

# **The Brookings Institution and Affiliates**

Consolidated Financial Statements  
June 30, 2018

## Contents

---

Independent auditor's report	1-2
------------------------------	-----

---

Financial statements	
Consolidated balance sheet	3
Consolidated statement of activities	4-5
Consolidated statement of cash flows	6-7
Notes to consolidated financial statements	8-27

---

Independent auditor's report on the supplementary information	28
---	----

---

Supplementary information	
Statement of consolidated functional expenses	29-30
Royal Norwegian Ministry of Foreign Affairs grant GRA0247 – financial report	31

---

## Independent Auditor's Report

To the Board of Trustees  
The Brookings Institution and Affiliates

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Brookings Institution and Affiliates (Brookings), which comprise the consolidated balance sheet as of June 30, 2018, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Brookings Institution and Affiliates as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Brookings' 2017 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of Brookings' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Brookings' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Brookings internal control over financial reporting and compliance.

*RSM US LLP*

McLean, Virginia  
November 15, 2018

**The Brookings Institution and Affiliates**

**Consolidated Balance Sheet  
June 30, 2018  
(With Comparative Totals for 2017)  
(Dollars In Thousands)**

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 29,587	\$ 25,067
Receivables, net	75,134	96,920
Investments – endowment	372,666	346,419
Investments – other	18,661	18,649
Property and equipment, net	32,388	34,924
Other assets	3,074	2,874
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 531,510</b>	<b>\$ 524,853</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 8,324	\$ 8,514
Deferred revenue	1,340	1,949
Accrued post-retirement benefit obligation	1,309	1,421
Note payable, net	45,797	46,525
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>56,770</b>	<b>58,409</b>
Commitments and contingencies (Notes 9 and 11)		
Net assets:		
Unrestricted	231,351	217,897
Temporarily restricted	153,276	159,855
Permanently restricted	90,113	88,692
	<hr/>	<hr/>
<b>Total net assets</b>	<b>474,740</b>	<b>466,444</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 531,510</b>	<b>\$ 524,853</b>

See notes to consolidated financial statements.

The Brookings Institution and Affiliates

Consolidated Statement of Activities  
Year Ended June 30, 2018  
(With Comparative Totals for 2017)  
(Dollars In Thousands)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and support:					
Investment income designated for operations	\$ 11,078	\$ 4,960	\$ -	\$ 16,038	\$ 15,342
Grants and contracts	2,160	36,228	-	38,388	47,338
Contributions	5,873	19,715	1,421	27,009	49,505
Program service revenue	555	-	-	555	420
Brookings press	1,817	-	-	1,817	1,725
Facility revenue	2,351	-	-	2,351	2,167
Rental income, net of expenses of \$276	358	-	-	358	216
Interest, dividends, and currency exchange gain (loss)	551	(287)	-	264	512
Other income	268	-	-	268	110
Net assets released from restrictions	73,171	(73,171)	-	-	-
<b>Total revenue and support</b>	<b>98,182</b>	<b>(12,555)</b>	<b>1,421</b>	<b>87,048</b>	<b>117,335</b>
Expenses:					
Program services:					
Economic studies	15,547	-	-	15,547	15,943
Foreign policy studies	15,942	-	-	15,942	15,335
Global economy and development	11,757	-	-	11,757	12,105
Institutional initiatives	9,165	-	-	9,165	9,560
Metropolitan policy	7,767	-	-	7,767	8,170
Governance studies	8,346	-	-	8,346	7,327
Brookings press	2,221	-	-	2,221	2,545
Communications	1,886	-	-	1,886	2,157
<b>Total program services</b>	<b>72,631</b>	<b>-</b>	<b>-</b>	<b>72,631</b>	<b>73,142</b>
Supporting services:					
Management and general	21,707	-	-	21,707	21,254
Fundraising	3,251	-	-	3,251	3,590
<b>Total expenses</b>	<b>97,589</b>	<b>-</b>	<b>-</b>	<b>97,589</b>	<b>97,986</b>
<b>Change in net assets before non-operating activities</b>	<b>593</b>	<b>(12,555)</b>	<b>1,421</b>	<b>(10,541)</b>	<b>19,349</b>

(Continued)

**The Brookings Institution and Affiliates**

**Consolidated Statement of Activities (Continued)**  
**Year Ended June 30, 2018**  
**(With Comparative Totals for 2017)**  
**(Dollars In Thousands)**

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Non-operating activities:					
Investment return in excess of amounts designated for operations:					
Realized gain from sale of investments	\$ 22,470	\$ 603	\$ -	\$ 23,073	\$ 8,299
Unrealized gain from investments	4,575	5,976	-	10,551	38,835
Interest and dividends, net of investment office expenses of \$1.358 million	(3,218)	4,357	-	1,139	671
Investment income designated for operations	(11,078)	(4,960)	-	(16,038)	(15,342)
<b>Total investment return in excess of amounts designated for operations</b>	<b>12,749</b>	<b>5,976</b>	<b>-</b>	<b>18,725</b>	<b>32,463</b>
<b>Change in net assets before post-retirement related changes</b>	<b>13,342</b>	<b>(6,579)</b>	<b>1,421</b>	<b>8,184</b>	<b>51,812</b>
Post-retirement related changes	112	-	-	112	367
<b>Change in net assets</b>	<b>13,454</b>	<b>(6,579)</b>	<b>1,421</b>	<b>8,296</b>	<b>52,179</b>
Net assets:					
Beginning	217,897	159,855	88,692	466,444	414,265
Ending	<u>\$ 231,351</u>	<u>\$ 153,276</u>	<u>\$ 90,113</u>	<u>\$ 474,740</u>	<u>\$ 466,444</u>

See notes to consolidated financial statements.

