The Brookings Institution
And Affiliates

Consolidated Financial Statements
June 30, 2013

Contents

McGladrey

Independent Auditor's Report

To the Board of Trustees
The Brookings Institution And Affiliates
Washington, D.C.

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, 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Brookings Institution as of June 30, 2013, and the results of 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 12, 2013, on our consideration of the Institution's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is 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 internal controls over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institution's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited The Brookings Institution's (the Institution) 2012 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 6, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not 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 audits 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.

McGladrey LLP

Vienna, Virginia
December 12, 2013

The Brookings Institution And Affiliates

Consolidated Balance Sheet
June 30, 2013
(With Comparative Totals For 2012)
(In Thousands)

Assets	**2013**	2012
Cash And Cash Equivalents	**$ 29,465**	$ 36,643
Receivables, net	**100,680**	90,788
Investments	**286,847**	262,209
Property And Equipment, net	**43,094**	45,249
Other Assets	**2,545**	2,042
Total assets	**$ 462,631**	$ 436,931

Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 12,012**	$ 9,416
Deferred revenue	**2,030**	362
Accrued postretirement benefit obligation	**2,148**	2,305
Line of credit and note payable	**42,221**	43,540
Total liabilities	**58,411**	55,623
Commitments And Contingencies (Note 11)		
Net Assets		
Unrestricted	**186,151**	171,192
Temporarily restricted	**142,468**	141,094
Permanently restricted	**75,601**	69,022
Total net assets	**404,220**	381,308
Total liabilities and net assets	**$ 462,631**	$ 436,931

See Notes To Financial Statements.

The Brookings Institution And Affiliates

Consolidated Statement Of Activities
Year Ended June 30, 2013
(With Comparative Totals For 2012)
(In Thousands)

	2013				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	2012 Total
Revenue and support:					
Investment return designated for operations	**$ 10,023**	**$ 2,973**	**$ -**	**$ 12,996**	$ 12,787
Grants and contracts	**4,521**	**36,041**	**-**	**40,562**	84,036
De-obligation of grants	**-**	**(150)**	**-**	**(150)**	(2,159)
Contributions	**10,162**	**23,124**	**6,579**	**39,865**	32,960
Brookings Press	**1,716**	**-**	**-**	**1,716**	1,941
Facility revenue	**2,081**	**-**	**-**	**2,081**	2,036
Rental income, net of expenses of $287	**393**	**-**	**-**	**393**	302
Interest, dividends, and currency exchange gains	**39**	**1**	**-**	**40**	31
Other income	**60**	**-**	**-**	**60**	103
Net assets released from restrictions	**64,794**	**(64,794)**	**-**	**-**	-
Total revenue and support	**93,789**	**(2,805)**	**6,579**	**97,563**	132,037
Expenses:					
Program services:					
Foreign Policy Studies	**19,926**	**-**	**-**	**19,926**	19,157
Economic Studies	**14,740**	**-**	**-**	**14,740**	15,636
Metropolitan Policy	**12,513**	**-**	**-**	**12,513**	12,143
Global Economy and Development	**9,587**	**-**	**-**	**9,587**	9,317
Governance Studies	**6,691**	**-**	**-**	**6,691**	5,580
Brookings Press	**2,775**	**-**	**-**	**2,775**	2,690
Communications	**2,275**	**-**	**-**	**2,275**	2,485
Other Research	**535**	**-**	**-**	**535**	2,935
Total program services	**69,042**	**-**	**-**	**69,042**	69,943
Supporting services:					
Management and general	**21,571**	**-**	**-**	**21,571**	18,642
Fundraising	**2,901**	**-**	**-**	**2,901**	2,593
Total expenses	**93,514**	**-**	**-**	**93,514**	91,178
Change in net assets before non-operating activities	**275**	**(2,805)**	**6,579**	**4,049**	40,859

(Continued)

The Brookings Institution And Affiliates

Consolidated Statement Of Activities (Continued)
Year Ended June 30, 2013
(With Comparative Totals For 2012)
(In Thousands)

