

**The Henry Luce Foundation, Inc.**

**Financial Statements**

**December 31, 2018**

**The Henry Luce Foundation, Inc.**

**Index**

**December 31, 2018**

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## **Independent Auditor's Report**

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, 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 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, 2018 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.

***Change in Accounting Principle***

As described in Note 2 to the financial statements, during the year ended December 31, 2018, The Henry Luce Foundation adopted ASU 2016-14 which resulted in a change in the manner in which it presents its net assets and reports certain financial information within its financial statements. Our opinion is not modified with respect to this matter.

July 10, 2019

A handwritten signature in cursive script that reads "Owen J. Flanagan + Co." The signature is written in black ink and is positioned to the right of the date.

# The Henry Luce Foundation, Inc.

## Statement of Financial Position

December 31, 2018

<b>ASSETS</b>	
Cash	\$ 1,631,715
Dividends and interest receivable	301,984
Investments	826,110,918
Furniture, fixtures, and leasehold improvements, net of accumulated depreciation and amortization of \$1,218,408	357,553
Interest in Charitable Remainder Unitrust	708,062
Other Assets	<u>2,126,038</u>
	<u>\$ 831,236,270</u>
 <b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 882,999
Grants Payable	23,440,049
Postretirement medical benefits	2,475,629
Unfunded supplemental pension	646,294
Deferred federal excise tax	<u>3,089,543</u>
	<b>Total liabilities</b> <u>30,534,514</u>
 <b>NET ASSETS</b>	
Without donor restrictions	<u>651,371,790</u>
With donor restrictions:	
Time - Principal Fund	708,062
Purpose - Clare Boothe Luce Fund	80,276,540
Endowment - Clare Boothe Luce Fund	<u>68,345,364</u>
	<b>Total with donor restrictions</b> <u>149,329,966</u>
	<b>Total net assets</b> <u>800,701,756</u>
	<b>Total liabilities and net assets</b> <u>\$ 831,236,270</u>

See notes to financial statements

The Henry Luce Foundation, Inc.

Statement of Activities

Year Ended December 31, 2018

	Without donor restrictions			With donor restrictions				Total
	Principal Fund	Clare Boothe Luce Fund	Total	Principal Fund	Clare Boothe Luce Fund	Endowment	Total	
<b>Revenues, gains (losses) and other support</b>								
Dividends, interest, and partnership income/loss	\$ 3,973,294	\$ -	\$ 3,973,294	\$ -	\$ 913,809	\$ -	\$ 913,809	\$ 4,887,103
Unrealized depreciation on investments	(38,385,827)	-	(38,385,827)	-	(9,390,643)	-	(9,390,643)	(47,776,470)
Net realized gain on sale of investments	28,304,950	-	28,304,950	-	7,069,523	-	7,069,523	35,374,473
Less: Directly reported investment and custody fees	(2,854,785)	-	(2,854,785)	-	(646,831)	-	(646,831)	(3,501,616)
Net investment loss	(8,962,368)	-	(8,962,368)	-	(2,054,142)	-	(2,054,142)	(11,016,510)
Contribution revenue	-	-	-	708,062	-	-	708,062	708,062
Net assets released from restrictions	-	8,169,697	8,169,697	-	(8,169,697)	-	(8,169,697)	-
Excise tax, net of recovery	431,411	-	431,411	-	119,507	-	119,507	550,918
<b>Total revenues, gains (losses) and other support</b>	<b>(8,530,957)</b>	<b>8,169,697</b>	<b>(361,260)</b>	<b>708,062</b>	<b>(10,104,332)</b>	<b>-</b>	<b>(9,396,270)</b>	<b>(9,757,530)</b>
<b>Expenses</b>								
Grants	30,761,029	7,578,980	38,340,009	-	-	-	-	38,340,009
Program	3,775,479	65,446	3,840,925	-	-	-	-	3,840,925
Subtotal program expenses	34,536,508	7,644,426	42,180,934	-	-	-	-	42,180,934
Administrative	3,345,016	525,271	3,870,287	-	-	-	-	3,870,287
Total expenses	37,881,524	8,169,697	46,051,221	-	-	-	-	46,051,221
Change in net assets	(46,412,481)	-	(46,412,481)	708,062	(10,104,332)	-	(9,396,270)	(55,808,751)
Net assets, beginning of year	697,784,271	-	697,784,271	-	90,380,872	68,345,364	158,726,236	856,510,507
Net assets, end of year	\$ 651,371,790	\$ -	\$ 651,371,790	\$ 708,062	\$ 80,276,540	\$ 68,345,364	\$ 149,329,966	\$ 800,701,756

