Clare Boothe Luce Fund restrictions	-	6,406,311	6,406,311	(6,406,311)	-	-
<b>Total revenues, gains (losses) and other support</b>	<b>70,864,249</b>	<b>6,406,311</b>	<b>77,270,560</b>	<b>9,778,102</b>	<b>-</b>	<b>87,048,662</b>
<b>Expenses</b>						
Program:						
Grants	24,249,516	5,858,294	30,107,810	-	-	30,107,810
Other	364,568	57,140	421,708	-	-	421,708
	<u>24,614,084</u>	<u>5,915,434</u>	<u>30,529,518</u>	<u>-</u>	<u>-</u>	<u>30,529,518</u>
Administrative	5,116,679	490,877	5,607,556	-	-	5,607,556
<b>Total expenses</b>	<b>29,730,763</b>	<b>6,406,311</b>	<b>36,137,074</b>	<b>-</b>	<b>-</b>	<b>36,137,074</b>
<b>Change in net assets</b>	<b>41,133,486</b>	<b>-</b>	<b>41,133,486</b>	<b>9,778,102</b>	<b>-</b>	<b>50,911,588</b>
Net assets, beginning of year	561,538,664	-	561,538,664	58,087,591	68,345,364	687,971,619
<b>Net assets, end of year</b>	<b>\$ 602,672,150</b>	<b>\$ -</b>	<b>\$ 602,672,150</b>	<b>\$ 67,865,693</b>	<b>\$ 68,345,364</b>	<b>\$ 738,883,207</b>

See notes to financial statements

# The Henry Luce Foundation, Inc.

## Statement of Cash Flows

Year Ended December 31, 2012

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 50,911,588
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	105,914
Net realized gain on sale of investments	(48,756,624)
Unrealized appreciation on investments	(44,314,729)
Changes in operating assets and liabilities:	
Decrease in dividends and interest receivable	891,242
Increase in other assets	(195,020)
Decrease in accounts payable and accrued expenses	(66,968)
Increase in postretirement medical benefits	29,209
Decrease in unfunded supplemental pension	(66,803)
Decrease in grants payable	(405,868)
Increase in deferred federal excise tax	886,295
<b>Net cash used by operating activities</b>	<u>(40,981,764)</u>
<b>Cash flows from investing activities:</b>	
Purchases of investments	(642,346,935)
Proceeds from sales and maturities of investments	620,083,450
Net changes in cash equivalents	63,234,983
Purchases of furniture, fixtures, and leasehold improvements	<u>(26,046)</u>
<b>Net cash provided by investing activities</b>	<u>40,945,452</u>
<b>Net (decrease) in cash</b>	(36,312)
Cash, beginning of year	<u>897,790</u>
<b>Cash, end of year</b>	<u><u>\$ 861,478</u></u>
<b>Supplemental disclosure:</b>	
Federal excise taxes paid	<u><u>\$ 600,000</u></u>

See notes to financial statements

# **The Henry Luce Foundation, Inc.**

## **Notes to Financial Statements**

**December 31, 2012**

### **1. Organization**

The Henry Luce Foundation, Inc. (the “Foundation”) is a private, nonprofit organization incorporated under the Not-for-Profit Corporation Law of New York. The Foundation was formed in 1936 exclusively for charitable, religious, educational, scientific, literary and cultural purposes, as specified in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”), including making contributions to organizations which qualify as exempt organizations under Section 501(c)(3) of the Code. The primary source of the Foundation’s revenue is investment income.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Code. For 2012, federal excise taxes have been provided at the rate of 1% of net investment income in accordance with provisions of the Tax Reform Act of 1984. Net investment income for tax purposes includes dividends, interest and net realized gains on security transactions less related expenses. The Foundation’s deferred excise tax liability at December 31, 2012, computed in accordance with current regulations, has been recorded at 2% of the unrealized appreciation on investments.

The Internal Revenue Code provides that each year the Foundation must make certain minimum qualifying distributions equal to approximately 5% of the average fair value of its assets. The minimum distribution requirements for 2012 have been met.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

To comply with the terms of the last will and testament of Clare Boothe Luce, the Foundation established the Clare Boothe Luce Fund, which is dedicated exclusively to the funding of scholarships, fellowships and professorships in the areas of the sciences and engineering for women students and professors at educational institutions.

The last will and testament of Clare Boothe Luce provides that amounts paid in furtherance of the purposes of the Clare Boothe Luce Fund, set forth above, be paid solely from the income of such fund and that the entire income of such fund be expended in each annual fiscal period. Under section 513 of the Not-for-Profit Corporation Law of New York (N-PCL), a direction in a gift instrument that “only income” of an endowment fund may be expended - such as the direction in the last will and testament of Clare Boothe Luce - does not restrict the governing board of a not-for-profit corporation from appropriating the realized and unrealized net appreciation of such fund for expenditure in respect of the purposes for which an endowment fund is established.