	2013				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	2012 Total
Non-operating activities:					
Investment return in excess of amounts designated for operations:					
Realized gain from sale of investments	**8,332**	**2,646**	**-**	**10,978**	8,462
Unrealized gain (loss) from investments	**14,981**	**3,934**	**-**	**18,915**	(10,262)
Interest and dividends, net of expenses of $3.6 million	**1,237**	**572**	**-**	**1,809**	305
Investment income allocation	**(10,023)**	**(2,973)**	**-**	**(12,996)**	(12,787)
Total investment return in excess of amounts designated for operations	**14,527**	**4,179**	**-**	**18,706**	(14,282)
Change in net assets before postretirement-related changes	**14,802**	**1,374**	**6,579**	**22,755**	26,577
Postretirement-related changes	**157**	**-**	**-**	**157**	288
Change in net assets	**14,959**	**1,374**	**6,579**	**22,912**	26,865
Net assets:					
Beginning	**171,192**	**141,094**	**69,022**	**381,308**	354,443
Ending	**$ 186,151**	**$ 142,468**	**$ 75,601**	**$ 404,220**	$ 381,308

See Notes To Financial Statements.

The Brookings Institution And Affiliates

Consolidated Statement Of Cash Flows
Year Ended June 30, 2013
(With Comparative Totals For 2012)
(In Thousands)

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	**$ 22,912**	$ 26,865
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	**5,511**	4,839
Loss on uncollectible contributions	**150**	2,159
Permanently restricted contributions	**(6,579)**	(8,852)
Change in allowance for receivables	**179**	33
Amortization of bond discount	**10**	10
Amortization of discount on receivables	**212**	146
Net realized gain from sale of investments	**(10,978)**	(8,462)
Net unrealized (gain) loss from investments	**(18,915)**	10,262
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(10,433)**	(23,955)
Other assets	**(503)**	343
Increase (decrease) in:		
Accounts payable and accrued expenses	**2,596**	1,067
Deferred revenue	**1,668**	85
Accrued postretirement benefit obligation	**(157)**	(288)
Net cash provided by (used in) operating activities	**(14,327)**	4,252
Cash Flows From Investing Activities		
Purchases of investments	**(231,631)**	(81,727)
Proceeds from sales of investments	**236,886**	92,784
Purchases of property and equipment	**(3,356)**	(4,226)
Net cash provided by investing activities	**1,899**	6,831
Cash Flows From Financing Activities		
Principal payments on line of credit and note payable	**(1,329)**	(847)
Permanently restricted contributions	**6,579**	8,852
Net cash provided by (used in) financing activities	**5,250**	8,005

(Continued)

The Brookings Institution And Affiliates

Consolidated Statement Of Cash Flows (Continued)
Year Ended June 30, 2013
(With Comparative Totals For 2012)
(In Thousands)

	2013	2012
Net (decrease) increase in cash and cash equivalents	**(7,178)**	19,088
Cash And Cash Equivalents		
Beginning	**36,643**	17,555
Ending	**$ 29,465**	$ 36,643
Supplemental Disclosure Of Cash Flow Information		
Cash paid for interest	**$ 2,351**	$ 2,400

See Notes To 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 Institution is a non-profit organization devoted to independent research and innovative policy solutions. For nearly 100 years, Brookings has analyzed current and emerging issues and produced new ideas through independent research. For policymakers and the media, Brookings' scholars provide high-quality research, policy recommendations, and analysis on a full range of public policy issues. Research at Brookings is conducted to inform the public debate, not to advance a political agenda. Scholars with diverse points of view and experience in government, the private sector, and academia are drawn from the United States and abroad. Brookings' mission is to provide high-quality, non-partisan analysis on the challenges facing an increasingly interdependent world. These activities are funded primarily through grants and contracts, contributions, and investment income.

Brookings Institution India Center – Brookings recently opened its newest overseas policy center in New Delhi, India. This center compliments its two existing overseas policy centers in Beijing, China and Doha, Qatar. The India Center will serve 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 21st 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.

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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Communications – The Communications office disseminates information about Brookings, its scholars, and the array of resources that Brookings offers. The office publishes an annual *Guide to Brookings Experts for Policymakers and the Media* for journalists, academics, government officials, and other persons interested in contacting Brookings' scholars, and the *Brookings Annual Report*. Communications oversees the commentary and analysis that appear on Brookings' website located at www.brookings.edu, a key component of outreach and education.