**The Brookings Institution and Affiliates**

**Consolidated Statement of Cash Flows  
Year Ended June 30, 2018  
(With Comparative Totals for 2017)  
(Dollars In Thousands)**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 8,296	\$ 52,179
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization expense	4,613	4,978
Write-off of property and equipment	-	46
Change in allowance for receivables	(39)	376
Amortization of discount on receivables	(454)	2,330
Amortization of bond issue costs	28	28
Net realized gain from sale of investments	(23,073)	(8,299)
Net unrealized gain from investments	(10,551)	(38,835)
Changes in assets and liabilities:		
Decrease (increase) in:		
Receivables	20,583	(20,772)
Other assets	(200)	1,019
(Decrease) increase in:		
Accounts payable and accrued expenses	(190)	(678)
Deferred revenue	(609)	402
Accrued post-retirement benefit obligation	(112)	(367)
<b>Net cash used in operating activities</b>	<b>(1,708)</b>	<b>(7,593)</b>
Cash flows from investing activities:		
Purchases of investments	(82,630)	(128,609)
Proceeds from sales of investments	89,995	140,390
Purchases of property and equipment	(2,077)	(2,633)
<b>Net cash provided by investing activities</b>	<b>5,288</b>	<b>9,148</b>
Cash flows from financing activities:		
Principal payments on note payable net of amortization	(756)	(737)
Payments on permanently restricted pledges	1,696	3,073
<b>Net cash provided by financing activities</b>	<b>940</b>	<b>2,336</b>

(Continued)



**The Brookings Institution and Affiliates**

**Consolidated Statement of Cash Flows (Continued)**

**Year Ended June 30, 2018**

**(With Comparative Totals for 2017)**

**(Dollars In Thousands)**

	<b>2018</b>	<b>2017</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$ 4,520</b>	<b>\$ 3,891</b>
Cash and cash equivalents:		
Beginning	<u>25,067</u>	21,176
Ending	<u>\$ 29,587</u>	<u>\$ 25,067</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 1,170</u>	<u>\$ 1,189</u>

See notes to consolidated financial statements.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Brookings Institution and Affiliates (Brookings) consist of the Brookings Institution, Brookings Institution India Center, and Brookings Doha Center. Brookings is a nonprofit public policy organization that conducts in-depth, independent research with the goal of improving governance and solving problems facing society at the local, national and global level. Brookings achieves impact by providing policy analysis and recommendations on pressing policy challenges, which are disseminated through reports, books, media appearances, op-eds, blog posts, Congressional testimony, public and private events, and opinion pieces posted on Brookings's website, as well as briefings for policymakers and their staff. Headquartered in Washington, D.C., Brookings is organized into five research programs that focus on domestic and international economics, foreign policy, international development, governance and metropolitan policy. Brookings has overseas centers in Qatar, China and India. In 2016, Brookings adopted a new strategic plan that refocuses its mission, engages new audiences, promotes interdisciplinary collaboration, increases diversity and strengthens efficiency and sustainability.

**Brookings Institution India Center:** Brookings opened its newest overseas policy center in New Delhi, India in early 2013. This center complements its two existing overseas policy centers in Beijing, China and Doha, Qatar. The India Center serves as a platform for cutting-edge, policy relevant research and analysis on the opportunities and challenges facing India and the world.

**Brookings Institution Doha Center:** Brookings opened a research center in Doha, Qatar in early 2008 after organizing an annual conference in Qatar since 2004. The Doha Center is designed to support and disseminate research and to facilitate dialogue and understanding between the West and the Islamic World.

Brookings' funds are allocated to the following program areas:

**Foreign Policy Studies:** The U.S. and the international community face great challenges in the 21<sup>st</sup> century – globalization offers more freedom and prosperity, but also new threats to our security. Foreign Policy experts and research help policymakers and the public address these crucial issues.

**Economic Studies:** Economic Studies monitors the global economy and seeks answers to economic policy issues in the United States. The program's research aims to increase the public's understanding of how the economy works and how to make programs and policies better.

**Metropolitan Policy:** The Metropolitan Policy Program redefines the challenges facing metropolitan America and promotes innovative solutions to help communities grow in more inclusive, competitive and sustainable ways.

**Global Economy and Development:** Global Economy and Development examines the opportunities and challenges presented by globalization, which has become a central concern for policymakers, business executives and civil society. Global experts address the issues surrounding globalization within three key areas: the drivers shaping the global economy, the road out of poverty and the rise of new economic powers.

**Governance Studies:** Governance Studies brings together people interested in improving the performance of our national government and the economic security, social welfare and opportunity available to all Americans.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Institutional Initiatives:** Includes research initiatives of the Executive Office and all cross-program research efforts (e.g., Brookings Office of the Centennial Scholar that was closed in FY18). It also includes expenses associated with partnerships with two universities: The Brookings Mountain West program with the University of Nevada, Las Vegas and Brookings' Executive Education program, a partnership with Washington University in St. Louis. Institutional Initiatives also includes the work of Brookings' three foreign centers based in Beijing, China, Doha, Qatar and New Delhi, India.

**Brookings Press:** The Brookings Press publishes public policy research books from Brookings' own scholars, as well as outside authors. The publications provide extensive background and insight on important public policy issues in business, economics, government and international affairs.

**Communications:** The Central Communications team promotes the work of Brookings scholars to a wide range of niche and general audiences and protects and maintains the Brookings brand. In coordination with research program staff, Central Communications provides strategic counsel and crisis communications, manages the Brookings website and digital footprint (including social media properties and newsletters), oversees all public Brookings events and produces the four podcasts of the Brookings Podcast Network.

A summary of Brookings' significant accounting policies follows:

**Basis of consolidation:** All significant intercompany transactions have been eliminated in the consolidation.

**Basis of accounting:** The consolidated financial statements of Brookings are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, unconditional revenue is recorded when received, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

**Basis of presentation:** The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (the Codification or ASC). As required by the Non-Profit Entities topic of the Codification, Financial Statements of Not-for-Profit Organizations, Brookings is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

**Cash and cash equivalents:** For financial statement purposes, Brookings considers cash and cash equivalents to include cash in the bank and liquid investments with an original maturity of three months or less and excludes those amounts in the investment portfolio, which are reported with investments.

**Financial risk:** Brookings maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. Brookings has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash and cash equivalents.

**Receivables:** Receivables include grants and contracts and promises to give as follows:

**Grants and contracts:** Brookings receives grants and enters into contracts with the U.S. government and foreign governments that support various programs on a cost-reimbursement basis. Revenue is recognized as reimbursable expenditures are incurred. This revenue includes recoveries of facilities and other administrative costs. Grants from private foundations and other organizations are recognized in the period when unconditional promises to give are received.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Promises to give:** Unconditional promises to give are recorded as contribution revenue upon receipt of the promise. Promises that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected beyond one year are recorded at their net present value. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults.