# **The Henry Luce Foundation, Inc.**

## **Notes to Financial Statements**

**December 31, 2012**

### **2. Summary of Significant Accounting Policies (continued)**

Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted net assets are utilized to account for revenues and gains that are unrestricted in nature.
- Temporarily restricted net assets consist of the Clare Boothe Luce Fund's investment appreciation (realized and unrealized) which have not yet been expended in accordance with the Fund's purpose.
- Permanently restricted net assets consist of the amount of the bequest from Clare Boothe Luce, which must be kept intact in perpetuity.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

#### **Management's Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### **Concentration of Credit Risk**

Cash in financial institutions at times may be in excess of the Federal Deposit Insurance Corporation insurance limit. Management of the Foundation does not consider any such amounts to be at serious risk.

# **The Henry Luce Foundation, Inc.**

## **Notes to Financial Statements**

**December 31, 2012**

### **2. Summary of Significant Accounting Policies (continued)**

#### **Investments**

The Foundation invests using a total return approach with the primary objective being to preserve and, if possible, enhance its real (inflation-adjusted) value while providing a relatively stable (in real terms) stream of earnings for grant payments and expenses.

Investments in marketable equity securities, fixed income securities and mutual funds are carried at market value, which is generally based on the closing sales price on the last trading date in each year. The fair value of interest in limited partnerships ordinarily is the value determined by the general partner and agents based upon the valuation reported by the Fund Administrators in accordance with policies established by relevant limited partnerships.

Valuations provided to the Foundation by a limited partnership may be based upon estimated or unaudited reports, and may be subject to later adjustment or revision. Any such adjustment or revision will either increase or decrease the net asset value of the Foundation at the time the Foundation is provided with information regarding the adjustment. The Foundation does not expect to restate its previous net asset values to reflect an adjustment or revision by a limited partnership.

Realized and unrealized gains and losses are determined by a comparison of cost, determined by average cost method, with proceeds or market value, respectively.

#### **Income and Expenses**

Income is recorded when earned and expenses when incurred. For financial reporting purposes, grants are recorded at the time of approval by the Board of Directors.

#### **Cash**

For purposes of cash flows, the Foundation defines cash as cash held in checking accounts and operating money market accounts.

#### **Fixed Assets**

The Foundation capitalizes the cost of leasehold improvements and acquisitions of furniture and fixtures and depreciates and amortizes these costs using the straight-line method over the estimated useful lives or the life of the lease, whichever is shorter.

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 3. Federal Excise Tax

Deferred federal excise taxes are the result of unrealized appreciation on investments being reported for financial reporting purposes in different periods than for excise tax purposes.

The excise tax expense for the year ended December 31, 2012 is comprised of the following:

Current year provision	\$ 438,693
Deferred excise tax	<u>886,295</u>
	<u>\$ 1,324,988</u>

Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to 2009.

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 4. Investments

The fair value, cost and unrealized appreciation (depreciation) of investments at December 31, 2012 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds and cash held for investment	\$ 20,711,452	\$ 20,711,452	\$ -
Equity securities:			
Commingled or mutual funds			
Global	342,810,093	304,576,744	38,233,349
Emerging markets	50,138,247	45,000,000	5,138,247
Other	1,700,000	1,100,000	600,000
Fixed income securities:			
Managed accounts			
U.S. government	30,817,786	30,151,454	666,332
Commingled or mutual funds			
Global	20,557,655	14,640,409	5,917,246
Global fixed income hedge	25,895,546	26,000,000	(104,454)
Marketable alternative partnerships:			
Global	153,098,173	140,000,000	13,098,173
Liquidating	16,177,556	14,647,938	1,529,618
Non-marketable limited partnerships:			
Multi-strategy	37,624,823	36,373,616	1,251,207
Global distressed	16,019,250	12,967,716	3,051,534
Private equity	13,682,625	11,862,695	1,819,930
Venture	8,573,449	6,609,419	1,964,030
Natural resources	5,835,357	4,827,384	1,007,973
Liquidating	14,775,537	35,703,214	(20,927,677)
	<u>758,417,549</u>	<u>705,172,041</u>	<u>53,245,508</u>
Net pending trades	<u>3,543,350</u>	<u>3,543,350</u>	<u>-</u>
<b>Total Investments</b>	<u><u>\$ 761,960,899</u></u>	<u><u>\$ 708,715,391</u></u>	<u><u>\$ 53,245,508</u></u>

# **The Henry Luce Foundation, Inc.**

## **Notes to Financial Statements**

**December 31, 2012**

### **4. Investments (continued)**

The investments, other than the liquidating non-marketable limited partnerships, are co-investments of the Henry Luce Fund and the Clare Boothe Luce Fund, which hold approximately 81% and 19% of these co-investments, respectively.