Other Research – Includes research initiatives of the Executive Office, Brookings Research Fellows, Friday Policy Roundtables, and cross-program research.

Executive Education – Executive Education educates federal, state, and local government officials and corporate executives through its public leadership curriculum. Executive Education also advances Brookings' research through programs designed to explore critical policy issues in the United States and throughout the world.

A summary of Brookings' significant accounting policies follows:

<u>Basis of consolidation</u>: All significant intercompany transactions have been eliminated in the consolidation.

<u>Basis of accounting</u>: 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. Consequently, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

<u>Basis of presentation</u>: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board 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.

<u>Cash and cash equivalents</u>: 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.

<u>Financial risk</u>: 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.

<u>Receivables</u>: 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 made.

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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Conditional promises to give, if any, are not reported as revenue until such time as the conditions are substantially met. No material conditional promises to give were outstanding at June 30, 2013.

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, 2013, was $1.074 million.

Other assets: Other assets include inventory that consists of publications on-hand at the end of the year. Inventory is stated at the lower of cost or market and valued on a first-in, first-out (FIFO) basis. An allowance for obsolete inventory is provided based upon management's judgment of discards. There was no allowance at June 30, 2013.

Investments: Investments consist of shares held in individual securities and investment accounts, including pooled funds, mutual funds, money market funds, government-sponsored entity notes, 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 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.

Because the liability associated with these financial investments has the potential to exceed the amount that the partnerships recognize as a liability in their balance sheet, off-balance sheet risk exists. Future confirming events will also affect the estimates of fair value, including the ultimate liquidation of the investments. 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 financial statements at fair value on the date of donation.

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 statement of activities.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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 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 balance sheet and does not include the notional amounts of the specific contracts.

Fair value of financial instruments: In accordance with generally accepted accounting principles, the following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – Cash and cash equivalents reflect amounts that approximate fair value due to the short-term maturity of these instruments.

Grants, contracts and promises to give – The carrying value of these receivables reflects fair value based on discounting the future cash flow amounts expected to be collected by a market rate commensurate with the risks identified.

Investments – Investments are stated at fair value based upon quoted market prices or, in the absence of such quoted market prices, a reasonable estimate of fair value, which is provided by the general partners or investment managers and approved by management.

Line of credit and note payable – The carrying value of the line of credit is a reasonable estimate of fair value, since the debt is valued based on borrowing rates currently available to Brookings for borrowings with similar terms. Based upon the borrowing rates currently available to Brookings for loans with similar terms and maturities, the fair value of the note payable was estimated to be $46.2 million as of June 30, 2013. Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of judgment. Brookings is not required to settle its debt obligations at fair value, and settlement is not possible in most cases because of the terms under which the debt was issued and legal limitations on refunding the debt.

The ASC topic on fair value measurements for financial assets and liabilities measured on a recurring basis defines fair value and establishes a framework for measuring fair value in accordance with generally accepted accounting principles (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

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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, 2013, are presented in accordance with the fair value standards in Note 4.

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 is recorded at cost. 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. Donated property and equipment is recorded at its estimated fair value on the date it is received.

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, 2013.

Bond issue costs: Bond issue costs represent legal costs and other fees associated with the bonds issued. These costs are being amortized over the life of the bonds and are included in other assets in the accompanying balance sheet.

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.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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 fiscal year ended June 30, 2013, none of the reserve was spent. At June 30, 2013, the amount of unrestricted net assets in the board designated strategic reserve amounted to $3.590 million.

<u>Revenue recognition</u>: Brookings recognizes contributions and non-federal grants, including unconditional promises to give, as revenue in the period received and/or when unconditional promises are made. All contributions and non-federal grants are considered to be available for unrestricted use, unless specifically restricted by the donor. Unconditional gifts and grants that are expected to be collected within one year are recorded at net realizable value. Unconditional gifts and grants 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 and grants that was discounted in prior fiscal years but is collected in the current year is recorded as revenue in the current year. Contributions and non-federal grants and contracts that have been committed to Brookings but have not been received are reflected as grants and contributions receivable in the accompanying 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 statement of activities as net assets released from restrictions.