See notes to financial statements

**The Henry Luce Foundation, Inc.**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

Expenses	Principal Fund								Clare Boothe Luce Fund			Grand Total	
	American Art	Asian Affairs	HRL Initiative on Religion and International Affairs	Initiative on Native American Intellectual Leadership	Luce Scholars	Theology	Other Programs	Total Grants and Programs	Administrative	Grants and Programs	Administrative		Total
Grants	\$ 7,241,358	\$ 7,257,083	\$ 4,338,633	\$ 1,421,825	\$ 1,421,138	\$ 6,484,567	\$ 2,596,425	\$ 30,761,029	\$ -	\$ 7,578,980	\$ -	\$ 7,578,980	\$ 38,340,009
	7,241,358	7,257,083	4,338,633	1,421,825	1,421,138	6,484,567	2,596,425	30,761,029	-	7,578,980	-	7,578,980	38,340,009
Salary, benefits and taxes	376,313	455,600	326,584	112,529	505,641	392,897	255,100	2,424,664	1,831,680	-	391,879	391,879	4,648,223
Pensions and related benefits	-	-	-	-	-	-	-	-	194,955	-	-	-	194,955
Rent	71,917	87,070	62,414	21,506	96,633	75,087	48,752	463,379	323,603	-	74,892	74,892	861,874
Professional fees	-	-	-	-	-	-	-	-	248,020	1,657	-	1,657	249,677
Directors' fees	-	-	-	-	-	-	-	-	370,000	-	5,000	5,000	375,000
Registration fees and dues	40	1,979	285	-	-	175	-	2,479	29,831	3,472	-	3,472	35,782
Travel and meetings	16,733	24,075	34,842	4,861	376,825	21,509	13,464	492,309	71,454	35,317	4,827	40,144	603,907
Computer, office supplies and maintenance	36,610	44,324	31,772	10,948	49,192	38,224	24,817	235,887	164,734	-	38,125	38,125	438,746
Depreciation and amortization	9,914	12,003	8,604	2,965	13,322	10,351	6,720	63,879	44,612	-	10,325	10,325	118,816
Insurance and sundry	214	260	186	64	288	224	146	1,382	66,127	-	223	223	67,732
Evaluations and honoraria	8,000	21,944	-	-	29,373	32,183	-	91,500	-	25,000	-	25,000	116,500
	519,741	647,255	464,687	152,873	1,071,274	570,650	348,999	3,775,479	3,345,016	65,446	525,271	590,717	7,711,212
<b>Total expenses</b>	<b>\$ 7,761,099</b>	<b>\$ 7,904,338</b>	<b>\$ 4,803,320</b>	<b>\$ 1,574,698</b>	<b>\$ 2,492,412</b>	<b>\$ 7,055,217</b>	<b>\$ 2,945,424</b>	<b>\$ 34,536,508</b>	<b>\$ 3,345,016</b>	<b>\$ 7,644,426</b>	<b>\$ 525,271</b>	<b>\$ 8,169,697</b>	<b>\$ 46,051,221</b>

See notes to financial statements

**The Henry Luce Foundation, Inc.**  
**Statement of Cash Flows**

**Year Ended December 31, 2018**

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (55,808,751)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	118,816
Net realized gain on sale of investments	(35,374,473)
Unrealized depreciation on investments	47,776,470
Changes in operating assets and liabilities:	
Increase in dividends and interest receivable	(70,551)
Increase in interest in charitable remainder unitrust	(708,062)
Increase in other assets	(754,291)
Decrease in accounts payable and accrued expenses	(31,727)
Increase in postretirement medical benefits	4,775
Decrease in grants payable	(964,604)
Decrease in unfunded supplemental pension	(33,253)
Decrease in deferred federal excise tax	(955,530)
<b>Net cash used by operating activities</b>	<u>(46,801,181)</u>
 <b>Cash flows from investing activities:</b>	
Purchases of investments	(311,592,344)
Proceeds from sales and maturities of investments	347,922,970
Net changes in investment cash	<u>11,147,882</u>
<b>Net cash provided by investing activities</b>	<u>47,478,508</u>
<b>Net increase in cash</b>	677,327
Cash, beginning of year	<u>954,388</u>
<b>Cash, end of year</b>	<u><u>\$ 1,631,715</u></u>
 <b>Supplemental disclosure:</b>	
Federal and state taxes paid	<u><u>\$ 1,147,187</u></u>

See notes to financial statements



**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**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 2018, 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, 2018, 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 2018 have been met.