**Contributions receivable in a charitable remainder unitrust (CRUT):** Included in accounts, grants and contributions receivable is a CRUT. The CRUT is revalued annually by calculating the present value based on the current appraised value of the investments, the donor's life expectancy and a discount rate of 0.99%.

Receivables are recorded at their net realizable value. Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the account is written off against an allowance account. Management annually adjusts the allowance account based upon its estimate of those accounts receivable it believes to be uncollectible. The allowance at June 30, 2018, was \$1.288 million.

**Investments:** Investments consist of shares held in pooled funds, U.S. treasury funds, money market funds, and partnerships. These investments include both foreign and domestic securities. As part of the respective underlying strategies, the investment managers employ various financial strategies, all of which carry a certain degree of risk of investment loss. Specifically, market risk relates to the possibility that invested assets within a particular strategy may experience loss due to prevailing market conditions. Brookings has adopted a diversified asset allocation policy to avoid undue concentration of risk and to take advantage of market inefficiencies.

Investments are stated at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair value of investments that are not listed on national markets or over-the-counter markets and for which quoted market prices are not available, and which are generally subject to certain withdrawal restrictions, is provided by the general partners or external investment managers and may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. Because of the inherent uncertainty of the valuation of these investments and in certain of the underlying investments held by the fund managers, values for those investments may differ from values that would have been used had a ready market for the investments existed. Brookings reviews and evaluates the values provided by its investment managers and agrees with the valuation methods and assumptions used in determining the fair value. These financial investments include both assets and liabilities in the underlying partnership funds, which are combined into a net asset value (NAV). Future events could impact not only asset valuations, but also estimates of fair value related to liabilities. For disclosure of fair value inputs and valuation techniques see Note 4.

Unrealized gains and losses are determined by comparison of cost to fair value at the beginning and end of the reporting period. Realized gains and losses on sales of investments are recorded on the trade date of the transaction.

Donated investments are recorded in the consolidated financial statements at fair value on the date of donation.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Derivative financial instruments and hedging activities:** Brookings invests with managers who reserve the right to use various derivative instruments (e.g., options, warrants, futures, swaps, etc.). Derivatives are traded contracts whose value is derived from the price movements of an underlying security and they are typically used to hedge certain types of investment risk (e.g., interest rate, currency, etc.) or otherwise meet the stated objectives of the fund. These derivative instruments are recorded at their estimated fair value, and the resulting gains and losses are reflected as a component of investment return in the accompanying consolidated statement of activities.

**Financial instruments with off-balance sheet risk:** In the course of the trading activities entered into by Brookings' various investment managers, certain financial instruments involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded in the consolidated financial statements.

As stated above, market risk is the potential for changes in the value of investment assets due to market forces, including the interest and foreign exchange rate movements and fluctuations that are embedded in the security prices. This risk is also affected by the volatility and liquidity of the markets in which the related underlying assets are traded.

Credit risk is the possibility that a loss may occur due to the failure of the counter party to meet its financial obligation as stated in the terms of the contract. Brookings' risk of loss in the event of counter party default is typically limited to the amounts recognized in the accompanying consolidated balance sheet and does not include the notional amounts of the specific contracts.

The ASC topic on fair value measurement for financial assets and liabilities measured on a recurring basis defines fair value and establishes a framework for measuring fair value in accordance with GAAP. The topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, the topic established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby, the market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby, assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of the fair value hierarchy are described as follows:

- Level 1:** Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.
- Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.
- Level 3:** Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

Brookings' assets and liabilities measured at fair value on a recurring basis as of June 30, 2018, are presented in accordance with the fair value standards in Note 4.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Property, equipment, and depreciation:** All acquisitions of furniture and equipment greater than \$2.5 thousand, including computer equipment and software, are capitalized at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years, with no salvage value. Costs incurred in the development of software for internal use are expensed during the preliminary and post-implementation operation stages, including data conversion, training, and maintenance costs. Costs incurred during the application development stage of software development are capitalized. The buildings are stated at cost and are depreciated using the straight-line method over an estimated useful life of 50 years, with no salvage value. Building improvements greater than \$2.5 thousand are capitalized and amortized using the straight-line method over the remaining estimated life of the related building or the estimated life of the asset, whichever is less. Expenditures for minor repairs and maintenance costs are expensed when incurred. Land and artwork are recorded at cost or fair value at time of donation. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses.

**Valuation of long-lived assets:** Brookings accounts for the valuation of long-lived assets by reviewing such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. There were no impairments of long-lived assets at June 30, 2018.

**Net assets:** Brookings' resources are classified for accounting and reporting purposes into net asset groups based on the existence or absence of donor-imposed restrictions. The net asset groups are as follows:

**Unrestricted:** Represents resources available for support of the operations of Brookings and includes board designated net assets and quasi-endowment funds.

**Temporarily restricted:** Represents resources received by Brookings from contributors or grantors that are purpose- or time-restricted by the donors.

**Permanently restricted:** Represents resources that are to be held in perpetuity by Brookings, as stipulated by the donors, and only the investment earnings are to be expended for the purposes designated by the donors.

During fiscal year 2005, Brookings' Board of Trustees determined that \$5 million of unrestricted net assets would be put in a separate fund to be used by Brookings, with the agreement of the Board, to fund specified costs or activities, including operating losses, and to be the repository for operating earnings of Brookings. During 2012, the Brookings Board of Trustees approved the use of the strategic reserve to support unfunded strategic priorities. They also approved encumbering, for a period of no longer than three years, the balance of the strategic reserve to cover the cash requirements of the Brookings website redesign to be used as necessary based on institutional cash requirements. During the year ended June 30, 2018, none of the reserve was spent and it was unencumbered in fiscal year 2018.

At June 30, 2018, the amount of unrestricted net assets in the board designated strategic reserve amounted to \$5.370 million.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In February 2015, a second fund was established and to be funded on a discretionary basis annually. This fund is to be funded with excess unrestricted net assets up to \$0.5 million per year. At June 30, 2018, the amount of unrestricted net assets in this board designated strategic reserve amount to \$2.067 million.