Revenue from publications and federal grants and contracts is 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 balance sheet.

<u>Endowments</u>: The ASC topic on not-for-profit entities provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit 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).

<u>Allocation of expenses</u>: Expenses have been summarized on a functional basis in the accompanying 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.

<u>Prior year information</u>: The financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Brookings' audited financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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

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 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 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 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, 2013, 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 2010.

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

Subsequent events: Brookings evaluated subsequent events through December 12, 2013, which is the date the financial statements were available to be issued.

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 1.40% and 2.20% for the respective periods of collection. As of June 30, 2013, receivables were due as follows:

	Dollars In Thousands
Less than one year	$ 51,138
One to five years	50,840
More than five years	2,575
	104,553
Less allowance for doubtful accounts	(1,074)
Less unamortized discount to present value	(2,799)
	$ 100,680

Note 3. Investments

Investments are stated at fair value and include cash equivalents held for investment purposes. As of June 30, 2013, investments consisted of the following:

	Dollars In Thousands
Pooled equity funds	$ 26,940
Equity mutual funds	21,162
Pooled fixed income funds	20,880
Money market funds	5,136
Partnerships:	
Absolute return	81,348
Real assets	37,789
Developed international equity	36,426
Domestic equity	28,874
Private equity	21,160
Emerging markets equity	7,132
	$ 286,847

Note 4. Fair Value Measurements

The following table summarizes Brookings' assets measured at fair value on a recurring basis as of June 30, 2013, 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)
Investments:				
Money market funds	$ 5,136	$ -	$ 5,136	$ -
U.S. Treasury funds	20,880	-	20,880	-
Long biased equities:				
U.S. funds	60,050	30,550	10,195	19,305
Developed non-U.S. funds	38,353	-	1,927	36,426
Emerging markets funds	31,519	-	24,387	7,132
Total long biased equities	129,922	30,550	36,509	62,863
Hedge funds:				
Credit strategy	40,966	-	-	40,966
Multi-strategy	24,462	-	-	24,462
Equity long/short	15,921	-	-	15,921
Total hedge funds	81,349	-	-	81,349
Private equity limited partnerships:				
Oil and gas	3,859	-	-	3,859
Real estate	24,541	-	-	24,541
Equities	21,160	-	-	21,160
Total private equity limited partnerships	49,560	-	-	49,560
	286,847	30,550	62,525	193,772
Contributions receivable:				
Interest in CRUT	1,583	-	-	1,583
	$ 288,430	$ 30,550	$ 62,525	$ 195,355

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

<u>Long biased U.S. funds</u>: Valued based on quoted market prices in active markets.

<u>Money market funds, U.S. Treasury funds, and other long biased equities</u>: Valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Note 4. Fair Value Measurements (Continued)

Hedge funds, partnerships, and other long biased equities: These investments include partnerships that are subject to certain liquidity restrictions and generally have no established trading market. Fair value is determined based on the partnership's net asset value (NAV) as provided by the partnership's fund 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, 2013.

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 1.40%.

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows for the year ended June 30, 2013 (in thousands):

	Balance At June 30, 2012	**Realized And Unrealized Gains**	**Purchases**	**Sales**	**Settlements**	**CRUT**	**Balance At June 30, 2013**
U.S. long biased equity	$ 15,300	**$ 4,005**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 19,305**
Developed non-U.S. long biased equity	35,083	**6,343**	**-**	**(5,000)**	**-**	**-**	**36,426**
Emerging markets long biased equity	7,000	**(205)**	**337**	**-**	**-**	**-**	**7,132**
Marketable real assets long biased equity	4,219	**-**	**-**	**(4,219)**	**-**	**-**	**-**
Hedge fund credit strategy	34,724	**7,741**	**19,383**	**(20,882)**	**-**	**-**	**40,966**
Hedge fund multi-strategy	21,585	**2,877**	**-**	**-**	**-**	**-**	**24,462**
Hedge fund equity long/short	13,955	**1,966**	**-**	**-**	**-**	**-**	**15,921**
Private equity oil and gas	5,349	**(72)**	**-**	**(1,418)**	**-**	**-**	**3,859**
Private equity real estate	18,459	**1,656**	**6,081**	**(1,638)**	**(17)**	**-**	**24,541**
Private equity equities	19,926	**2,058**	**3,334**	**(3,348)**	**(810)**	**-**	**21,160**
CRUT	1,700	**-**	**-**	**-**	**-**	**(117)**	**1,583**
	$ 177,300	**$ 26,369**	**$ 29,135**	**$ (36,505)**	**$ (827)**	**$ (117)**	**$ 195,355**

