

The Henry Luce Foundation, Inc.

Financial Statements

December 31, 2009

The Henry Luce Foundation, Inc.

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December 31, 2009

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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, 2009 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, 2009 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 19, 2010



The Henry Luce Foundation, Inc.

Statement of Financial Position

December 31, 2009

Assets

Cash	\$ 358,726
Dividends and interest receivable	428,146
Investments	714,870,953
Furniture, fixtures and leasehold improvements, net of accumulated depreciation and amortization of \$388,099	1,145,378
Other assets	<u>905,721</u>
Total assets	<u>\$717,708,924</u>

Liabilities and net assets

Accounts payable and accrued expenses	\$ 265,610
Grants payable	21,738,095
Postretirement medical benefits	2,201,367
Unfunded supplemental pension	903,284
Deferred federal excise tax	<u>255,916</u>
Total liabilities	<u>25,364,272</u>

Net assets

Unrestricted - Principal Fund	565,195,671
Temporarily restricted - Clare Boothe Luce Fund	58,803,617
Permanently restricted - Clare Boothe Luce Fund	<u>68,345,364</u>
Total net assets	<u>692,344,652</u>
Total liabilities and net assets	<u>\$717,708,924</u>

See notes to financial statements.

The Henry Luce Foundation, Inc.

Statement of Activities

Year Ended December 31, 2009

	Unrestricted		Temporarily Restricted		Permanently Restricted	
	Principal Fund	Clare Boothe Luce Fund	Total	Clare Boothe Luce Fund	Clare Boothe Luce Fund	Total
Revenues, gains (losses) and other support						
Dividends and interest	\$ 7,618,315	\$ -	\$ 7,618,315	\$ 1,802,212	\$ -	\$ 9,420,527
Securities lending income	192,473	-	192,473	47,358	-	239,831
Unrealized appreciation on investments	117,739,837	-	117,739,837	30,190,106	-	147,929,943
Net realized loss on sale of investments	(18,042,452)	-	(18,042,452)	(6,020,112)	-	(24,062,564)
Less:						
Directly reported investment counseling and custody fees	(1,550,834)	-	(1,550,834)	(374,341)	-	(1,925,175)
Excise tax	(218,834)	-	(218,834)	(113,424)	-	(332,258)
Net assets released from restrictions:						
Satisfaction of Clare Boothe Luce Fund restrictions	-	3,771,192	3,771,192	(3,771,192)	-	-
Total revenues, gains (losses) and other support	<u>105,738,505</u>	<u>3,771,192</u>	<u>109,509,697</u>	<u>21,760,607</u>	<u>-</u>	<u>131,270,304</u>
Expenses						
Program:						
Grants	15,899,285	3,189,520	19,088,805	-	-	19,088,805
Other	374,532	44,645	419,177	-	-	419,177
	<u>16,273,817</u>	<u>3,234,165</u>	<u>19,507,982</u>	<u>-</u>	<u>-</u>	<u>19,507,982</u>
Administrative	4,700,571	537,027	5,237,598	-	-	5,237,598
Total expenses	<u>20,974,388</u>	<u>3,771,192</u>	<u>24,745,580</u>	<u>-</u>	<u>-</u>	<u>24,745,580</u>
Change in net assets	84,764,117	-	84,764,117	21,760,607	-	106,524,724
Net assets, beginning of year	480,431,554	-	480,431,554	37,043,010	68,345,364	585,819,928
Net assets, end of year	<u>\$565,195,671</u>	<u>\$ -</u>	<u>\$565,195,671</u>	<u>\$58,803,617</u>	<u>\$68,345,364</u>	<u>\$692,344,652</u>

See notes to financial statements.

The Henry Luce Foundation, Inc.

Statement of Cash Flows

Year Ended December 31, 2009

Cash flows from operating activities:	
Change in net assets	\$106,524,724
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	115,551
Net realized loss on sale of investments	24,062,564
Unrealized appreciation on investments	(147,929,943)
Changes in operating assets and liabilities:	
Decrease in dividends and interest receivable	79,836
Decrease in other assets	139,612
Increase in accounts payable and accrued expenses	7,378
Increase in postretirement medical benefits	156,378
Decrease in unfunded supplemental pension	(16,293)
Decrease in grants payable	(7,583,181)
Increase in deferred federal excise tax	<u>255,916</u>
Net cash used by operating activities	<u>(24,187,458)</u>
Cash flows from investing activities:	
Purchases of investments	(133,338,260)
Proceeds from sales and maturities of investments	149,201,967
Net changes in cash equivalents	8,372,982
Purchases of furniture, fixtures, and leasehold improvements	<u>(51,959)</u>
Net cash provided by investing activities	<u>24,184,730</u>
Net decrease in cash	(2,728)
Cash, beginning of year	<u>361,454</u>
Cash, end of year	<u>\$ 358,726</u>
Supplemental disclosure:	
Cash paid for federal excise tax	<u>\$ -</u>

See notes to financial statements.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2009

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 2009, 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, 2009, 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 2009 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, 2009

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, 2009

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, 2009, securities loaned by the Foundation had a total market value of \$16,116,909.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2009

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.