**2. New Accounting Pronouncement**

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities effective for fiscal years beginning after December 15, 2017. The Foundation has adjusted the presentation of its financial statements accordingly, applying the changes to beginning net assets balances. The new standard changes the following aspects of the Foundation’s financial statements:

- The temporary restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions. In the statement of financial position, the Foundation reports the original endowment and the unappropriated earnings on the endowment.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 10).
- The supplemental Schedule of Program and Administrative Expenses has been reformatted into the Statement of Functional Expenses.

**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**3. 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.

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

- Net assets without donor restrictions are utilized to account for revenues and gains that are unrestricted in nature.
- Net assets with donor restrictions are comprised of two categories:
  1. Time or purpose restriction – These assets are donor restricted for either a specific purpose or a future time period. They also include the Clare Boothe Luce Fund’s investment appreciation (realized and unrealized) which has not yet been expended in accordance with the Fund’s purpose; and
  2. Endowment restriction – These assets were restricted by the bequest from Clare Boothe Luce, which must be kept intact in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**3. Summary of Significant Accounting Policies (continued)**

**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.

**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 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 interests 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.

**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**3. Summary of Significant Accounting Policies (continued)**

**Functional Allocation of Expenses**

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries, payroll taxes and employee benefits, and are based on the estimates of time and effort per employee.

**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.

**Interest in Charitable Remainder Unitrust**

During 2018, the Foundation became aware that it was named a remainder beneficiary of a charitable remainder unitrust. The income beneficiary is to receive, first from income and, to the extent that income is insufficient, from principal, a total annuity each year equal to a percentage of the net fair market value of the trust assets as of the first day of the trust year. Upon the death of the beneficiary, the remaining principal is to be distributed to the Foundation. An asset for the interest in charitable remainder unitrust has been recognized at the present value of the expected future cash flow payments discounted at a rate of 5.5%.

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2018

### 4. 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, 2018 is comprised of the following:

Current year federal and state provisions	\$ 381,280
Prior year federal and state tax adjustments	23,332
Deferred excise tax, recovery	<u>(955,530)</u>
	<u>\$ (550,918)</u>

Some of the Foundation's investment partnerships have underlying investments which generate "unrelated business taxable income." This income is subject to Federal and State income taxes at "for-profit" corporation income tax rates.

**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**5. Investments**

The fair value, cost and unrealized appreciation (depreciation) of investments at December 31, 2018 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Money market funds, t-bills and cash held for investment	\$ 14,768,573	\$ 14,768,573	\$ -
Equity securities:			
Commingled or mutual funds			
Global	174,909,388	174,336,739	572,649
Emerging markets	84,237,778	78,922,437	5,315,341
Other	6,145,477	5,407,136	738,341
Fixed income securities:			
Managed accounts			
U.S. government	27,317,407	27,649,127	(331,720)
Commingled or mutual funds			
Global fixed income hedge	24,924,927	27,500,000	(2,575,073)
Futures Contracts	(157,643)	-	(157,643)
Marketable alternative partnerships:			
Global	220,127,711	137,566,995	82,560,716
Liquidating	158,141	176,672	(18,531)
Non-marketable limited partnerships:			
Multi-strategy	225,062,343	172,180,815	52,881,528
Global distressed	2,346,504	-	2,346,504
Private equity	24,803,506	18,309,119	6,494,387
Venture	14,151,398	6,080,120	8,071,278
Natural resources	5,112,754	5,347,572	(234,818)
Liquidating	981,333	2,167,123	(1,185,790)
	<u>824,889,597</u>	<u>670,412,428</u>	<u>154,477,169</u>
Net pending trades	<u>1,221,321</u>	<u>1,221,321</u>	<u>-</u>
<b>Total Investments</b>	<u>\$ 826,110,918</u>	<u>\$ 671,633,749</u>	<u>\$ 154,477,169</u>

## The Henry Luce Foundation, Inc.

### Notes to Financial Statements

December 31, 2018

#### 5. 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 80% and 20% of these co-investments, respectively.

Global equity securities consists of one fund and can be redeemed monthly with 100 days' notice. Emerging markets securities consist of one fund with quarterly liquidity with 120 days' notice.

The investments listed as other in commingled or mutual funds under equity securities consist of an interest in royalties and an S&P 500 fund. The interest in royalties is valued by the Foundation using cash flows and there is only a limited secondary market for this investment. The S&P 500 fund has daily liquidity.

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 2019 with some residual holdbacks and side pockets amounts to be received as the remaining investments in these funds are liquidated.

