

The Henry Luce Foundation, Inc.

Financial Statements

December 31, 2008

The Henry Luce Foundation, Inc.

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December 31, 2008

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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 statement of financial position of The Henry Luce Foundation, Inc. (the "Foundation") as of December 31, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Henry Luce Foundation, Inc. as of December 31, 2008 and its changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purposes of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of program and administrative expenses is presented for additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

May 12, 2009



The Henry Luce Foundation, Inc.

Statement of Financial Position

December 31, 2008

Assets

Cash	\$ 361,454
Dividends and interest receivable	507,982
Investments	615,240,264
Furniture, fixtures and leasehold improvements, net of accumulated depreciation and amortization of \$272,548	1,208,969
Other assets	<u>1,045,333</u>
Total assets	<u>\$618,364,002</u>

Liabilities and net assets

Accounts payable and accrued expenses	\$ 258,232
Grants payable	29,321,276
Postretirement medical benefits	2,044,989
Unfunded supplemental pension	<u>919,577</u>
Total liabilities	<u>32,544,074</u>

Net assets

Unrestricted - Principal Fund	480,431,554
Temporarily restricted - Clare Boothe Luce Fund	37,043,010
Permanently restricted - Clare Boothe Luce Fund	<u>68,345,364</u>
Total net assets	<u>585,819,928</u>
Total liabilities and net assets	<u>\$618,364,002</u>

See notes to financial statements.

The Henry Luce Foundation, Inc.

Statement of Activities

Year Ended December 31, 2008

	Unrestricted Principal Fund	Clare Boothe Luce Fund	Total	Temporarily Restricted Clare Boothe Luce Fund	Permanently Restricted Clare Boothe Luce Fund	Total
Revenues, gains (losses) and other support						
Dividends and interest	\$ 12,629,797	\$ -	\$ 12,629,797	\$ 3,125,577	\$ -	\$ 15,755,374
Securities lending income	471,569	-	471,569	117,094	-	588,663
Unrealized depreciation on investments	(188,382,012)	-	(188,382,012)	(46,418,198)	-	(234,800,210)
Net realized loss on sale of investments	(13,961,542)	-	(13,961,542)	(4,205,703)	-	(18,167,245)
Less:						
Directly reported investment counseling and custody fees	(1,891,531)	-	(1,891,531)	(457,950)	-	(2,349,481)
Excise tax, net of recovery	1,349,184	-	1,349,184	367,540	-	1,716,724
Net assets released from restrictions:						
Satisfaction of Clare Boothe Luce Fund restrictions	-	7,556,420	7,556,420	(7,556,420)	-	-
Total revenues, gains (losses) and other support	<u>(189,784,535)</u>	<u>7,556,420</u>	<u>(182,228,115)</u>	<u>(55,028,060)</u>	<u>-</u>	<u>(237,256,175)</u>
Expenses						
Program:						
Grants	25,385,381	6,974,482	32,359,863	-	-	32,359,863
Other	495,319	69,046	564,365	-	-	564,365
	<u>25,880,700</u>	<u>7,043,528</u>	<u>32,924,228</u>	<u>-</u>	<u>-</u>	<u>32,924,228</u>
Administrative	4,754,495	512,892	5,267,387	-	-	5,267,387
	<u>30,635,195</u>	<u>7,556,420</u>	<u>38,191,615</u>	<u>-</u>	<u>-</u>	<u>38,191,615</u>
Change in net assets	(220,419,730)	-	(220,419,730)	(55,028,060)	-	(275,447,790)
Net assets, beginning of year	700,851,284	-	700,851,284	92,071,070	68,345,364	861,267,718
Net assets, end of year	<u>\$480,431,554</u>	<u>\$ -</u>	<u>\$480,431,554</u>	<u>\$ 37,043,010</u>	<u>\$68,345,364</u>	<u>\$585,819,928</u>

See notes to financial statements.

The Henry Luce Foundation, Inc.