Note 4. Fair Value Measurements (Continued)

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. Furthermore, investments that can be redeemed at NAV by Brookings on the measurement date or in the near term and whose underlying holdings are valued based on quoted prices in active markets at the measurement date are classified as Level 2. Investments that cannot be redeemed on the measurement date or in the near term and whose holdings are not all valued based on quoted prices are classified as Level 3.

The table below details Brookings' ability to redeem investment funds valued at NAV or its equivalent as of June 30, 2013:

	Dollars In Thousands			Redemption	
	Number Of Funds	Fair Value	Unfunded Commitments	Frequency If Currently Eligible	Redemption Notice Period
Long biased equities (a):					
U.S. funds	1	$ 19,305	$ -	Quarterly	60 days
Developed non-U.S. funds	3	36,426	-	Varies	Varies
Emerging markets funds	1	7,132	-	Semi-monthly	30 days
Hedge funds (b):					
Credit strategy	2	40,966	-	Varies	Varies
Multi-strategy	3	24,462	-	Varies	Varies
Equity long/short	1	15,921	-	Annually	60 days
Private equity limited partnerships (c):					
Oil and gas	2	3,859	-	Ineligible	N/A
Real estate	8	24,541	13,253	Ineligible	N/A
Equities	7	21,160	14,283	Ineligible	N/A
	28	$ 193,772	$ 27,536		

(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. While daily market valuations are publicly available for almost all of the underlying securities, these funds are categorized as Level 3 because the redemption terms preclude immediate liquidation. In the developed non-U.S. funds, one fund, which makes up 12,151 of the total value, is available with 30 days written notice prior to any NAV date. Another fund in the developed non-U.S. funds, which makes up 16,008 of the total value, is available monthly with ten business days' notification. The remaining value in the developed non-U.S. funds category permits only partial redemption annually in advance of March 1, 2015.

(b) Hedge funds: In this class, the securities underlying the funds are predominantly marketable equities, fixed income, and derivative securities. Most are U.S.-based securities, although five of the seven funds often invest a portion outside of the U.S. In the credit strategy category, 20% of the fund, which makes up 22,236 of the value, is available for redemption annually at September 30 and 50% of the fund, which makes up 18,223 of the value, is available annually at January 31. In the multi-strategy category, 100% of the fund, which makes up 12,400 of the value, and 80% of the fund, which makes up 11,599 of the value, are available for redemption annually at December 31. In the long/short category, one-third of the fund, which makes up 15,921 of the value, is available for redemption annually at December 31. The remaining amounts in the absolute return class are in special situations and not available for redemption.

Note 4. Fair Value Measurements (Continued)

(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. Although the funds' general partners have not formally released the limited partners, management believes that $2.1 million of the unfunded commitments in the equities sub-category are not likely to be called.

Note 5. Property And Equipment

Brookings held the following property and equipment as of June 30, 2013:

	Dollars In Thousands
Land	$ 4,156
Buildings and improvements	50,809
Computer equipment and software	15,509
Furniture and equipment	6,708
	77,182
Less accumulated depreciation and amortization	(34,088)
	$ 43,094

Depreciation and amortization expense was $ 5.511 million for the year ended June 30, 2013.

Note 6. Temporarily Restricted Net Assets

As of June 30, 2013, temporarily restricted net assets were available for the following programs for future periods:

	Dollars In Thousands
Foreign Policy Studies	$ 54,206
Economic Studies	29,075
Global Economy and Development	18,161
Metropolitan Policy	14,697
President's Special Initiatives	8,817
Governance Studies	12,346
Communications	1,104
Time Restricted	4,062
	$ 142,468

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 generally accepted accounting principles, 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, 2013, Brookings' endowment had the following net asset composition:

	Dollars In Thousands			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ (72)	$ 34,085	$ 75,601	$ 109,614
Board designated	186,471	-	-	186,471
Endowment net assets, end of year	$ 186,399	$ 34,085	$ 75,601	$ 296,085

<u>Interpretation of relevant law</u>: 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.