Non-marketable limited investment partnerships consist of several components. The multi-strategy investment is seven funds. The first fund, valued at \$18,903,059, has annual liquidity with 180 days' notice. The second through sixth funds, valued at a total of \$206,159,284 are illiquid and will be redeemed at the termination of the funds, which is in approximately 10 years. The investments in global distressed, private equity, venture and natural resources were funds invested in the last nine years. They are illiquid and have terms remaining of three to five 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 Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**5. Investments (continued)**

The unfunded commitments to these funds are as follows:

Multi-strategy	\$ 172,004,353
Global distressed	3,379,900
Private equity	3,889,495
Venture	560,000
Natural resources	350,000
	<u>\$ 180,183,748</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.



**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**5. Investments (continued)**

Investments are categorized as follows:

	Level 1	Level 2	Level 3	Valued Using NAV	Total
Money market funds and cash held for investment	\$ 14,768,573	\$ -	\$ -	\$ -	\$ 14,768,573
Equity securities:					
Commingled or mutual funds					
Global	-	-	-	174,909,388	174,909,388
Emerging markets	-	-	-	84,237,778	84,237,778
Other	4,345,477	-	1,800,000	-	6,145,477
Fixed income securities:					
Managed accounts					
U.S. government	27,317,407	-	-	-	27,317,407
Commingled or mutual funds					
Global fixed income hedge	-	-	-	24,924,927	24,924,927
Futures Contracts	(157,643)	-	-	-	(157,643)
Marketable alternative partnerships:					
Global	-	-	-	220,127,711	220,127,711
Liquidating	-	-	-	158,141	158,141
Non-marketable limited partnerships:					
Multi-strategy	-	-	-	225,062,343	225,062,343
Global distressed	-	-	-	2,346,504	2,346,504
Private equity	-	-	-	24,803,506	24,803,506
Venture	-	-	-	14,151,398	14,151,398
Natural resources	-	-	-	5,112,754	5,112,754
Liquidating	-	-	-	981,333	981,333
	46,273,814	-	1,800,000	776,815,783	824,889,597
Net pending trades	1,221,321	-	-	-	1,221,321
<b>Total Investments</b>	<b>\$ 47,495,135</b>	<b>\$ -</b>	<b>\$ 1,800,000</b>	<b>\$ 776,815,783</b>	<b>\$ 826,110,918</b>

**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**5. Investments (continued)**

This investment has been valued using historical and projected cash flows. The change in Level 3 investments is as follows:

	<u>Beginning of Year</u>	<u>Capital Additions</u>	<u>Income</u>	<u>Realized Gains</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Capital Withdrawals</u>	<u>End of Year</u>
Equity securities							
Commingled							
Other	\$ 1,800,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,800,000
Total	<u>\$ 1,800,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,800,000</u>

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 \$17.1 million in 2018.

**6. Furniture, Fixtures and Leasehold Improvements**

Furniture, fixtures and leasehold improvements are as follows:

Furniture and fixtures	\$ 158,263
Leasehold improvements	<u>1,417,698</u>
	1,575,961
Less: accumulated depreciation and amortization	<u>(1,218,408)</u>
	<u>\$ 357,553</u>

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2018

### 7. Grants Approved and Grants Payable

The grants approved during 2018, before the change in discount of \$61,866 and grants payable at December 31, 2018 consisted of the following:

	<u>Grants Approved</u>	<u>Grants Payable</u>
<b>Principal Fund</b>		
American Art	\$ 7,250,000	\$ 2,450,000
Asian Affairs	7,281,500	5,572,000
Asian Studies and the Environment Initiative	-	1,350,000
HRL Initiative on Religion and International Affairs	4,349,000	2,939,000
Initiative on Native American Intellectual Leadership	1,425,000	900,000
Luce Scholars	1,421,138	-
Theology	6,500,000	4,375,000
Other programs:		
Higher Education	1,450,000	270,000
Public Policy	236,000	-
Special Projects	187,500	-
Matching Grants	443,878	116,005
Directors' Discretionary Grants	280,000	-
Subtotal other programs	<u>2,597,378</u>	<u>386,005</u>
<b>Total Principal Fund</b>	<u>30,824,016</u>	<u>17,972,005</u>
<b>Clare Boothe Luce Fund</b>	<u>7,577,859</u>	<u>5,727,752</u>
<b>Grand total</b>	<u>\$ 38,401,875</u>	<u>\$ 23,699,757</u>

**The Henry Luce Foundation, Inc.**

**Notes to Financial Statements**

**December 31, 2018**

**7. Grants Approved and Grants Payable (continued)**

At December 31, 2018, the unpaid grant liability is expected to be paid as follows:

**Unpaid Grant Liability:**

Years Ending December 31,

2019	\$ 14,925,397
2020	6,807,116
2021	1,386,246
2022	550,998
2023	<u>30,000</u>
	23,699,757
Less: Discount to present value	<u>(259,708)</u>
	<u>\$ 23,440,049</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, 2018, the Foundation has discounted the amount of unpaid grant liability by applying interest rate factors for grants from 1.74% to 2.52%.