During 2011, the Foundation re-evaluated its investment policy and made significant changes to the management and custody of its investments. A new overall investment advisor was hired in September 2011. In connection with this hiring, the Foundation modified its asset allocation strategy in 2011 and terminated relationships with many of its established investment managers in 2011 and the first half of 2012. A new custodian was hired as of January 1, 2012.

Global equity securities consist of two funds, the first with a fair value of \$327,537,524 can be redeemed monthly with 100 days' notice. The second fund has a fair value of \$15,272,569 and has daily liquidity with 10 days' notice.

Emerging markets securities consist of one fund with quarterly liquidity with 120 days' notice.

The investment listed as other in commingled or mutual funds under equity securities is an interest in royalties. There is only a limited secondary market for this investment.

Global fixed income securities consist of an investment in a global bond fund with monthly liquidity with ten days' notice. The global fixed income hedge is one fund with a 36 month rolling lock-up requiring 90 days' notice.

Global marketable alternative investment is a fund with quarterly liquidity with 90 days' notice.

Liquidating marketable alternative partnerships consist of funds previously under the direction of a manager who was terminated at the end of 2011. These amounts represent holdbacks on final liquidation or amounts that cannot yet be redeemed due to lockups. The Foundation anticipates these funds will be fully redeemed by the end of 2014.

Non-marketable limited investment partnerships consist of several components. The multi-strategy investment is two funds. The first fund, valued at \$31,470,523, has annual liquidity with 180 days notice. The second fund, valued at \$6,154,300, is illiquid and will be redeemed at the termination of the fund, which is in approximately 10 years. The investments in global distressed, private equity, venture and natural resources were funds invested in the last six years. They are illiquid and have terms remaining of five to seven years. The liquidating partnerships represent primarily private equity investments entered into in the late 1990's and early 2000's. They are currently winding down their affairs. The Foundation estimates they will be fully redeemed by 2014.

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 4. Investments (continued)

The unfunded commitments to these funds are as follows:

Multi-strategy	\$ 32,792,257
Global distressed	3,804,850
Private equity	20,964,501
Venture	4,300,000
Natural resources	4,375,000
	<u>\$ 66,236,608</u>

The Foundation follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based on input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

The fair value of some funds has been estimated using the Net Asset Value (“NAV”) as reported by the management of the fund. FASB guidance provides for the use of the NAV as a “practical expedient” for estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Foundation’s interest in the fund. Its classification within level 2 or 3 is based on the Foundation’s ability to redeem its interest in the near term.

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 4. Investments (continued)

Investments are categorized as follows:

	Level 1	Level 2	Level 3	Total
Money market funds and cash held for investment	\$ 20,711,452	\$ -	\$ -	\$ 20,711,452
Equity securities:				
Commingled or mutual funds				
Global	-	342,810,093	-	342,810,093
Emerging markets	-	50,138,247	-	50,138,247
Other	-	-	1,700,000	1,700,000
Fixed income securities:				
Managed accounts				
U.S. government	30,817,786	-	-	30,817,786
Commingled or mutual funds				
Global	-	20,557,655	-	20,557,655
Global fixed income hedge	-	-	25,895,546	25,895,546
Marketable alternative partnerships:				
Global	-	-	153,098,173	153,098,173
Liquidating	-	-	16,177,556	16,177,556
Non-marketable limited partnerships:				
Multi-strategy	-	-	37,624,823	37,624,823
Global distressed	-	-	16,019,250	16,019,250
Private equity	-	-	13,682,625	13,682,625
Venture	-	-	8,573,449	8,573,449
Natural resources	-	-	5,835,357	5,835,357
Liquidating	-	-	14,775,537	14,775,537
	<u>51,529,238</u>	<u>413,505,995</u>	<u>293,382,316</u>	<u>758,417,549</u>
Net pending trades	3,543,350	-	-	3,543,350
<b>Total Investments</b>	<b><u>\$ 55,072,588</u></b>	<b><u>\$ 413,505,995</u></b>	<b><u>\$ 293,382,316</u></b>	<b><u>\$ 761,960,899</u></b>

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 4. Investments (continued)

The change in Level 3 investments is as follows:

	Beginning of Year	Capital Additions	Income	Realized Gains	Unrealized Appreciation (Depreciation)	Capital Withdrawals	End of Year
Equity securities							
Commingled							
Other	\$ 1,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,700,000
Fixed income securities							
Commingled							
Global fixed income hedge	20,000,000	6,000,000	-	-	(104,454)	-	25,895,546
Marketable alternative partnerships							
Global	-	140,000,000	-	-	13,098,173	-	153,098,173
Liquidating	75,772,757	-	-	383,379	9,408,084	(69,386,664)	16,177,556
Non-marketable limited partnerships							
Multi-strategy	-	37,085,711	196,354	169,191	1,251,207	(1,077,640)	37,624,823
Global distressed	13,838,550	275,350	(355,311)	627,877	1,632,784	-	16,019,250
Private equity	9,043,020	5,662,500	(1,905,992)	1,197,095	1,649,857	(1,963,855)	13,682,625
Venture	6,896,700	1,840,000	(1,164,207)	426,071	867,330	(292,445)	8,573,449
Natural resources	3,747,018	2,600,000	(683,428)	669,833	221,905	(719,971)	5,835,357
Liquidating	15,857,776	39,855	218,700	1,368,267	(77,438)	(2,631,623)	14,775,537
<b>Total</b>	<b>\$ 146,855,821</b>	<b>\$ 193,503,416</b>	<b>\$ (3,693,884)</b>	<b>\$ 4,841,713</b>	<b>\$ 27,947,448</b>	<b>\$ (76,072,198)</b>	<b>\$ 293,382,316</b>

Investment fees of certain mutual funds, commingled funds and alternative investments are not reported separately. They are included in the net income or appreciation of the investment. The approximate amount of these fees was \$9.4 million in 2012.



# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 5. Furniture, Fixtures and Leasehold Improvements

Furniture, fixtures and leasehold improvements are as follows:

Furniture and fixtures	\$ 352,669
Leasehold improvements	<u>1,223,663</u>
	1,576,332
Less: accumulated depreciation and amortization	<u>(728,139)</u>
	<u><u>\$ 848,193</u></u>

### 6. Grants Approved and Grants Payable

The grants approved during 2012, before the change in discount of \$35,404 and grants payable at December 31, 2012 consisted of the following:

	<b>Grants Approved</b>	<b>Grants Payable</b>
<b>Principal Fund</b>		
American Art	\$ 5,787,000	\$ 1,787,000
Asia	6,057,631	4,232,000
Asian Studies & the Environment Initiative	1,850,000	960,000
East and Southeast Asian Archeology Initiative	-	557,000
Henry R. Luce Professors	-	175,000
HRL Initiative on Religion & International Affairs	3,980,650	2,845,500
Higher Education	104,200	242,500
75th Anniversary Initiative	-	500,000
Luce Scholars	570,535	-
Public Policy	395,500	100,000
Theology	4,772,000	4,102,125
Special Projects	100,000	-
Matching	395,854	118,612
Directors' Discretionary	<u>220,000</u>	<u>-</u>
<b>Total Principal Fund</b>	<u>24,233,370</u>	<u>15,619,737</u>
<b>Clare Boothe Luce Program for Women in Science and Engineering</b>	<u>5,839,036</u>	<u>5,029,830</u>
<b>Total</b>	<u><u>\$ 30,072,406</u></u>	<u><u>\$ 20,649,567</u></u>

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 6. Grants Approved and Grants Payable (continued)

At December 31, 2012, the unpaid grant liability is expected to be paid as follows:

#### Unpaid Grant Liability:

Years Ending December 31,

2013	\$ 13,350,915
2014	5,582,305
2015	1,514,617
2016	170,000
2017	31,730
	<hr/>
	20,649,567
Less: Discount to present value	(39,574)
	<hr/>
	<u>\$ 20,609,993</u>

Unpaid grants are recorded at the present value of future cash flows. The discount rate is determined during the year in which the grant is approved. At December 31, 2012, the Foundation has discounted the amount of unpaid grant liability by applying interest rate factors for grants from 1.51% to 0.26%.

### 7. Pensions

The Foundation has a qualified defined contribution pension plan that covers all full-time employees with a two-year vesting provision. Pension costs, representing 15% of compensation, are charged to expense currently and funded by monthly contributions. Pension expense under this plan was \$375,497.

Supplemental pension payments for former employees were \$121,000.

### 8. Postretirement Medical Benefits

The Foundation provides retiree medical insurance to employees retiring from the Foundation after attaining at least age 55 (age 65 if hired after January 1, 2009.) The percentage of insurance premiums paid varies with age at retirement and years of service to the Foundation.