**Revenue recognition:** Brookings recognizes unconditional contributions, non-federal grants and contracts, including unconditional promises to give, as revenue in the period received and/or when unconditional promises are received. All unconditional contributions, non-federal grants and contracts are considered to be available for unrestricted use, unless specifically restricted by the donor. Unconditional gifts, grants and contracts that are expected to be collected within one year are recorded at net realizable value. Unconditional gifts, grants and contracts that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using market rates that are commensurate with the risks identified. The portion of unconditional gifts, grants and contracts that was discounted in prior fiscal years but is collected in the current year is recorded as revenue in the current year. Contributions, non-federal grants and contracts that have been committed to Brookings but have not been received are reflected as receivable in the accompanying consolidated balance sheet.

Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purpose and are reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Revenue from publications and federal grants and contracts are recognized in the year in which it is earned. Amounts received from these sources but not yet earned are recorded as deferred revenue in the accompanying consolidated balance sheet.

**Endowments:** The ASC topic on Not-For-Profit Entities provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective January 23, 2008, the District of Columbia enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. A key component of the ASC is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets, until appropriated for expenditure. The ASC also requires disclosures about an organization's endowed funds (both donor-restricted endowment funds and board designated endowment funds).

**Allocation of expenses:** Expenses have been summarized on a functional basis in the accompanying consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Occupancy expenses, other than those costs directly related to facilities revenue, are allocated to program and supporting services.

**Prior year information:** The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Brookings' audited consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

**Measure of operations:** Brookings considers investment return, other than the amounts designated for operations, reclassifications of permanently and temporarily restricted net assets based on donors' consent, and post-retirement related changes to be items not included in operations. Interest and dividends earned on Brookings' operating cash accounts are considered operating activities.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Income taxes:** Brookings is exempt from federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been designated by the Internal Revenue Service (IRS) as a publicly supported organization under Section 509(a)(1) of the Code. Brookings engages in certain activities that produce unrelated business income, as defined by federal income tax regulations.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Brookings files income tax returns in the U.S. federal jurisdiction. As of June 30, 2018, and for the year then ended, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, Brookings is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015.

**Use of estimates:** The preparation of consolidated financial statements 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Upcoming accounting pronouncements:**

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and 2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified perspective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. Brookings is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.



## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the statement of activities separately from the service component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. ASU 2017-07 is effective for annual beginning after December 15, 2017, and the interim periods included within those annual periods, with early adoption permitted ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of activities, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Brookings is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements. The adoption of ASU 2017-07 is not expected to have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. Brookings is currently evaluating the impact of its pending adoption of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of nonprofit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a nonprofit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management is implementing this ASU in FY19 on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for annual reporting periods beginning after December 15, 2017. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 by one year, making it effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management has not yet selected a transition method and is currently evaluating the effect that the update will have on the consolidated financial statements.

**Subsequent events:** Brookings evaluated subsequent events through November 15, 2018, which is the date the consolidated financial statements were available to be issued.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 2. Receivables

Receivables that are expected to be collected within one year are recorded at their net realizable value. Grants and contributions that are expected to be collected after one year are recorded at their present value using a discount rate between 3.69% and 4.09% for the respective periods of collection. As of June 30, 2018, receivables were due as follows:

	Dollars in Thousands
Less than one year	\$ 39,783
One to five years	35,772
More than five years	5,267
	<u>80,822</u>
Less allowance for doubtful accounts	(1,288)
Less unamortized discount to present value	(4,400)
	<u>\$ 75,134</u>

#### Note 3. Investments

Investments are stated at fair value and include cash equivalents held for investment purposes. As of June 30, 2018, investments consisted of the following:

	Dollars in Thousands
Pooled equity funds	\$ 55,051
U.S. Treasury fund	19,632
Money market funds	37,932
Partnerships:	
Absolute return	87,759
Real assets	49,453
Developed international equity	65,306
Domestic equity	34,409
Private equity	23,124
Total endowment investments	<u>\$ 372,666</u>
U.S. Treasury fund	<u>\$ 18,661</u>
Total other investments	<u>\$ 18,661</u>

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

#### Note 4. Fair Value Measurements

The following table summarizes Brookings' assets measured at fair value on a recurring basis as of June 30, 2018, in accordance with fair value standards:

	Dollars in Thousands			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other investments:				
U.S. Treasury fund (d)	\$ 18,661	\$ -	\$ 18,661	\$ -
Total other investments	\$ 18,661	\$ -	\$ 18,661	\$ -
Endowment investments:				
Money market funds	37,932	-	37,932	-
U.S. Treasury fund	19,632	-	19,632	-
Long-biased equities:				
U.S. funds	30,046	8,297	21,749	-
Developed non-U.S. funds	21,981	-	21,981	-
Emerging markets funds	29,903	-	29,903	-
Total long-biased equities	81,930	8,297	73,633	-
Investments valued at NAV	233,172	-	-	-
Total endowment investments	\$ 372,666	\$ 8,297	\$ 131,197	\$ -
Contributions receivable:				
Interest in CRUT	\$ 1,159	\$ -	\$ -	\$ 1,159
Total assets held at fair value	\$ 392,486	\$ 8,297	\$ 149,858	\$ 1,159

Brookings used the following methods and significant assumptions to estimate fair value for its assets recorded at fair value:

**Long-biased U.S. funds:** Valued based on quoted market prices in active markets.

**U.S. Treasury fund, money market funds, and other long biased equities:** Valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

**Investments valued at net asset value:** These investments include hedge funds, partnerships, and other long biased equities that are subject to certain liquidity restrictions and generally have no established trading market. Fair value is determined based on the investment's net asset value (NAV) as provided by the fund's management or the general partner of the respective fund. The fair values are based on third-party appraisals, discounted cash flow models and publicly-traded companies, among other things. Brookings has performed significant due diligence around the valuation of these investments to ensure NAV was an appropriate measure of fair value as of June 30, 2018.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

#### Note 4. Fair Value Measurements (Continued)

**Contributions receivable in a charitable remainder unitrust (CRUT):** Included in accounts, grants and contributions receivable is a CRUT. The CRUT is revalued annually by calculating the present value based on the current appraised value of the investments, the donor's life expectancy and a discount rate of 0.99%.