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.

3. Investments

The fair value, cost, and unrealized appreciation (depreciation) of investments at December 31, 2009 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds and cash held for investment	\$ 11,231,216	\$ 11,231,216	\$ -
Equity securities:			
Managed accounts	125,870,865	113,257,405	12,613,460
Commingled or mutual funds	216,012,162	222,587,639	(6,575,477)
Fixed income securities:			
Managed accounts	20,073,686	19,187,021	886,665
Commingled or mutual funds	100,129,939	93,991,928	6,138,011
Real asset mutual funds	65,504,969	56,305,781	9,199,188
Marketable alternative partnerships	120,889,478	124,358,407	(3,468,929)
Non marketable limited partnerships	<u>55,157,992</u>	<u>61,155,088</u>	<u>(5,997,096)</u>
	714,870,307	702,074,485	12,795,822
Net pending trades	<u>646</u>	<u>646</u>	<u>-</u>
Total Investments	<u>\$714,870,953</u>	<u>\$702,075,131</u>	<u>\$ 12,795,822</u>

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2009

3. Investments (continued)

The marketable alternative partnerships consist of numerous partnership investments overseen and managed by one investment advisor. At December 31, 2009, the fair value shown above consisted of the following:

Partnership investments	\$ 95,433,717
Cash held by the advisor for future investment	10,553,817
Funds transferred to partnerships for investment effective January, 2010	11,450,000
Receivables for partnership withdrawals	3,723,093
Investment fees payable	<u>(271,149)</u>
	<u>\$120,889,478</u>

The investments, other than those in non marketable limited partnerships, are co-investments of the Henry Luce Fund and the Clare Boothe Luce fund, which hold approximately 80% and 20% of these co-investments, respectively.

At December 31, 2009, the Foundation has commitments to invest up to approximately \$73.2 million in various limited partnerships over the next five years. However, the Foundation estimates that approximately \$8.0 million of this amount will not be called by the partnerships.

4. Fair Value of Investments

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, 2009

4. Fair Value of Investments (continued)

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	\$ 11,231,216	\$ -	\$ -	\$ 11,231,216
Equity securities:				
Managed accounts	125,870,865	-	-	125,870,865
Commingled or mutual funds	92,318,853	121,993,309	1,700,000	216,012,162
Fixed income securities:				
Managed accounts	20,073,686	-	-	20,073,686
Commingled or mutual funds	21,395,934	78,734,005	-	100,129,939
Real asset mutual funds	22,197,501	43,307,468	-	65,504,969
Marketable alternative partnerships	-	-	120,889,478	120,889,478
Non marketable limited partnerships	-	-	<u>55,157,992</u>	<u>55,157,992</u>
	<u>293,088,055</u>	<u>244,034,782</u>	<u>177,747,470</u>	<u>714,870,307</u>
Net pending trades	<u>646</u>	<u>-</u>	<u>-</u>	<u>646</u>
Total Investments	<u>\$293,088,701</u>	<u>\$244,034,782</u>	<u>\$177,747,470</u>	<u>\$714,870,953</u>

The change in Level 3 investments is as follows:

	<u>Equity Commingled</u>	<u>Marketable Alternative</u>	<u>Non Marketable Limited Partnerships</u>	<u>Total</u>
Beginning balance	\$1,400,000	\$ 93,027,807	\$51,367,047	\$145,794,854
Total gains included, in earnings	300,000	12,861,671	3,270,182	16,431,853
Purchases and redemptions, net	<u>-</u>	<u>15,000,000</u>	<u>520,763</u>	<u>15,520,763</u>
Ending Balance	<u>\$1,700,000</u>	<u>\$120,889,478</u>	<u>\$55,157,992</u>	<u>\$177,747,470</u>

The equity commingled investment classified in level 3 does not have an active market. To liquidate this investment the Foundation would have to find a buyer on the secondary market. The non marketable limited partnerships do not permit redemptions. They must be held to term.

As mentioned in Note 3, the marketable alternative investments consists of various partnership investments under the direction of one investment advisor. Under an agreement with the Foundation, approximately 35% of the investment has quarterly liquidity with 90 days' notice. The balance is subject to a two year lock-up subject to renewal on December 31, 2010.