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 8. Postretirement Medical Benefits (continued)

The present value of the estimated accrued benefits at December 31, 2012 was \$2,433,437. This amount has not been separately funded by the Foundation. Health insurance costs have been projected to increase at the rate of 5.00% per annum. A discount rate of 6.00% was applied.

Actual cash paid during 2012 was \$41,172.

The actual cash costs of this plan over the next ten years are estimated to be as follows:

2013	\$	59,533
2014		62,509
2015		77,762
2016		81,650
2017		112,474
2018-2022		<u>799,995</u>
		<u>\$ 1,193,923</u>

### 9. Lease Commitments

The Foundation has a lease for primary office space for a term of fifteen years which began on October 23, 2006 and will expire on October 22, 2021. Under the terms of the lease, the Foundation maintains a letter of credit in the amount of \$140,019 in lieu of a security deposit. Rent expense for this lease during 2012 was \$678,565.

The minimum lease commitment under this lease is as follows:

2013	\$	665,968
2014		675,930
2015		686,015
2016		696,355
2017		749,435
2018-2021		<u>3,042,153</u>
		<u>\$ 6,515,856</u>

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2012

### 10. Endowment

At December 31, the Foundation's endowment is categorized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted funds		\$ 67,865,693	\$ 68,345,364	\$ 136,211,057
Available for future spending and investment	\$ 625,749,842	-	-	625,749,842
<b>Total</b>	<b>\$ 625,749,842</b>	<b>\$ 67,865,693</b>	<b>\$ 68,345,364</b>	<b>\$ 761,960,899</b>

The changes in the endowment fund were as follows:

Balance, January 1, 2012	\$ 583,428,088	\$ 58,087,591	\$ 68,345,364	\$ 709,861,043
Revenues, gains (losses) and other support				
Dividends, interest and partnership losses	(785,345)	(229,802)	-	(1,015,147)
Unrealized appreciation	35,989,407	8,325,322	-	44,314,729
Realized gains	39,737,824	9,018,800	-	48,756,624
Directly reported investment counseling and custody fees	(3,005,124)	(677,432)	-	(3,682,556)
Excise tax	(1,072,513)	(252,475)	-	(1,324,988)
Total revenues, gains (losses) and other support	70,864,249	16,184,413	-	87,048,662
Expenses and appropriations for spending	(28,542,495)	(6,406,311)	-	(34,948,806)
Balance, December 31, 2012	<b>\$ 625,749,842</b>	<b>\$ 67,865,693</b>	<b>\$ 68,345,364</b>	<b>\$ 761,960,899</b>

### 11. Subsequent Events

In connection with the preparation of these financial statements the Foundation evaluated subsequent events after the statement of financial position date of December 31, 2012 through May 22, 2013, which was the date the financial statements were available to be issued.

**The Henry Luce Foundation, Inc.**  
**Supplemental Schedule of Program and Administrative Expenses**  
**Year Ended December 31, 2012**

	Unrestricted Principal Fund	Clare Boothe Luce Fund	Total
<b>Program expenses</b>			
Grants	\$ 24,249,516	\$ 5,858,294	\$ 30,107,810
<b>Other program expenses</b>			
Luce Scholars	265,846	-	265,846
Asian Affairs	52,654	-	52,654
American Art	13,265	-	13,265
HRL Initiative on Religion and International Affairs	19,273	-	19,273
Theology	11,856	-	11,856
Other programs	1,674	57,140	58,814
<b>Total other program expenses</b>	<u>364,568</u>	<u>57,140</u>	<u>421,708</u>
<b>Total program expenses</b>	<u>24,614,084</u>	<u>5,915,434</u>	<u>30,529,518</u>
<b>Administrative expenses</b>			
Salaries	2,354,378	289,953	2,644,331
Pensions and related benefits	463,914	36,162	500,076
Insurance - employees' benefits	601,739	81,947	683,686
Payroll taxes	137,547	15,178	152,725
Rent	615,928	62,637	678,565
Professional fees	54,189	-	54,189
Directors' fees	270,000	5,000	275,000
Registration fees and dues	24,676	-	24,676
Travel and meetings	92,313	-	92,313
Computer, office supplies and maintenance	210,584	-	210,584
Publications/75th Anniversary	153,935	-	153,935
Depreciation and amortization	105,914	-	105,914
Insurance and sundry	31,562	-	31,562
<b>Total administrative expenses</b>	<u>5,116,679</u>	<u>490,877</u>	<u>5,607,556</u>
<b>Total expenses</b>	<u>\$ 29,730,763</u>	<u>\$ 6,406,311</u>	<u>\$ 36,137,074</u>