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows for the year ended June 30, 2018 (dollars in thousands):

	Balance at June 30, 2017	Realized and Unrealized Gain/Loss	Purchases	Sales	Balance at June 30, 2018
CRUT	\$ 1,130	\$ 29	\$ -	\$ -	\$ 1,159
	\$ 1,130	\$ 29	\$ -	\$ -	\$ 1,159

Brookings performs due diligence reviews of the NAV or its equivalent to determine the fair value of certain investments. Brookings has assessed factors including, but not limited to, managers' compliance with fair value measurements standards, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date and the existence of certain redemption restrictions at the measurement date.

The table below details Brookings' ability to redeem investment funds valued at NAV or its equivalent as of June 30, 2018:

	Dollars in Thousands			Redemption Frequency if Currently Eligible	Redemption Notice Period
	Number of Funds	Fair Value	Unfunded Commitments		
Long-biased equities (a):					
U.S. funds	1	\$ 34,410	\$ -	Quarterly	60 days
Developed non-U.S. funds	3	41,470	-	Varies	Varies
Emerging market fund	1	5,256	-	Monthly	90 days
Hedge funds (b):					
Credit strategy	4	45,289	778	Varies	Varies
Multi-strategy	3	18,255	-	Varies	Varies
Equity long/short	2	24,215	-	Annually	Varies
Private equity limited partnerships (c):					
Oil and gas	7	20,491	11,113	Ineligible	N/A
Real estate	11	24,283	6,848	Ineligible	N/A
Equities	6	19,503	4,144	Ineligible	N/A
	38	\$ 233,172	\$ 22,883		

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 4. Fair Value Measurements (Continued)

- (a) **Long-biased equities:** In this class, most of the securities underlying the funds are marketable equities. Some of these funds also invest in marketable fixed income and derivative securities. Daily market valuations are publicly available for almost all of the underlying securities. In the U.S. Funds, one fund, which makes up \$34,410 of the total value, is available quarterly with 60 days' notice. In the emerging market funds, one fund, which makes up \$5,256 of the total value, is available monthly with 90 days' notification. In the developed non-U.S. funds, one fund, which makes up \$17,815 of the total value, is available monthly with ten business days' notification. Another fund in the developed non-U.S. funds category, which makes up \$9,981 of the value, permits only partial redemption annually in advance of March 1, 2020. Another fund in the developed non-U.S. funds category, which makes up \$13,674 of the value, is available weekly with seven business days' notification.
- (b) **Hedge funds:** In this class, the securities underlying the funds are predominantly marketable equities, fixed income, and derivative securities. In the credit strategy category, one fund, which makes up \$21,302 of the value, has 20% of value available for redemption annually at September 30. Another credit strategy fund, which makes up \$16,892 of the value, has 50% of value available annually for redemption at January 31. Two other credit strategies, which hold \$3,621 of the value in private loans and \$3,474 of the value in fixed income securities, will distribute proceeds periodically but cannot be liquidated in advance of their natural termination. In the multi-strategy category, one fund, which makes up \$5,487 of the value, has 85.4% of value available for redemption annually at December 31. In the long/short category, one-third of one fund, which makes up \$10,567 of the value, and 100% of another fund, which makes up \$12,716 of the value, are available for redemption annually at December 31. Another long/short fund, which makes up \$13,648 of the value, has available 100% of value for redemption annually at June 30. The remaining amounts in the absolute return class are in special situations and not available for redemption.
- (c) **Private equity limited partnerships:** The funds are private partnerships that invest in oil and gas reserves, real estate properties and privately held companies. One of the funds in the real estate sub-category and two of the funds in the equities sub-category invest only outside of the U.S. Most of the funds distribute proceeds from operations and/or sales periodically. These funds cannot be liquidated in advance of their natural termination.
- (d) **U.S. Treasury fund:** The securities underlying this fund are United States Treasury bond securities, with maturities of one to three years. Amounts invested in the fund are available for redemption on a daily basis with one day notice.

#### Note 5. Property and Equipment

Brookings held the following property and equipment as of June 30, 2018:

	Dollars in Thousands
Land	\$ 4,156
Buildings and improvements	54,926
Computer equipment and software	21,896
Furniture and equipment	6,056
	<u>87,034</u>
Less accumulated depreciation and amortization	<u>(54,646)</u>
	<u>\$ 32,388</u>

Depreciation and amortization expense was approximately \$4.6 million for the year ended June 30, 2018.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 6. Temporarily Restricted Net Assets

As of June 30, 2018, temporarily restricted net assets were available for the following programs for future periods:

	Dollars in Thousands
Institutional and President's special initiatives	\$ 42,501
Economic studies	32,865
Global economy and development	17,487
Foreign policy	21,796
Governance studies	20,636
Metropolitan policy	13,413
Time restricted	4,578
	<u>\$ 153,276</u>

#### Note 7. Endowment Funds

Brookings' endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Accordingly, Brookings' endowment is classified into unrestricted quasi-endowments, temporarily restricted unexpended endowment earnings and permanently restricted net assets (collectively referred to as the Endowment). As of June 30, 2018, Brookings' Endowment had the following net asset composition:

	Dollars in Thousands			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 49,275	\$ 90,113	\$ 139,388
Board designated	232,704	-	-	232,704
Endowment net assets, end of year	<u>\$ 232,704</u>	<u>\$ 49,275</u>	<u>\$ 90,113</u>	<u>\$ 372,092</u>

**Interpretation of relevant law:** Brookings has interpreted UPMIFA as requiring the preservation of the original fair value of the 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, Brookings 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 Brookings in a manner consistent with UPMIFA.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 7. Endowment Funds (Continued)

In accordance with UPMIFA, Brookings considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of Brookings and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Brookings
- The investment policies of Brookings

**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 Brookings to retain as a fund for perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as a reduction of unrestricted net assets. Generally, such deficient conditions occur in recently created endowment funds when investment market performance has not produced a return greater than Brookings' spending rate. Brookings' management has continued to follow its existing spending rate policy rather than reduce the Endowment distribution, because it expects that the individual fund values will be restored with future market appreciation. As of June 30, 2018, there were no underwater investments included in unrestricted net assets.