Statement of Cash Flows

Year Ended December 31, 2008

Cash flows from operating activities:

Change in net assets	\$(275,447,790)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	118,553
Net realized loss on sale of investments	18,167,245
Unrealized depreciation on investments	234,800,210
Changes in operating assets and liabilities:	
Decrease in dividends and interest receivable	240,325
Increase in other assets	(903,430)
Decrease in accounts payable and accrued expenses	(338,221)
Increase in postretirement medical benefits	209,299
Increase in unfunded supplemental pension	18,383
Increase in grants payable	1,072,592
Decrease in deferred federal excise tax	<u>(1,993,322)</u>

Net cash used by operating activities (24,056,156)

Cash flows from investing activities:

Purchases of investments	(214,046,909)
Proceeds from sales and maturities of investments	252,056,778
Net changes in cash equivalents	<u>(13,823,544)</u>

Net cash provided by investing activities 24,186,325

Net increase in cash 130,169

Cash, beginning of year 231,285

Cash, end of year \$ 361,454

Supplemental disclosure:

Cash paid for federal excise tax \$ 1,100,000

See notes to financial statements.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

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 2008, federal excise taxes have been provided at the rate of 2% 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, 2008, computed in accordance with current regulations, is zero because the cost of investments exceeded their fair value.

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 2008 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, 2008

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, 2008

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. As a general matter, the fair value of the Foundation's interest in limited partnerships will represent the amount that the Foundation could reasonably expect to receive from the limited partnerships if the Foundation's interest were redeemed at the time of valuation, based upon information reasonably available at the time the valuation was made.

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.

Securities Lending

The Foundation may lend its securities to broker/dealers that have completed the Foundation's investment custodian's (State Street Bank) formal credit approval and review process. The loans are collateralized at all times with cash or securities with a market value at least equal to 102% of the market value of the securities on loan. Any deficiencies of collateral must be delivered or transferred by the borrowing firms no later than the close of business on the next business day. The Foundation receives compensation, net of related expenses, for lending its securities which is included in the Statement of Activities. At December 31, 2008, securities loaned by the Foundation had a total market value of \$39,851,648.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

2. Summary of Significant Accounting Policies (continued)

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.

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.

3. Investments

The fair value, cost, and unrealized appreciation (depreciation) of investments at December 31, 2008 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds and cash held for investment	\$ 19,604,198	\$ 19,604,198	\$ -
Equity securities:			
Managed accounts	117,010,168	148,237,977	(31,227,809)
Commingled or mutual funds	173,812,912	243,923,039	(70,110,127)
Fixed income securities:			
Managed accounts	30,190,222	29,469,523	720,699
Commingled or mutual funds	78,407,485	72,003,045	6,404,440
Real asset mutual funds	51,874,646	73,136,708	(21,262,062)
Marketable alternative partnerships	93,027,807	109,358,407	(16,330,600)
Limited partnerships	<u>51,367,047</u>	<u>54,695,709</u>	<u>(3,328,662)</u>
	615,294,485	750,428,606	(135,134,121)
Net pending trades	<u>(54,221)</u>	<u>(54,221)</u>	<u>-</u>
Total Investments	<u>\$615,240,264</u>	<u>\$750,374,385</u>	<u>\$(135,134,121)</u>

Money market funds and cash held for investment includes \$12.5 million that was added to global bond funds in January 2009.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

3. Investments (continued)

The assets above, other than those in limited partnerships, are co-investments of the Henry Luce Fund and the Clare Boothe Luce fund, which hold approximately 80.0% and 20.0% of these co-investments, respectively.

At December 31, 2008, the Foundation has commitments to invest up to approximately \$76.0 million in various limited partnerships over the next five years.

4. Fair Value of Investments

The Foundation adopted FASB Statement No. 157, *Fair Value Measurements*, ("SFAS 157") as of January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date.

SFAS 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level 1 Inputs

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. SFAS 157 requires entities to measure fair value using quoted market prices whenever available, unless the active market is not readily available to the entity (for example the entity holds a large block), in which case a Level 2 or Level 3 valuation methodology may be appropriate.