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

<u>Funds with deficiencies</u>: 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, 2013, unrestricted net assets were reduced by $72 thousand for the cumulative deficiency as of June 30, 2013.

Note 7. Endowment Funds (Continued)

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, 2013, spending amounted to $14.327 million, which includes $1.331 million in term loan 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.

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, 2013, Brookings' endowment had the following activity:

	Dollars In Thousands			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 171,873	$ 25,445	$ 69,022	$ 266,340
Investment income, net of fees	24,549	7,154	-	31,703
Contributions and change in value of CRUT	-	4,459	6,579	11,038
Appropriations for expenditure	(10,023)	(2,973)	-	(12,996)
Endowment net assets, end of year	$ 186,399	$ 34,085	$ 75,601	$ 296,085

Note 7. Endowment Funds (Continued)

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	$ 55,864
General	19,737
	$ 75,601

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

	Dollars In Thousands
Without purpose restrictions	$ 4,063
With purpose restrictions	30,022
	$ 34,085

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 effective June 18, 2013. The interest rate was calculated based on the one-month London InterBank Offered Rate (LIBOR) plus 60 basis points, which was 0.79% as of June 30, 2013. There was no interest expense relating to the line of credit for the year ended June 30, 2013, due to no borrowings during the fiscal year. As of June 30, 2013, there is no balance due on the line of credit.

Term loan: On May 26, 2010, Brookings converted $5.066 million of the line of credit balance to a term loan. The loan is required to be repaid on May 26, 2015. As a result of a new relationship with another financial institution, the old term loan was paid off by the new financial institution and a new term loan was established on June 18, 2013. The interest rate on the loan is a variable based LIBOR rate plus 0.85% per annum, which was 1.04% as of June 30, 2013. Interest expense relating to these loans was approximately $53 thousand for the year ended June 30, 2013. The loan contains various financial covenants that were met as of June 30, 2013. In December 2011, Brookings made the decision to start paying down the principal on the loan at $121 thousand per month. The principal payments are funded from endowment funds and the loan will be paid off by the end of the term.

Tax-exempt bonds: 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 accrues 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. Interest expense relating to the bonds totaled $2.310 million, inclusive of $10 thousand of bond discount amortization for the year ended June 30, 2013. As of June 30, 2013, the bond principal balance, net of unamortized discount, and the accrued interest payable was $39.331 million and $575 thousand, respectively. The bond agreement contains various covenants.

Note 8. Line Of Credit And Note Payable (Continued)

Future scheduled principal repayments under the term loan and bonds payable are as follows:

Years Ending June 30,	Dollars In Thousands
2014	$ -
2015	2,890
2016	-
2017	-
Thereafter	40,000
	42,890
Discount on bonds	(669)
	$ 42,221

Note 9. Leases

Brookings has several non-cancellable lease agreements for additional office space in Washington, D.C. 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, 2013, including rent in foreign offices, amounted to $1.668 million. Brookings also leases a portion of its office buildings. Rental income was $680 thousand for the year ended June 30, 2013. Future minimum lease payments and receipts for all operating leases are as follows:

	Dollars In Thousands		
Years Ending June 30,	Payments	Receipts	Net
2014	$ 1,039	$ (256)	$ 783
2015	1,161	-	1,161
2016	997	-	997
2017	901	-	901
2018	929	-	929
2019 – 2027	8,556	-	8,556
Total	$ 13,583	$ (256)	$ 13,327

Note 10. Employee Benefits

Postretirement benefits: Brookings sponsors a health insurance plan to provide certain medical, dental, 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).

Note 10. Employee Benefits (Continued)

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 requires accelerated recognition, in FY2011, of the unrecognized prior service related to prior plan amendments.