**Performance objectives and spending and investment policies:** The intention of the Board of Trustees is that Brookings should continue to pursue its mission as a going concern in perpetuity. The Endowment is the core source of operational funds now and into the future, independent from and not reliant upon external revenue sources. Accordingly, the spending and investment policies are designed in tandem to earn and provide sustainable and reliable amounts annually to support Brookings' programs.

The specific amount allocated for spending is a 70/30 weighted average of the amount provided to operations in the prior year, adjusted for inflation, and the amount that represents 5% of the market value of the spending funds within the Endowment at the prior December 31. Dramatic decreases or increases in the investment market value will only marginally affect the new fiscal year's support level, ensuring a continuation of support while also preventing imprudent over-spending when valuations are unreliably high. For the year ended June 30, 2018, spending amounted to \$16.038 million, in addition to \$0.758 million in note payable repayments.

In order to provide this amount of support into the future, the Endowment must earn at least 5% annualized after inflation over the long-term.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

#### Note 7. Endowment Funds (Continued)

A portion of the portfolio is invested in risk-free U.S. government bonds in order to directly protect the immediate spending requirements of Brookings. On top of this core, the portfolio is invested in diversified layers of less liquid assets that incrementally offer higher return at higher market risk and volatility levels. These additional investments are in publicly traded equities in developed and emerging markets; absolute return strategies utilizing marketable bonds, stocks and derivatives; public securities and private partnerships interested in real estate, oil and gas and other tangible assets; and partnerships interested in non-public companies. Management continually monitors the portfolio allocation and rebalances as necessary between the multiple asset classes, in order to ensure that liquid funds are available to support the institution, fulfill any investment commitments, and maintain a balance of risks among the many external partners and investment strategies.

For the year ended June 30, 2018, Brookings' Endowment had the following activity:

	Dollars in Thousands			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 219,975	\$ 43,779	\$ 88,692	\$ 352,446
Investment income, net of fees	23,807	10,936	-	34,743
Contributions and change in value of CRUT	-	(480)	1,421	941
Appropriations for expenditure	(11,078)	(4,960)	-	(16,038)
Endowment net assets, end of year	<u>\$ 232,704</u>	<u>\$ 49,275</u>	<u>\$ 90,113</u>	<u>\$ 372,092</u>

**Permanently restricted net assets:** The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA, is as follows:

	Dollars in Thousands
Chairs and fellowships	\$ 67,385
General	22,728
	<u>\$ 90,113</u>

The portion of perpetual endowment funds subject to a time restriction under UPMIFA is as follows:

	Dollars in Thousands
Without purpose restrictions	\$ 4,578
With purpose restrictions	44,697
	<u>\$ 49,275</u>



## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 8. Line of Credit and Note Payable

**Line of credit:** Brookings has an unsecured revolving line of credit with a financial institution up to a loan amount of \$5 million, renewed effective March 31, 2017. The interest rate was calculated based on the one-month London InterBank Offered Rate (LIBOR) plus 60 basis points, which was 2.69% as of June 30, 2018. There was no interest expense relating to the line of credit for the year ended June 30, 2018, due to no borrowings during the fiscal year. This credit facility is renewed annually and currently has been extended with an expiration date of November 30, 2018.

**Tax-exempt bonds and refinancing:** On February 12, 2009, the District of Columbia agreed to issue tax-exempt revenue bonds totaling \$40 million, the proceeds from which were loaned to Brookings through a third party. The bonds were issued at a discount of \$710 thousand. Interest accrued at a rate of 5.75% and is payable in semi-annual installments of \$1.150 million, until principal payments commence on October 1, 2035. The bonds are unsecured and mature on October 1, 2039.

On January 30, 2015, the 2009 District of Columbia issued tax-exempt revenue bonds totaling \$40 million were refinanced by Brookings in a 15-year, fixed coupon, amortizing Direct Purchase bond structure. Brookings directly issued to a bank lender a Direct Purchase bond, with the proceeds being used to purchase eligible securities that were placed into an escrow account. These proceeds were used to legally defease the existing Series 2009 bonds through their 2019 call date. The bank lender agreed to purchase the bonds for a 30-year loan. For the first 15 years the loan will be amortized over a 40-year period. At the end of the 15 years, the loan will be adjusted to a 15-year amortization through February 1, 2045. Brookings can prepay after year 5 without penalty. Brookings required approximately \$48.575 million of proceeds to sufficiently escrow and advance refund the existing \$40 million Series 2009 issue. The interest rate on the new debt is 2.5179%. Interest expense relating to the note payable totaled \$1.170 million for the year ended June 30, 2018.

Future scheduled principal repayments under the note payable are as follows:

	Dollars in Thousands
Years ending June 30:	
2019	\$ 776
2020	795
2021	816
2022	836
2023	858
Thereafter	42,045
Unamortized debt issuance costs	(329)
	<u>\$ 45,797</u>

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 9. Leases

Brookings has several non-cancellable lease agreements for office space in Washington, D.C. and foreign countries that expire through August 31, 2026. Under the terms of the leases, Brookings is committed to annual rentals adjusted for defined escalations. Office rent expense for the year ended June 30, 2018, including rent in foreign offices, amounted to \$1.738 million. Brookings also subleases a portion of its office buildings. Rental income was \$634 thousand for the year ended June 30, 2018. Future minimum lease payments and receipts for all operating leases, including a lease for the India office that was renewed subsequent to June 30, 2018, are as follows:

Years ending June 30:	Dollars in Thousands		
	Payments	Receipts	Net
2019	\$ 1,537	\$ (259)	\$ 1,278
2020	1,575	(2)	1,573
2021	1,608	-	1,608
2022	1,632	-	1,632
2023	1,677	-	1,677
2024 - 2027	5,129	-	5,129
Total	<u>\$ 13,158</u>	<u>\$ (261)</u>	<u>\$ 12,897</u>

#### Note 10. Employee Benefits

**Post-retirement benefits:** Brookings sponsors a health insurance plan to provide certain medical, dental, vision and life insurance benefits to its retirees who retired by June 30, 2004. Brookings makes the same plan available, with the exception of life insurance, to its retirees who retired after June 30, 2004. The amount of premium paid by Brookings is determined by a set cost structure. For both groups, the retiree completely pays the cost of dental and vision insurance.