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2009

5. Grants Approved and Grants Payable

The grants approved during 2009, before the change in discount of \$172,620, and grants payable at December 31, 2009 consisted of the following:

	<u>Grants Approved</u>	<u>Grants Payable</u>
Principal Fund		
American Art	\$ 3,705,000	\$ 3,408,000
Asian Affairs	3,235,000	3,094,000
East and Southeast Asian Archeology Initiative	865,000	1,870,000
Luce Scholars	578,803	-
Higher Education	145,600	-
Henry R. Luce Professors	525,000	1,653,000
HRL Initiative on Religion & International Affairs	2,200,000	1,958,500
Theology	3,487,200	3,470,500
Environment	-	150,000
Public Policy	396,950	300,000
Special Projects	60,000	-
Matching	442,632	144,930
Directors' Discretionary	<u>220,000</u>	<u>16,000</u>
Total Principal Fund	<u>15,861,185</u>	<u>16,064,931</u>
Clare Boothe Luce Program for Women in Science and Engineering	<u>3,055,000</u>	<u>5,921,418</u>
Total	<u>\$18,916,185</u>	<u>\$21,986,348</u>

At December 31, 2009, the unpaid grant liability is expected to be paid as follows:

Years Ending December 31,	
2010	\$13,898,158
2011	5,237,966
2012	1,813,490
2013	845,806
2014	<u>190,928</u>
	21,986,348
Less: Discount to present value	<u>(248,253)</u>
	<u>\$21,738,095</u>

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2009

5. Grants Approved and Grants Payable (continued)

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, 2009, the Foundation has discounted the amount of unpaid grant liability by applying interest rate factors for grants from 2.19% to 1.12%

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 \$347,998.

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

7. 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 present value of the estimated accrued benefits at December 31, 2009 was \$2,201,367. 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 6.00% was applied. No amount has been included for Medicare reimbursement.

Actual cash paid during 2009 was \$17,646.

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

2010	\$ 38,478
2011	49,208
2012	49,779
2013	52,942
2014	69,867
2015-2019	<u>637,132</u>
	<u>\$897,406</u>

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2009

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.

The excise tax expense for the year ended December 31, 2009 is comprised of the following:

Current year provision	\$ 76,342
Deferred excise tax	<u>255,916</u>
	<u>\$332,258</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 2009 was \$612,472.

The minimum lease commitment under this lease is as follows:

2010	\$ 587,338
2011	605,863
2012	656,142
2013	665,968
2014	677,174
2015-2021	<u>5,143,382</u>
	<u>\$8,335,867</u>

The Henry Luce Foundation, Inc.

Notes to Financial Statements

December 31, 2009

10. Furniture, Fixtures and Leasehold Improvements

Furniture, fixtures and leasehold improvements are as follows:

Furniture and fixtures	\$ 309,814
Leasehold improvements	<u>1,223,663</u>
	1,533,477
Less: accumulated depreciation and amortization	<u>(388,099)</u>
	<u>\$1,145,378</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

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 \$4.8 million in 2009.

13. Accounting for Uncertainty in Income Taxes

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 2006.

14. Subsequent Events

In connection with the preparation of the financial statements and in accordance with recently issued guidance, the Foundation evaluated subsequent events after the statement of financial position date of December 31, 2009 through May 19, 2010 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, 2009

	Unrestricted Principal Fund	Clare Boothe Luce Fund	Total
Program expenses			
Grants	<u>\$15,899,285</u>	<u>\$3,189,520</u>	<u>\$19,088,805</u>
Other program expenses			
Luce Scholars	250,395	-	250,395
Asian Affairs	25,830	-	25,830
American Art	67,376	-	67,376
HRL Initiative on Religion and International Affairs	7,047	-	7,047
Theology	19,938	-	19,938
Other programs	<u>3,946</u>	<u>44,645</u>	<u>48,591</u>
Total other program expenses	<u>374,532</u>	<u>44,645</u>	<u>419,177</u>
Total program expenses	<u>16,273,817</u>	<u>3,234,165</u>	<u>19,507,982</u>
Administrative expenses			
Salaries	2,167,275	311,397	2,478,672
Pensions and related benefits	565,332	61,396	626,728
Insurance - employees' benefits	513,134	77,812	590,946
Payroll taxes	133,109	16,744	149,853
Rent	552,794	59,678	612,472
Professional fees	58,425	-	58,425
Directors' fees	269,167	10,000	279,167
Registration fees and dues	19,925	-	19,925
Travel and meetings	86,608	-	86,608
Computer, office supplies and maintenance	186,071	-	186,071
Depreciation and amortization	115,551	-	115,551
Sundry	<u>33,180</u>	<u>-</u>	<u>33,180</u>
Total administrative expenses	<u>4,700,571</u>	<u>537,027</u>	<u>5,237,598</u>
Total expenses	<u>\$20,974,388</u>	<u>\$3,771,192</u>	<u>\$24,745,580</u>