Level 2 Inputs

Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly with fair value being determined through the use

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

4. Fair Value of Investments (continued)

of models or other valuation methodologies. The types of investments which may be included in this category include less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 Inputs

Level 3 inputs are unobservable inputs for the asset or liability and are used to the extent that observable inputs do not exist. Level 3 inputs require significant management judgment and estimation. The types of investments which would generally be included in this category include equity and/or debt securities issued by private entities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Investments are categorized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>TOTAL</u>
Money market funds and cash				
held for investment	\$ 19,604,198	\$ -	\$ -	\$ 19,604,198
Equity securities:				
Managed accounts	117,010,168	-	-	117,010,168
Commingled or mutual funds	76,442,116	95,970,796	1,400,000	173,812,912
Fixed income securities:				
Managed accounts	30,190,222	-	-	30,190,222
Commingled or mutual funds	64,296,817	14,110,668	-	78,407,485
Real asset mutual funds	16,852,223	35,022,423	-	51,874,646
Marketable alternative				
partnerships	-	-	93,027,807	93,027,807
Limited partnerships	-	-	51,367,047	51,367,047
	<u>324,395,744</u>	<u>145,103,887</u>	<u>145,794,854</u>	<u>615,294,485</u>
Net pending trades	<u>(54,221)</u>	<u>-</u>	<u>-</u>	<u>(54,221)</u>
Total Investments	<u>\$324,341,523</u>	<u>\$145,103,887</u>	<u>\$145,794,854</u>	<u>\$615,240,264</u>

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

4. Fair Value of Investments (continued)

The change in Level 3 investments is as follows:

Beginning balance	\$169,989,282
Total gains (losses) included in earnings	(25,534,533)
Purchases and redemptions, net	<u>1,340,105</u>
 Ending Balance	 <u>\$145,794,854</u>

5. Grants Approved and Grants Payable

The grants approved during 2008, before the change in discount of \$275,553, and grants payable at December 31, 2008 consisted of the following:

	<u>Grants Approved</u>	<u>Grants Payable</u>
Principal Fund		
American Art	\$ 6,487,500	\$ 4,285,500
Asian Affairs	6,383,000	4,433,000
East and Southeast Asian Archeology Initiative	1,480,000	2,035,000
Luce Fund for Asian Studies	-	85,000
Luce Scholars	458,457	-
Higher Education	98,350	-
Henry R. Luce Professors	604,000	2,270,000
HRL Initiative on Religion & International Affairs	2,622,000	1,825,000
Theology	5,965,000	4,951,700
Environment	-	920,000
Public Policy	208,950	-
Special Projects	100,000	-
Matching	456,812	232,295
Directors' Discretionary	<u>260,000</u>	<u>44,500</u>
 Total Principal Fund	 <u>25,124,069</u>	 <u>21,081,995</u>
 Clare Boothe Luce Program for Women in Science and Engineering	 <u>6,960,241</u>	 <u>8,660,154</u>
 Total	 <u>\$32,084,310</u>	 <u>\$29,742,149</u>

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

5. Grants Approved and Grants Payable (continued)

At December 31, 2008, the unpaid grant liability is expected to be paid as follows:

Years Ending December 31,

2009	\$16,927,231
2010	7,909,228
2011	2,642,966
2012	1,290,990
2013	780,806
2014	<u>190,928</u>
	29,742,149
Less: Discount to present value	<u>(420,873)</u>
	<u>\$29,321,276</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, 2008, the Foundation has discounted the amount of unpaid grant liability by applying interest rate factors for grants from 1.45% to .55%.

6. Pensions

The Foundation has a qualified defined contribution pension plan with Diversified Investment Advisors, Inc. This plan 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 \$342,008.

Supplemental pension payments for former employees were \$96,000.

7. Postretirement Medical Benefits

The Foundation provides retiree medical insurance to employees retiring from the Foundation after attaining at least age 55. The percentage of insurance premiums paid varies with age at retirement and years of service to the Foundation.

