

**CLARE BOOTHE LUCE POLICY INSTITUTE**  
**AUDITED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**



# Clare Boothe Luce Policy Institute

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## Independent Auditor's Report

To the Board of Directors of  
**Clare Boothe Luce Policy Institute**  
Herndon, Virginia

We have audited the accompanying financial statements of **Clare Boothe Luce Policy Institute** (a nonprofit organization), which comprise the Statements of Financial Position as of December 31, 2012 and 2011, and the related Statements of Activities and Changes in Net Assets and Cash Flows for the years 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 audits. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 audit opinion.

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*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Clare Boothe Luce Policy Institute** as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Aronson LLC*

Rockville, Maryland  
May 29, 2013

# Clare Boothe Luce Policy Institute

## Statements of Financial Position

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 439,854	\$ 59,636
Investments	211,174	156,450
Current portion of receivables	25,000	25,000
<b>Total current assets</b>	<b>676,028</b>	<b>241,086</b>
<b>Receivables, net of current portion</b>	<b>498,750</b>	<b>48,009</b>
<b>Property and equipment, net</b>	<b>577,262</b>	<b>593,800</b>
<b>Other assets</b>	<b>7,400</b>	<b>742</b>
<b>Beneficial interest in trusts</b>	<b>160,480</b>	<b>171,833</b>
<b>Cash and investments held for long term purpose</b>	<b>200,000</b>	<b>200,000</b>
<b>Total assets</b>	<b>\$ 2,119,920</b>	<b>\$ 1,255,470</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Current portion of note payable	\$ 12,162	\$ 11,427
Accounts payable and accrued expenses	11,356	6,757
Current portion of gift annuities payable	5,420	4,758
<b>Total current liabilities</b>	<b>28,938</b>	<b>22,942</b>
<b>Gift annuities payable, net of current portion</b>	<b>31,888</b>	<b>35,219</b>
<b>Note payable, net of current portion</b>	<b>142,917</b>	<b>155,581</b>
<b>Total liabilities</b>	<b>203,743</b>	<b>213,742</b>
<b>Net assets</b>		
Unrestricted	960,376	567,710
Temporarily restricted	281,251	274,018
Permanently restricted	674,550	200,000
<b>Total net assets</b>	<b>1,916,177</b>	<b>1,041,728</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,119,920</b>	<b>\$ 1,255,470</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Clare Boothe Luce Policy Institute

### Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2012</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Contributions	\$ 1,491,243	\$ 113,589	\$ 474,550	\$ 2,079,382
Grants	79,500	-	-	79,500
Gift annuities	2,506	-	-	2,506
Contributed investments	38,389	-	-	38,389
List rental income	24,266	-	-	24,266
Honorarium contributions	-	46,850	-	46,850
Interest income	3,318	1,452	-	4,770
Net gain on investments	19,649	23,378	-	43,027
Other income	8,722	-	-	8,722
Net assets released from restrictions	198,581	(198,581)	-	-
<b>Total support and revenue</b>	<b>1,866,174</b>	<b>(13,312)</b>	<b>474,550</b>	<b>2,327,412</b>
<b>Expenses</b>				
<b>Program services</b>				
Public information	646,700	-	-	646,700
Special projects	522,710	-	-	522,710
<b>Total program services</b>	<b>1,169,410</b>	<b>-</b>	<b>-</b>	<b>1,169,410</b>
<b>Supporting services</b>				
Fundraising	158,585	-	-	158,585
Management and general	143,841	-	-	143,841
<b>Total expenses</b>	<b>1,471,836</b>	<b>-</b>	<b>-</b>	<b>1,471,836</b>
<b>Changes in net assets from operations</b>	<b>394,338</b>	<b>(13,312)</b>	<b>474,550</b>	<b>855,576</b>
<b>Change in value of trusts</b>	<b>-</b>	<b>20,545</b>	<b>-</b>	<b>20,545</b>
<b>Change in value of annuities</b>	<b>(1,672)</b>	<b>-</b>	<b>-</b>	<b>(1,672)</b>
<b>Changes in net assets</b>	<b>392,666</b>	<b>7,233</b>	<b>474,550</b>	<b>874,449</b>
<b>Net assets, beginning of year</b>	<b>567,710</b>	<b>274,018</b>	<b>200,000</b>	<b>1,041,728</b>
<b>Net assets, end of year</b>	<b>\$ 960,376</b>	<b>\$ 281,251</b>	<b>\$ 674,550</b>	<b>\$ 1,916,177</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