Brookings has no mandatory retirement age. For employees hired before July 1, 2004, retirement is granted if the person's age is 60 or older and if the combination of the person's age and years of service totals at least 75; for those younger than age 60, the combination of age and years of service must total at least 80. For anyone hired after June 30, 2004, retirement is granted to an employee who is at least age 63½ and who has at least ten years of service (the 63½ rule).

Effective June 30, 2011, Brookings changed the retiree medical plan eligibility conditions. The minimum age requirement under the rule-of-75 was removed, but plan participation is now limited to employees who will meet the retirement eligibility requirement by June 30, 2012 (their actual retirement date can be after June 30, 2012). This change reduced the plan's projected obligations and costs and also significantly reduced the expected years of future service of active plan participants, causing a curtailment, as defined in the applicable accounting rules. The event of a curtailment required accelerated recognition, in FY2011, of the unrecognized prior service related to prior plan amendments.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 10. Employee Benefits (Continued)

The following table summarizes the accumulated post-retirement benefit obligations, the fair value of plan assets and the funded status of the plan at June 30, 2018:

	Dollars in Thousands
Change in benefit obligation:	
Accumulated post-retirement benefit obligation, beginning of fiscal year	\$ 1,421
Service cost	-
Interest cost	47
Plan amendments	-
Retiree contributions	131
Benefits paid	(215)
Actuarial (gain)	(75)
Accumulated post-retirement benefit obligation, end of fiscal year	<u>1,309</u>
Change in plan assets:	
Fair value of plan assets, beginning of fiscal year	-
Employer contributions	84
Retiree contributions	131
Benefits paid	(215)
Fair value of plan assets, end of fiscal year	<u>-</u>
Funded status, end of fiscal year	<u>\$ (1,309)</u>

The components of the net periodic post-retirement benefit costs recognized in the accompanying consolidated statement of activities are as follows for the year ended June 30, 2018:

	Dollars in Thousands
Service cost	\$ -
Interest cost	47
Amortization of prior service credit	(67)
Recognized actuarial gain	(94)
Net periodic post-retirement benefit cost	<u>\$ (114)</u>

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 10. Employee Benefits (Continued)

Amounts recognized in the consolidated balance sheet are as follows:

	Dollars in Thousands
Liabilities	<u>\$ (1,309)</u>
Plan assets, beginning of year	\$ -
Employer contributions	84
Retiree contributions	131
Benefits paid	<u>(215)</u>
Plan assets, end of year	<u>\$ -</u>

Amounts recognized in unrestricted net assets that have not yet been recognized in net periodic post-retirement benefit cost are as follows:

	Dollars in Thousands
Net gain	\$ (1,402)
Prior service credit	(720)
Total	<u>\$ (2,122)</u>

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost for the year ending June 30, 2019, are as follows:

	Dollars in Thousands
Prior service credit	\$ (67)
Unrecognized gain	(103)
Total	<u>\$ (170)</u>

Estimated future net benefit payments net of retiree contributions are as follows:

	Dollars in Thousands
Years ending June 30:	
2019	\$ 109
2020	111
2021	104
2022	100
2023	102
2024 – 2028	462
Total	<u>\$ 988</u>

As the plan is unfunded, contributions are expected to be equivalent to future estimated benefit payments. Accordingly, for the year ending June 30, 2019, Brookings expects to contribute approximately \$109 thousand to its post-retirement health care benefit plan.

## The Brookings Institution and Affiliates

### Notes to Consolidated Financial Statements

---

#### Note 10. Employee Benefits (Continued)

For measurement purposes, a 7.0% annual rate of increase in the cost of health care benefits was assumed for fiscal year 2019. The rate was assumed to decrease gradually to 5.0% by 2025 and to remain at that level thereafter. The health care cost trend rate assumption has an effect on the amounts reported. Increasing the assumed health care cost trend rates by 1% would increase the accumulated post-retirement benefit obligation by \$106 thousand and the sum of the service cost and interest cost for fiscal year 2018 by \$5 thousand. Decreasing the assumed health care cost trend rates by 1% would decrease the accumulated post-retirement benefit obligation by \$93 thousand and the sum of the service cost and interest cost for fiscal year 2018 by \$3 thousand.

For the year ended June 30, 2018, the assumed weighted-average discount rates used in determining the accumulated post-retirement obligation and the net periodic benefit cost was 3.9% and 3.4% respectively.

**Retirement plan:** Brookings has a 403(b) defined contribution retirement plan (the Plan). All employees are eligible to participate in the Plan for employee contributions upon hiring. An employee becomes eligible for employer contributions once the employee has completed two years of service and has attained the age of 21. Brookings' contribution to the Plan is 12% of the employee's salary, within statutory limits. Contributions to the Plan were \$4.449 million for the year ended June 30, 2018.

**Supplemental employee retirement plan:** Brookings has a Section 457(b) supplemental employee retirement plan (the Plan). Under the terms of the Plan, eligible employees elect to deposit a percentage of their compensation into the Plan, subject to IRS limits. Employee deposits and accumulations are accounted for as an asset and offsetting liability on the Brookings's consolidated balance sheet until they are distributed to the participants. The amount of deposits and related accumulations were \$680,540 and \$650,260 at June 30, 2018 and 2017, respectively. The asset and liability are included on the consolidated balance sheet in other assets and accounts payable and accrued expenses, respectively.

#### Note 11. Commitments and Contingencies

**Overseas bank accounts:** Brookings has offices in China, India and Qatar. Brookings maintains cash accounts in India and Qatar. The future of the programs in these countries can be adversely affected by a number of potential factors, such as currency devaluations and political unrest. As of June 30, 2018, Brookings had cash in New Delhi, India and Doha, Qatar, totaling \$8.836 million.

**Federal awards:** Brookings receives reimbursements for expenditures under federal grants that are subject to annual audits and periodic reviews by grantor agencies. The ultimate determination of amounts reimbursed under these programs is based upon allowable costs reported to and audited by the grantor agencies or their designees. Until such audit is accepted by the government, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that matters arising from the federal agencies' reviews of the independent auditor's reports for 2018 will not have a material effect on the consolidated financial position of Brookings.