The following table summarizes the accumulated postretirement benefit obligations, the fair value of plan assets, and the funded status of the plan at June 30, 2013:

	Dollars In Thousands
Change in benefit obligation:	
Accumulated postretirement benefit obligation, beginning of fiscal year	$ 2,305
Service cost	-
Interest cost	89
Plan amendments	-
Retiree contributions	100
Benefits paid	(190)
Actuarial gain	(156)
Accumulated postretirement benefit obligation, end of fiscal year	$ 2,148
Change in plan assets:	
Fair value of plan assets, beginning of fiscal year	$ -
Employer contributions	90
Participant contributions	100
Benefit payments	(190)
Fair value of plan assets, end of fiscal year	$ -
Funded status, end of fiscal year	$ (2,148)

The components of the net periodic postretirement benefit costs recognized in the accompanying statement of activities are as follows for the year ended June 30, 2013:

	Dollars In Thousands
Service cost	$ -
Interest cost	89
Amortization of prior service credit	(66)
Recognized actuarial gain	(39)
Net periodic postretirement benefit cost	$ (16)

Note 10. Employee Benefits (Continued)

For the year ended June 30, 2013, postretirement-related changes other than net periodic benefits recognized in unrestricted net assets was $51 thousand, consisting of net of $(156) thousand in net actuarial gain, $39 thousand in amortization of gain, and $66 thousand in amortization of prior service cost.

Amounts recognized in the balance sheet are as follows:

	Dollars In Thousands
Liabilities	$ (2,148)
Plan assets, beginning of year	$ -
Employer contributions	90
Retiree contributions	100
Benefits paid	(190)
Plan assets, end of year	$ -

Amounts recognized in unrestricted net assets are as follows:

	Dollars In Thousands
Net gain	$ (988)
Prior service credit	(1,051)
Total	$ (2,039)

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost for the year ending June 30, 2013, are as follows:

	Dollars In Thousands
Prior service credit	$ (66)
Unrecognized gain	(50)
Prior service credit	$ (116)

Estimated future net employer cash contributions are as follows:

Years Ending June 30,	Dollars In Thousands
2014	$ 149
2015	163
2016	172
2017	175
2018	159
2019 – 2023	767
Total	$ 1,585

Note 10. Employee Benefits (Continued)

As the plan is unfunded, contributions are expected to be equivalent to future estimated benefit payments. Accordingly, for the year ending June 30, 2014, Brookings expects to contribute approximately $149 thousand to its postretirement health care benefit plan.

For measurement purposes, a 7.0% annual rate of increase in the cost of health care benefits was assumed for fiscal year 2013. The rate was assumed to decrease gradually to 5.5% by 2016 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 postretirement benefit obligation by $202 thousand and the sum of the service cost and interest cost for fiscal year 2013 by $9 thousand. Decreasing the assumed health care cost trend rates by 1% would decrease the accumulated postretirement benefit obligation by $173 thousand and the sum of the service cost and interest cost for fiscal year 2013 by $8 thousand.

For the year ended June 30, 2013, the assumed weighted average discount rate used in determining the accumulated postretirement obligation and the net periodic benefit cost was 4.60%.

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 $3.444 million for the year ended June 30, 2013.

Note 11. Contingencies

Overseas bank accounts: Brookings has offices in China and Qatar. Brookings maintains cash accounts in Qatar and the United Kingdom. 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, 2013, Brookings had cash in Doha, Qatar, and the United Kingdom totaling $1.577 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 2013 will not have a material effect on the 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, 2013. In the opinion of management, adjustments, if any, from the final determination of the rate by the federal agency will not have a material effect on Brookings' financial position as of June 30, 2013.

McGladrey

Independent Auditor's Report On The Supplementary Information

To the Board of Trustees
The Brookings Institution
Washington, D.C.

We have audited the consolidated financial statements of The Brookings Institution as of and for the year ended June 30, 2013, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements. See pages 1 – 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The Statement of Consolidated Functional Expenses 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.