## Clare Boothe Luce Policy Institute

### Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2011</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Contributions	\$ 854,315	\$ 145,910	\$ 674	\$ 1,000,899
Grants	99,100	15,000	-	114,100
Gift annuities	1,866	-	-	1,866
Contributed investments	26,668	-	-	26,668
List rental income	52,723	-	-	52,723
Honorarium contributions	-	24,170	-	24,170
Interest income	2,600	4,825	-	7,425
Net gain (loss) on investments	3,049	(3,599)	-	(550)
Other income	9,823	-	-	9,823
Net assets released from restrictions	138,750	(138,750)	-	-
<b>Total support and revenue</b>	<b>1,188,894</b>	<b>47,556</b>	<b>674</b>	<b>1,237,124</b>
<b>Expenses</b>				
<b>Program services</b>				
Public information	496,197	-	-	496,197
Special projects	439,393	-	-	439,393
<b>Total program services</b>	<b>935,590</b>	<b>-</b>	<b>-</b>	<b>935,590</b>
<b>Supporting services</b>				
Fundraising	201,257	-	-	201,257
Management and general	209,067	-	-	209,067
<b>Total expenses</b>	<b>1,345,914</b>	<b>-</b>	<b>-</b>	<b>1,345,914</b>
<b>Changes in net assets from operations</b>	<b>(157,020)</b>	<b>47,556</b>	<b>674</b>	<b>(108,790)</b>
<b>Change in value of trusts</b>	<b>-</b>	<b>(9,485)</b>	<b>-</b>	<b>(9,485)</b>
<b>Change in value of annuities</b>	<b>(1,859)</b>	<b>-</b>	<b>-</b>	<b>(1,859)</b>
<b>Changes in net assets</b>	<b>(158,879)</b>	<b>38,071</b>	<b>674</b>	<b>(120,134)</b>
<b>Net assets, beginning of year</b>	<b>726,589</b>	<b>235,947</b>	<b>199,326</b>	<b>1,161,862</b>
<b>Net assets, end of year</b>	<b>\$ 567,710</b>	<b>\$ 274,018</b>	<b>\$ 200,000</b>	<b>\$ 1,041,728</b>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

# Clare Boothe Luce Policy Institute

## Statements of Cash Flows

<i>Years Ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 874,449	\$ (120,134)
<b>Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities</b>		
Depreciation and amortization	30,104	32,726
Contributed investments	(38,389)	(26,668)
Unrealized and realized (gains) loss on investments	(43,027)	550
Change in value of annuities	1,672	1,859
Change in present value discount on receivables	24,259	(2,249)
Change in beneficial interest in trusts	11,353	(76,850)
<b>(Increase) decrease in:</b>		
Receivables	(475,000)	25,000
Other assets	(6,658)	-
<b>(Decrease) increase in:</b>		
Accounts payable and accrued expenses	4,599	(3,841)
<b>Net cash provided (used) by operating activities</b>	<b>383,362</b>	<b>(169,607)</b>
<b>Cash flows from investing activities</b>		
Sale of investments	34,600	150,667
Purchase of investments	(7,908)	(219,411)
Purchase of property, building and equipment	(13,564)	(2,886)
<b>Net cash provided (used) by investing activities</b>	<b>13,128</b>	<b>(71,630)</b>
<b>Cash flows from financing activities</b>		
Payments on notes payable	(11,929)	(20,722)
Receipt of permanently restricted receivables	-	40,000
Proceeds from gift annuities received	2,495	3,134
Payments on gift annuities	(6,838)	(6,380)
<b>Net cash (used) provided by financing activities</b>	<b>(16,272)</b>	<b>16,032</b>
<b>Net change in cash and cash equivalents</b>	<b>380,218</b>	<b>(225,205)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>59,636</b>	<b>284,841</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 439,854</b>	<b>\$ 59,636</b>
<b>Supplemental disclosures</b>		
Interest paid during the year	\$ 10,260	\$ 11,464

The accompanying Notes to Financial Statements are an integral part of these financial statements.



# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

### 1. Organization and summary of significant accounting policies

**Organization:** Clare Boothe Luce Policy Institute (the “Institute”) is a not-for-profit organization established in May 1993. The Institute prepares young women for effective conservative leadership. The Institute is located in Herndon, Virginia.

The Institute’s two main programs are public information and special projects. The public information program focuses on the Institute’s media and communication activities such as the Institute’s web site, radio and TV appearances, policy papers, articles, publication of *Great American Conservative Women Calendar*, media directories, periodicals and quarterly mailings. The special projects program focuses on lectures and other research activities including the college campus speaker program, seminars, conferences, mentoring lunches, Conservative Women’s Network lunches and the Institute’s internship program.

**Basis of accounting:** The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations.

**Financial statement presentation:** Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

**Unrestricted net assets:** Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets:** Net assets subject to donor-imposed stipulations that will be met either by actions of the Institute and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

**Permanently restricted net assets:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. The Institute may use all or part of the income earned on these assets for general or specific purpose. At December 31, 2012 and 2011, the Institute had \$674,550 and \$200,000, respectively, in permanently restricted net assets. The investment income earned on \$200,000 is restricted for the internship program. The 2012 donation of \$500,000 was a pledge to be paid over 5 years. As of December 31, 2012, no amount has been paid on this pledge. Once received, the investment income earned on this will be unrestricted.

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

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**Cash and cash equivalents:** For purposes of financial statement presentation, the Institute considers all highly liquid debt instruments purchased with an original maturity of ninety days or less to be cash equivalents. The Institute maintains cash balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

**Investments:** Investments consist of mutual funds and money market funds. The investments are stated at fair value as determined by quoted market prices.

**Fair value:** The Institute values investments at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

A financial instrument's level within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement.

**Receivables:** Receivables expected to be collected within one year are recorded at net realizable value. Receivables expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount rate is computed using a risk free rate as of the date of the pledge plus an added rate of risk adjustment of 0.5%. The rates used range from 1.2% to 1.64%. Amortization of the discount is included in contribution revenue. No allowance for receivables has been recorded as management believes all promises are fully collectible.

**Property and equipment:** Property and equipment are recorded at the original cost and are being depreciated on a straight-line basis over estimated lives of three to forty years. Property and equipment additions and improvements acquired at a cost greater than \$500 are capitalized. Costs incurred for maintenance and repairs are charged to expense as incurred.

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

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### **Beneficial interest trusts:**

**Remainder trust:** The Institute is named as the beneficiary in a remainder trust held by a third party. The trust, which is invested in cash equivalents and mutual funds, is measured at the present value of the future distributions expected to be received over the term of the agreement.

**Term trust:** The Institute is named as the beneficiary in a term trust held by a third party. Funds from the term trust expected to be collected in future years are recorded at present value of their estimated future cash flows. The discounts on the trust are computed using a risk free interest rate of 1.49% plus an added rate of risk adjustment of 0.5%. Amortization of the discount is included in trust revenue.

**Gift annuities:** Gift annuities are contracts between the Institute and a donor in which the Institute agrees to pay the donor (or other person named by the donor) a lifetime annuity in return for a gift of cash or marketable securities. The assets received by the Institute are recorded at fair market value at the date of the donation. A liability is recorded for the amount due to an income beneficiary of a gift annuity based on the present value of the estimated future payments to be distributed during the income beneficiary's expected life. Each year, the liability is re-measured and changes in the liability due to factors other than cash payments, such as changing life expectancies, are recorded as an increase or decrease to revenue and support. The discount rate ranges from 1% to 6% depending on the discount rate in effect at the time of the gift.

### **Revenue recognition:**

**Contributions and grants:** The Institute recognizes all contributions and grants received as income in the period received or pledged. Contributions and grants are reported as unrestricted, temporarily restricted, or permanently restricted depending on the absence or existence of donor stipulations that limit the use of the contributions.

**Contributed investments:** Contributions of marketable securities are recorded at their fair market value at the date of donation.

**List rental income:** The Institute recognizes list rental income as income when the list is delivered.

**Allocation of functional expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

**Advertising costs:** The Institute expenses advertising costs as incurred. Advertising expense for the years ended December 31, 2012 and 2011, was \$8,490 and \$5,800, respectively.