The present value of the estimated accrued benefits at December 31, 2008 was \$2,044,989. This amount has not been separately funded by the Foundation. Health insurance costs have been projected to increase at rates of 8.5% next year and decreasing to 5% over the next seven years. A discount rate of 6.25% was applied. No amount has been included for Medicare reimbursement.

Actual cash paid during 2008 was \$16,163.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

7. Postretirement Medical Benefits (continued)

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

2009	\$ 40,486
2010	54,481
2011	51,112
2012	63,946
2013	67,667
2014-2018	<u>645,121</u>
	<u>\$922,813</u>

8. 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. As a result of the market decline in 2008, the cost of investments exceeded their fair value. Therefore, the Foundation's deferred excise tax liability at December 31, 2008 is zero.

The excise tax expense for the year ended December 31, 2008 is comprised of the following:

Current year provision	\$ 276,598
Deferred excise tax recovery (prior year liability no longer required)	<u>(1,993,322)</u>
	<u>\$(1,716,724)</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 \$186,692 in lieu of a security deposit. Rent expense for this lease during 2008 was \$594,081.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

9. Lease Commitments (continued)

The minimum lease commitment under this lease is as follows:

2009	\$ 578,658
2010	587,338
2011	605,863
2012	656,142
2013	665,968
2014-2021	<u>5,820,556</u>
	<u>\$8,914,525</u>

10. Furniture, Fixtures and Leasehold Improvements

Furniture, fixtures and leasehold improvements are as follows:

Furniture and fixtures	\$ 263,511
Leasehold improvements, net of landlord reimbursement of \$509,160	<u>1,218,006</u>
	1,481,517
Less: accumulated depreciation and amortization	<u>(272,548)</u>
	<u>\$1,208,969</u>

11. Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of each class of financial instruments are described below:

Cash - carry value approximates fair value

Dividends and interest receivable - carrying value approximates fair value due to short-term nature of the receivables

Investments - See notes 2, 3 and 4

Grants payable - carrying value approximates fair value - See note 5

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2008

12. Other Investment Fees

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 \$5,000,000 in 2008.

The Henry Luce Foundation, Inc.

Supplemental Schedule of Program and Administrative Expenses

Year Ended December 31, 2008

	Unrestricted Principal Fund	Clare Boothe Luce Fund	Total
Program expenses			
Grants	<u>\$25,385,381</u>	<u>\$6,974,482</u>	<u>\$32,359,863</u>
Other program expenses			
Luce Scholars	342,310	-	342,310
Asian Affairs	26,023	-	26,023
American Art	66,339	-	66,339
HRL Initiative on Religion and International Affairs	31,265	-	31,265
Theology	28,901	-	28,901
Other programs	<u>481</u>	<u>69,046</u>	<u>69,527</u>
Total other program expenses	<u>495,319</u>	<u>69,046</u>	<u>564,365</u>
Total program expenses	<u>25,880,700</u>	<u>7,043,528</u>	<u>32,924,228</u>
Administrative expenses			
Salaries	2,097,634	294,864	2,392,498
Pensions and related benefits	613,632	68,221	681,853
Insurance - employees' benefits	436,489	66,605	503,094
Payroll taxes	122,532	15,316	137,848
Rent	536,195	57,886	594,081
Professional fees	98,250	-	98,250
Directors' fees	302,500	10,000	312,500
Registration fees and dues	21,741	-	21,741
Travel and meetings	116,767	-	116,767
Computer, office supplies and maintenance	190,639	-	190,639
Depreciation and amortization	118,553	-	118,553
Move related expenses	64,757	-	64,757
Sundry	<u>34,806</u>	<u>-</u>	<u>34,806</u>
Total administrative expenses	<u>4,754,495</u>	<u>512,892</u>	<u>5,267,387</u>
Total expenses	<u>\$30,635,195</u>	<u>\$7,556,420</u>	<u>\$38,191,615</u>