**Provisional indirect cost rates:** Billings under cost-reimbursable government grants and contracts are calculated using direct rates that permit recovery of indirect costs in accordance with Brookings' negotiated indirect cost rate agreement with the cognizant agency. These rates are subject to final determination by the cognizant agency. Brookings has not finalized the indirect cost recovery rate for the year ended June 30, 2018. In FY17 Brookings was granted approval by its cognizant agency of a predetermined indirect cost rate for a period of three years, ending June 30, 2019.

## Independent Auditor's Report on the Supplementary Information

To the Board of Trustees  
The Brookings Institution and Affiliates

We have audited the consolidated financial statements of The Brookings Institution and Affiliates as of and for the year ended June 30, 2018, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*RSM US LLP*

McLean, Virginia.  
November 15, 2018

The Brookings Institution and Affiliates

Statement of Consolidated Functional Expenses  
Year Ended June 30, 2018  
(Dollars In Thousands)

	Program Services							
	Economic Studies	Foreign Policy Studies	Global Economy and Development	Institutional Initiatives	Metropolitan Policy	Governance Studies	Brookings Press	Communications
Salaries and benefits	\$ 10,235	\$ 10,235	\$ 7,613	\$ 2,459	\$ 5,055	\$ 5,455	\$ 836	\$ 3,355
Travel	305	837	475	600	175	74	15	36
Conference	591	535	358	306	131	161	16	4
Contractors/professional fees	1,619	1,598	1,322	3,782	795	1,262	24	294
Occupancy	-	-	-	570	-	-	-	-
Editing and publishing	178	95	163	163	25	66	693	117
Communications and mailing	26	81	30	42	17	11	68	8
General supplies	32	53	27	31	14	15	4	10
Information technology	106	67	49	145	188	21	26	640
Marketing and fulfillment	22	1	5	18	4	6	269	240
Other direct costs	125	89	61	193	76	16	44	30
Interest	-	-	-	-	-	-	-	-
Bad debt	-	13	-	-	-	-	1	-
Depreciation and amortization	2	-	-	38	65	-	-	273
Taxes and licenses	-	10	24	41	3	5	-	-
	13,241	13,614	10,127	8,388	6,548	7,092	1,996	5,007
Facilities allocation	1,432	1,427	998	352	785	822	225	577
Website allocation	874	901	632	425	434	432	-	(3,698)
<b>Total – operating expenses</b>	<b>15,547</b>	<b>15,942</b>	<b>11,757</b>	<b>9,165</b>	<b>7,767</b>	<b>8,346</b>	<b>2,221</b>	<b>1,886</b>
Allocation of supporting services:								
Information technology	1,093	1,125	790	525	542	541	-	-
Management and administration	2,560	2,642	1,854	1,245	1,274	1,272	-	-
<b>Total expenses</b>	<b>\$ 19,200</b>	<b>\$ 19,709</b>	<b>\$ 14,401</b>	<b>\$ 10,935</b>	<b>\$ 9,583</b>	<b>\$ 10,159</b>	<b>\$ 2,221</b>	<b>\$ 1,886</b>

(Continued)

**The Brookings Institution and Affiliates**

**Statement of Consolidated Functional Expenses (Continued)**  
**Year Ended June 30, 2018**  
**(Dollars In Thousands)**

	Supporting Services				Total
	Management and General				
	Administration	Information Technology Services	Occupancy Services	Fundraising	
Salaries and benefits	\$ 9,407	\$ 2,681	\$ 1,605	\$ 2,124	\$ 61,060
Travel	92	8	2	94	2,713
Conference	174	5	1,127	379	3,787
Contractors/professional fees	674	982	921	107	13,380
Occupancy	-	-	3,294	-	3,864
Editing and publishing	12	-	-	27	1,539
Communications and mailing	39	167	68	21	578
General supplies	51	22	53	18	330
Information technology	237	812	104	47	2,442
Marketing and fulfillment	1	-	-	32	598
Other direct costs	539	19	117	60	1,369
Interest	-	-	1,199	-	1,199
Bad debt	-	-	8	-	22
Depreciation and amortization	281	1,074	2,880	-	4,613
Taxes and licenses	11	-	1	-	95
	<u>11,518</u>	<u>5,770</u>	<u>11,379</u>	<u>2,909</u>	<u>97,589</u>
Facilities allocation	1,394	421	(8,775)	342	-
Website allocation	-	-	-	-	-
<b>Total – operating expenses</b>	<u>12,912</u>	<u>6,191</u>	<u>2,604</u>	<u>3,251</u>	<u>97,589</u>
Allocation of supporting services:					
Information technology	-	(4,616)	-	-	-
Management and administration	(10,847)	-	-	-	-
<b>Total expenses</b>	<u>\$ 2,065</u>	<u>\$ 1,575</u>	<u>\$ 2,604</u>	<u>\$ 3,251</u>	<u>\$ 97,589</u>



**Norwegian Agency for Development Cooperation – GRA0247**  
**Financial Support for the Central for Universal Education: QZA-15/0172**  
**Strengthening Quality Global Education**

<b>Grant No:</b>	GRA0247
<b>Recipient:</b>	The Brookings Institution
<b>Project Title:</b>	QZA-15/0172 Strengthening Quality Global Education
<b>Start Date:</b>	07/01/2015
<b>End Date:</b>	06/30/2018

	Total Project Budget (as in Project Document)	Expenditures 07/01/2017 to 06/30/2018
Expenditures:		
Salaries and benefits	\$ 2,533,030	\$ 648,745
Contracts and honoraria	823,882	348,519
Travel and conference	535,274	73,687
Editing, publishing, and web	299,607	68,300
ITS	309,484	66,001
Other direct costs	428,597	89,741
<b>Total direct costs</b>	<u>4,929,874</u>	<u>1,294,993</u>
Indirect costs	<u>726,256</u>	<u>154,883</u>
<b>Total expenditures</b>	<u><u>\$ 5,656,130</u></u>	<u><u>\$ 1,449,876</u></u>
Summary 1:		
Total cumulative cash receipts		\$ 3,523,940
Less total cumulative expenditures		<u>3,523,940</u>
<b>Total unencumbered balance</b>		<u><u>\$ -</u></u>