**Costs of joint activities:** The Institute accounts for costs of joint activities which are part fundraising and have elements of one or more other functions, such as program or management and general according to certain criteria of purpose, audience and content in order to allocate any portion of the costs of joint activities to a functional area other than fundraising.

**Income taxes:** The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; and therefore, has made no provision for federal income taxes. The Organization has no unrelated business income.

**Uncertainty in income taxes:** The Institute evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2012 and 2011, there were no accruals for uncertain tax positions. If applicable, the Institute records interest and penalties as a component of income tax expense. Tax years from 2009 through the current year remain open for examination by tax authorities.

**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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent events:** Management has evaluated subsequent events for disclosure in these financial statements through May 29, 2013, which is the date the financial statements were available to be issued.

## 2. Investments

Investments at December 31, 2012 and 2011, consist of the following:

	2012	2011
Equity securities	\$ 109,922	\$ 70,117
Fixed income mutual funds	100,292	86,533
Index mutual funds	144,777	109,861
International equity mutual funds	11,055	9,034
Large cap equity mutual funds	44,351	40,905
Money market funds	777	40,000
<b>Total</b>	<b>\$ 411,174</b>	<b>\$ 356,450</b>

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

Investments as listed on the Statements of Financial Position at December 31, 2012 and 2011 are comprised of:

	2012	2011
Investments, current	\$ 211,174	\$ 156,450
Investments held for long term purposes	200,000	200,000
<b>Total investments</b>	<b>\$ 411,174</b>	<b>\$ 356,450</b>

For the years ended December 31, 2012 and 2011, net realized and unrealized (losses) gains related to investment activity were \$43,027 and \$(550), respectively.

### 3. Fair value

The fair value of investments is as follows:

#### Fair Value Measurements at Reporting Date Using:

December 31, 2012	Total	Level 1	Level 2
<b>Investments:</b>			
Equity securities	\$ 109,922	\$ 109,922	\$ -
Fixed income mutual funds	100,292	100,292	-
Index mutual funds	144,777	144,777	-
International equity mutual funds	11,055	11,055	-
Large cap equity mutual funds	44,351	44,351	-
Money market funds	777	777	-
<b>Total investments</b>	<b>\$ 411,174</b>	<b>\$ 411,174</b>	<b>\$ -</b>
Beneficial interest in trusts	\$ 160,480	\$ -	\$ 160,480
<b>Total investments</b>	<b>\$ 571,654</b>	<b>\$ 571,654</b>	<b>\$ -</b>
<b>Investments:</b>			
Equity securities	\$ 70,117	\$ 70,117	\$ -
Fixed income mutual funds	86,533	86,533	-
Index mutual funds	109,861	109,861	-
International equity mutual funds	9,034	9,034	-
Large cap equity mutual funds	40,905	40,905	-
Money market funds	40,000	40,000	-
<b>Total investments</b>	<b>\$ 356,450</b>	<b>\$ 356,450</b>	<b>\$ -</b>
Beneficial interest in trusts	\$ 171,833	\$ -	\$ 171,833
<b>Total investments</b>	<b>\$ 528,283</b>	<b>\$ 528,283</b>	<b>\$ -</b>

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

Level 2 beneficial interest in trusts, which are invested in money market funds and mutual funds, is measured at the present value of the future distributions expected to be received over the term of the agreements.

### 4. Receivables

Receivables at December 31, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Contributions receivable	\$ 550,000	\$ 75,000
Less: Discount on contributions receivable	(26,250)	(1,991)
<b>Total receivables</b>	<b>\$ 523,750</b>	<b>\$ 73,009</b>

Contributions receivable as of December 31, 2012, are due as follows:

Due in less than one year	\$ 25,000
Due in one to five years	425,000
Due in more than five years	100,000
	<u>550,000</u>
Less: Discount on contributions receivable	(26,250)
<b>Total</b>	<b>\$ 523,750</b>

The discount on contributions receivable has been calculated using discount rates of 1.2% to 1.64%. Since uncollectible contributions receivable are considered to be insignificant, an allowance is not considered necessary.