McGladrey LLP

Vienna, Virginia
December 12, 2013

The Brookings Institution And Affiliates

Statement Of Consolidated Functional Expenses
Year Ended June 30, 2013
(In Thousands)

	Program Services							
	Foreign Policy Studies	Economic Studies	Metropolitan Policy	Global Economy And Development	Governance Studies	Brookings Press	Communications	Other Research
Salaries and benefits	$ 9,846	$ 9,435	$ 6,425	$ 4,725	$ 4,317	$ 1,282	$ 1,914	$ 340
Travel	1,220	318	491	732	221	20	9	33
Conference	1,645	557	595	421	303	69	50	48
Contractors/professional fees	3,374	1,642	2,169	1,833	643	81	766	17
Occupancy	323	-	-	13	-	-	-	-
Editing and publishing	363	218	489	190	72	374	235	12
Communications and mailing	197	57	87	61	18	94	4	3
General supplies	38	37	26	24	13	6	8	3
Information technology	146	57	101	44	14	9	1,797	5
Marketing and fulfillment	29	4	100	48	15	290	-	1
Other direct costs	230	51	360	64	12	17	43	2
Interest	-	-	-	-	-	-	-	-
Bad debt	42	-	-	-	-	-	-	-
Depreciation	-	1	37	-	-	14	898	-
Taxes and licenses	40	9	10	18	-	-	-	1
	17,493	12,386	10,890	8,173	5,628	2,256	5,724	465
Facilities allocation	1,411	1,554	945	883	697	362	297	40
Website allocation	1,022	800	678	531	366	157	(3,746)	30
Total - Operating Expenses	19,926	14,740	12,513	9,587	6,691	2,775	2,275	535
Allocation of supporting services:								
Information technology	1,251	1,009	848	664	458	196	452	38
Management and administration	3,077	2,503	1,989	1,559	1,074	461	370	89
Total expenses	$ 24,254	$ 18,252	$ 15,350	$ 11,810	$ 8,223	$ 3,432	$ 3,097	$ 662

(Continued)

The Brookings Institution

Statement Of Consolidated Functional Expenses (Continued)
Year Ended June 30, 2013
(In Thousands)

	Supporting Services				
	Management And General				
	Administration	Information Technology Services	Occupancy Services	Fundraising	Total
Salaries and benefits	$ 7,193	$ 2,335	$ 1,172	$ 1,882	$ 50,866
Travel	137	35	2	101	3,319
Conference	302	5	1,012	196	5,203
Contractors/professional fees	736	1,298	815	10	13,384
Occupancy	4	1	3,113	-	3,454
Editing and publishing	9	-	-	3	1,965
Communications and mailing	55	313	93	15	997
General supplies	34	121	55	16	381
Information technology	74	474	162	55	2,938
Marketing and fulfillment	4	-	7	77	575
Other direct costs	501	999	101	50	2,430
Interest	369	69	1,900	-	2,338
Bad debt	2	-	8	-	52
Depreciation	275	1,090	3,196	-	5,511
Taxes and licenses	21	-	-	-	99
	9,716	6,740	11,636	2,405	93,512
Facilities allocation	1,134	430	(8,085)	332	-
Website allocation	-	-	-	164	2
Total - Operating Expenses	10,850	7,170	3,551	2,901	93,514
Allocation of supporting services:					
Information technology	864	(5,984)	-	204	-
Management and administration	(11,600)	-	-	478	-
Total expenses	$ 114	$ 1,186	$ 3,551	$ 3,583	$ 93,514

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
SCALING UP REVIEW PHASE 2A

Grant No:	1261 Brookings
Recipient:	The Brookings Institution
Project Title:	Scaling Up Review Phase 2A
Start Date:	January 19, 2011
End Date:	June 30, 2013

Milestone Disbursement Schedule		
Project Milestone	**Amount ($ US)**	**Date**
1) Project signature	$ 250,000	4/18/2011
2) Final Completion Report	$ 250,000	TBD

	Project Budget	Expenditures
	Total Budget (as in project document)	7/1/2012 to 6/30/2013
Expenditures		
Project Costs		
Salaries and Benefits	$ 51,103	$ 14,419
Consultants	238,000	63,000
Travel and Conference	95,707	9,170
Editing, Publishing, Web & Other Direct Costs	46,726	18,031
Brookings Indirect Costs	68,464	16,223
Total Expenditures	$ 500,000	$ 120,843
Summary 1 :		
Total Cumulative Cash Receipts		250,000
Less: Total Cumulative Expenditures		500,000
Total Unencumbered balance		$ (250,000)