**8. 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 \$447,036.

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

**9. 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 on or after January 1, 2008.) 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, 2018

### 9. Postretirement Medical Benefits (continued)

The present value of the estimated accrued benefits at December 31, 2018 was \$2,475,629. 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 2018 was \$73,955.

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

2019	\$ 85,339
2020	112,706
2021	130,469
2022	136,992
2023	150,527
2024-2028	<u>923,774</u>
	<u>\$1,539,807</u>

### 10. Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of December 31, 2018, reduced by amounts not available for general expenditures within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

Cash	\$ 1,631,715
Dividends and interest receivable	301,984
Investments	826,110,918
Interest in Charitable Remainder Unitrust	708,062
Other assets	<u>1,948,403</u>
Total financial assets	830,701,082
Contractual or donor-imposed restrictions:	
Endowment funds	(68,345,364)
Time restrictions	(708,062)
Purpose restrictions	(80,276,540)
Non-marketable limited partnerships	<u>(185,202,145)</u>
Financial assets available to meet cash needs	<u>\$ 496,168,971</u>

# The Henry Luce Foundation, Inc.

## Notes to Financial Statements

December 31, 2018

### 10. Liquidity and Availability of Financial Assets (continued)

The Foundation manages its liquidity and cash needs by establishing a budget for each fiscal year based on expected revenues to fund anticipated expenses. The invested portfolio assets that are not restricted (without donor restrictions) are intended to support the programs and mission of the Foundation in the near-term, as well as in perpetuity. Disbursements from the net assets without donor restrictions are determined by the Foundation's Board of Directors, as needed. The annual withdrawal rate will vary from year to year and the portfolio should have sufficient liquidity to meet requests for distributions in full within seven business days.

### 11. 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 May 22, 2022. Under the terms of the lease, the Foundation maintains a letter of credit in the amount of \$46,673 in lieu of a security deposit. Rent expense for this lease during 2018 was \$861,874.

The minimum lease commitment under this lease is as follows:

2019	\$	793,981
2020		805,891
2021		817,979
2022		<u>324,920</u>
	\$	<u><u>2,742,771</u></u>

**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**12. Endowment**

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

	<u>Without Donor Restrictions</u>	<u>Purpose</u>	<u>Endowment</u>	<u>Total</u>
Donor restricted funds	\$ -	\$ 80,276,540	\$ 68,345,364	\$ 148,621,904
Available for future spending and investment	677,489,014	-	-	677,489,014
<b>Total</b>	<b><u>\$ 677,489,014</u></b>	<b><u>\$ 80,276,540</u></b>	<b><u>\$ 68,345,364</u></b>	<b><u>\$ 826,110,918</u></b>

The changes in the endowment fund were as follows:

Balance, January 1, 2018	\$ 727,265,187	\$ 90,380,872	\$ 68,345,364	\$ 885,991,423
Revenues, gains (losses) and other support				
Dividends, interest and partnership income/loss	3,973,294	913,809	-	4,887,103
Unrealized depreciation on investments	(38,385,827)	(9,390,643)	-	(47,776,470)
Net realized gains gain on investments	28,304,950	7,069,523	-	35,374,473
Less: Directly reported investment investment and custody fees	(2,854,785)	(646,831)	-	(3,501,616)
Excise tax, net of recovery	431,411	119,507	-	550,918
<b>Total revenues, gains (losses) and other support</b>	<b>(8,530,957)</b>	<b>(1,934,635)</b>	<b>-</b>	<b>(10,465,592)</b>
Expenses and appropriations for spending	(41,245,216)	(8,169,697)	-	(49,414,913)
<b>Balance, December 31, 2018</b>	<b><u>\$ 677,489,014</u></b>	<b><u>\$ 80,276,540</u></b>	<b><u>\$ 68,345,364</u></b>	<b><u>\$ 826,110,918</u></b>

**The Henry Luce Foundation, Inc.**  
**Notes to Financial Statements**

**December 31, 2018**

**13. 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, 2018 through July 10, 2019 which was the date the financial statements were available to be issued.