Receivables at December 31, 2012 and 2011, were comprised of one receivable totaling 91% and 100%, respectively, of total receivables.

### 5. Beneficial interest

The amounts representing beneficial interest in trusts at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Remainder trust	\$ 109,809	\$ 93,374
Term trust	50,671	78,459
<b>Total</b>	<b>\$ 160,480</b>	<b>\$ 171,833</b>

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

**6. Property, building and equipment**

The following is a summary of property, building and equipment, and accumulated depreciation and amortization as of December 31:

	2012	2011
Land	\$ 87,085	\$ 87,085
Buildings and improvements	709,286	709,286
Equipment	100,549	106,689
Furniture and fixtures	145,192	145,192
Software	17,124	14,153
<b>Total</b>	<b>1,059,236</b>	1,062,405
Less: Accumulated depreciation and amortization	(481,974)	(468,605)
<b>Total</b>	<b>\$ 577,262</b>	\$ 593,800

Depreciation and amortization expense for the years ended December 31, 2012 and 2011, was \$30,104 and \$32,726, respectively.

**7. Note payable**

Outstanding note payable is as follows at December 31:

	2012	2011
\$250,000 construction note payable commencing on September 6, 2002. The note was refinanced on March 4, 2008, for \$214,304. The new terms are monthly installments of principal and interest of \$1,849 for 180 months at an interest rate of 6.25%. The note matures on March 6, 2023. The note is secured by the Institute's property.	\$ 155,079	\$ 167,008
Less: Current portion	(12,162)	(11,427)
<b>Total</b>	<b>\$ 142,917</b>	\$ 155,581

The following are maturities of the note payable for the next five years:

Year ending December 31:	Amount
2013	\$ 12,162
2014	12,945
2015	13,777
2016	14,664
2017	15,607
Thereafter	85,924
<b>Total</b>	<b>\$ 155,079</b>

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

**8. Temporarily restricted net assets**

As of December 31, temporarily restricted net assets were as follows:

	2012	2011
Conferences	\$ 8,636	\$ 8,636
Honorariums	800	800
Internships	22,988	3,817
Luncheons	28,500	2,817
Mentoring	-	5,292
Publication	1,744	1,744
Technology	8,905	6,070
Time restricted	209,678	244,842
<b>Total</b>	<b>\$ 281,251</b>	<b>\$ 274,018</b>

Net assets are released from donor restrictions when expenses are incurred that satisfy the donor restricted purpose or through the occurrence of donor specified events. The net assets released from restrictions are as follows for the years ended December 31:

	2012	2011
Conferences	\$ 4,938	\$ -
Debt reduction	-	10,000
Dr. Keith C Wold Lecture	20,000	20,000
Honorariums	51,310	24,170
Internships	20,659	7,330
Luncheons	27,318	-
Mentoring	5,292	20,320
Technology	12,165	31,930
Time restricted	56,899	25,000
<b>Total</b>	<b>\$ 198,581</b>	<b>\$ 138,750</b>



# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

### 9. Endowment funds

The Institute's endowment consists of two donor-restricted funds. One is to provide funding for an annual internship. The other one is to provide funding for general operations. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The internship endowment has been fully funded. The general endowment was created with a pledge in 2012 that will be paid over several years starting in 2013. Investment income will be allocated to the funds based on amounts actually received and invested.

#### Interpretation of Relevant Law

Management of the Institute has interpreted the Virginia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

Changes in endowment net assets for the year ended December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 200,000	\$ 200,000
Investment income			
Interest income	1,452	-	1,452
Net gain (realized and unrealized)	23,378	-	23,378
Total investment return	24,830	-	24,830
Contributions - pledge	-	474,550	474,550
Appropriation of endowment assets for expenditure	(24,830)	-	(24,830)
Endowment net assets, end of year	\$ -	\$ 674,550	\$ 674,550

Changes in endowment net assets for the year ended December 31, 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 199,326	\$ 199,326
Investment income			
Interest income	4,825	-	4,825
Net loss (realized and unrealized)	(3,599)	-	(3,599)
Total investment return	1,226	-	1,226
Change in present value discount on pledge	-	674	674
Appropriation of endowment assets for expenditure	(1,226)	-	(1,226)
Endowment net assets, end of year	\$ -	\$ 200,000	\$ 200,000

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

Description of amounts classified as permanently restricted net assets (endowment only) at December 31:

	2012	2011
<b>Permanently restricted net assets</b>		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 674,550	\$ 200,000

### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2012 and 2011.

### Return Objectives and Risk Parameters

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to preserve the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold for a donor-specified period. Under this policy, as approved by Management, the endowment assets are invested in a manner that is intended to protect the principal investment while at the same time attaining a competitive rate of return. The Institute expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Institute relies on a return strategy in which investment returns are achieved through current yield (interest and dividends).

### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a policy of appropriating for distribution each year the income earned on the endowment funds. In establishing this policy, the Institute considered the long-term expected return on its endowment. Accordingly, over the long term, the Institute expects the current spending policy to remain consistent. This is consistent with the Institute's objective to preserve the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**10. Concentration** In 2012, two donors gave 48% of total contributions. There was no such concentration in 2011.

# Clare Boothe Luce Policy Institute

## Notes to Financial Statements

**11. Pension plan** The Institute offers a tax-sheltered Section 403(b) annuity plan to its employees, allowing them to defer a portion of their compensation on a pre-tax basis. All full-time employees are eligible for participation six months after employment begins. No contributions are made by the Institute to the plan.

**12. Allocation of joint costs** During 2012 and 2011, the Institute incurred joint costs of \$417,250 and \$292,532, respectively, for informational materials primarily related to direct mail, house file mailings and newsletters that included fundraising appeals. Pursuant to the joint cost rules (see Note 1), these costs were allocated to the functional areas as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Program	\$ 315,313	\$ 212,029
Fundraising	101,937	80,503
<b>Total</b>	<b>\$ 417,250</b>	<b>\$ 292,532</b>

**13. Commitments** The Institute has entered into agreements to lease office equipment. These leases are treated as operating leases in the financial statements. The future minimum lease payments required under these leases as of December 31, 2012, are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2013	\$ 2,628
2014	2,628
2015	2,628
2016	2,628
2017	1,314
<b>Total</b>	<b>\$ 11,826</b>

Rent expense for 2012 and 2011 was \$2,749 and \$2,407, respectively.



## Independent Auditor's Report on Supplementary Information

To the Board of Directors of  
**Clare Boothe Luce Policy Institute**  
Herndon, Virginia

We have audited the financial statements of **Clare Boothe Luce Policy Institute** as of and for the years ended December 31, 2012 and 2011, and our report thereon dated May 29, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses on pages 20 and 21 are presented for purposes of additional analysis and are 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.

Rockville, Maryland  
May 29, 2013

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# Clare Boothe Luce Policy Institute

## Schedule of Functional Expenses

Year Ended December 31, 2012

	Program Services		Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
	Public Information	Special Projects		Management and General	Fundraising		
Accounting and legal	\$ -	\$ -	\$ -	\$ -	\$ 35,367	\$ 35,367	\$ 35,367
Advertising and marketing	4,655	2,835	7,490	1,000	-	1,000	8,490
Bank charges	-	-	-	-	6,529	6,529	6,529
Board meetings	-	-	-	-	7,768	7,768	7,768
Conferences	-	93,264	93,264	-	67	67	93,331
Consultants	-	-	-	-	359	359	359
Depreciation and amortization	11,509	13,089	24,598	2,023	3,483	5,506	30,104
Direct mail	160,950	-	160,950	75,186	-	75,186	236,136
Equipment	2,508	160	2,668	160	160	320	2,988
Fees	-	-	-	13	2,705	2,718	2,718
Films, books and literature	3,377	1,264	4,641	277	-	277	4,918
Honorariums	-	71,000	71,000	-	-	-	71,000
House file mailings	141,658	780	142,438	26,161	-	26,161	168,599
Insurance	5,105	5,806	10,911	897	1,545	2,442	13,353
Interest	3,921	4,462	8,383	690	1,187	1,877	10,260
Internships	977	8,428	9,405	-	-	-	9,405
Newsletters	11,946	-	11,946	569	-	569	12,515
Payroll	220,723	251,034	471,757	38,799	66,800	105,599	577,356
Payroll taxes	14,672	16,686	31,358	2,579	4,440	7,019	38,377
Personal property tax	743	845	1,588	131	225	356	1,944
Personal security services	-	5,605	5,605	-	-	-	5,605
Photography	55	3,657	3,712	2	13	15	3,727
Postage, shipping, and delivery	10,118	181	10,299	1,042	1,236	2,278	12,577
Printing	11,610	2,599	14,209	-	194	194	14,403
Public relations	186	14	200	-	306	306	506
Real estate tax	4,591	5,221	9,812	807	1,389	2,196	12,008
Rent and occupancy	9,427	10,665	20,092	1,994	3,997	5,991	26,083
Software	845	961	1,806	148	256	404	2,210
Supplies and miscellaneous	4,342	2,423	6,765	1,015	1,740	2,755	9,520
Technology	7,361	2,947	10,308	3,127	4,003	7,130	17,438
Telecommunications	4,699	-	4,699	-	-	-	4,699
Travel	10,722	18,784	29,506	1,965	72	2,037	31,543
<b>Total</b>	<b>\$ 646,700</b>	<b>\$ 522,710</b>	<b>\$ 1,169,410</b>	<b>\$ 158,585</b>	<b>\$ 143,841</b>	<b>\$ 302,426</b>	<b>\$ 1,471,836</b>

Refer to Independent Auditor's Report on Supplementary Information.

# Clare Boothe Luce Policy Institute

## Schedule of Functional Expenses

Year Ended December 31, 2011

	Program Services			Supporting Services			Total Expenses
	Public Information	Special Projects	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Accounting and legal	\$ -	\$ -	\$ -	\$ -	\$ 65,429	\$ 65,429	\$ 65,429
Advertising and marketing	4,500	300	4,800	1,000	-	1,000	5,800
Bank charges	-	-	-	-	5,439	5,439	5,439
Board meetings	-	-	-	-	6,322	6,322	6,322
Conferences	162	91,402	91,564	1,605	-	1,605	93,169
Consultants	-	2,320	2,320	-	422	422	2,742
Depreciation and amortization	11,793	10,751	22,544	4,795	5,387	10,182	32,726
Direct mail	138,563	-	138,563	48,482	-	48,482	187,045
Equipment	2,418	140	2,558	-	259	259	2,817
Fees	-	2	2	-	3,078	3,078	3,080
Films, books and literature	6,436	590	7,026	170	34	204	7,230
Honorariums	-	36,500	36,500	-	-	-	36,500
House file mailings	36,203	28,093	64,296	31,410	-	31,410	95,706
Insurance	4,765	4,343	9,108	1,937	2,176	4,113	13,221
Interest	4,132	3,766	7,898	1,679	1,887	3,566	11,464
Internships	-	1,728	1,728	-	-	-	1,728
Newsletters	9,170	-	9,170	611	-	611	9,781
Payroll	211,987	193,223	405,210	86,171	96,818	182,989	588,199
Payroll taxes	14,056	12,812	26,868	5,714	6,420	12,134	39,002
Personal property tax	728	664	1,392	296	332	628	2,020
Photography	53	3,454	3,507	-	-	-	3,507
Postage, shipping, and delivery	9,837	1,093	10,930	1,337	2,060	3,397	14,327
Printing	9,023	2,283	11,306	10	282	292	11,598
Public relations	-	768	768	543	169	712	1,480
Real estate tax	4,060	3,700	7,760	1,650	1,854	3,504	11,264
Rent and occupancy	9,228	8,431	17,659	3,882	4,334	8,216	25,875
Software	1,015	925	1,940	413	464	877	2,817
Supplies and miscellaneous	2,289	406	2,695	176	1,647	1,823	4,518
Technology	6,407	12,718	19,125	1,006	2,273	3,279	22,404
Telecommunications	4,666	-	4,666	-	-	-	4,666
Travel	4,706	18,981	23,687	8,370	1,981	10,351	34,038
<b>Total</b>	<b>\$ 496,197</b>	<b>\$ 439,393</b>	<b>\$ 935,590</b>	<b>\$ 201,257</b>	<b>\$ 209,067</b>	<b>\$ 410,324</b>	<b>\$ 1,345,914</b>

Refer to Independent Auditor's Report on Supplementary Information.