The Brookings Institution and Affiliates

Consolidated Financial Statements
June 30, 2017

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RSM US LLP

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, 2017, 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 Consolidated 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, 2017, 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' 2016 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 9, 2017, 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 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 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

Washington, D.C.
November 9, 2017

The Brookings Institution and Affiliates

Consolidated Balance Sheet
June 30, 2017
(With Comparative Totals for 2016)
(In Thousands)

		2017		2016
Assets				
Cash and cash equivalents	$	25,067	$	21,176
Receivables, net		96,920		81,927
Investments – endowment		346,419		311,060
Investments – other		18,649		18,655
Property and equipment, net		34,924		37,315
Other assets		2,874		3,893
Total assets	$	524,853	$	474,026
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$	8,514	$	9,192
Deferred revenue		1,949		1,547
Accrued post-retirement benefit obligation		1,421		1,788
Note payable, net		46,525		47,234
Total liabilities		58,409		59,761
Commitments and contingencies (Notes 9 and 11)				
Net assets:				
Unrestricted		217,897		192,230
Temporarily restricted		159,855		137,765
Permanently restricted		88,692		84,270
Total net assets		466,444		414,265
Total liabilities and net assets	$	524,853	$	474,026

See notes to consolidated financial statements.

The Brookings Institution and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2017
(With Comparative Totals for 2016)
(In Thousands)

	2017				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	2016 Total
Revenue and support:					
Investment return designated for operations	**$ 10,804**	**$ 4,538**	**$ -**	**$ 15,342**	$ 15,098
Grants and contracts	**2,348**	**44,990**	**-**	**47,338**	62,502
Contributions	**5,896**	**39,187**	**4,422**	**49,505**	28,037
Program service revenue	**420**	**-**	**-**	**420**	-
Brookings press	**1,725**	**-**	**-**	**1,725**	1,715
Facility revenue	**2,167**	**-**	**-**	**2,167**	2,332
Rental income, net of expenses of $340	**216**	**-**	**-**	**216**	217
Interest, dividends, and currency exchange gains	**340**	**172**	**-**	**512**	129
Other income	**110**	**-**	**-**	**110**	167
Net assets released from restrictions	**75,138**	**(75,138)**	**-**	**-**	-
Total revenue and support	**99,164**	**13,749**	**4,422**	**117,335**	110,197
Expenses:					
Program services:					
Economic studies	**15,943**	**-**	**-**	**15,943**	15,683
Foreign policy studies	**15,335**	**-**	**-**	**15,335**	17,683
Global economy and development	**12,105**	**-**	**-**	**12,105**	12,028
Institutional Initiatives	**9,560**	**-**	**-**	**9,560**	8,296
Metropolitan policy	**8,170**	**-**	**-**	**8,170**	10,056
Governance studies	**7,327**	**-**	**-**	**7,327**	7,006
Brookings press	**2,545**	**-**	**-**	**2,545**	2,455
Communications	**2,157**	**-**	**-**	**2,157**	2,622
Total program services	**73,142**	**-**	**-**	**73,142**	75,829
Supporting services:					
Management and general	**21,254**	**-**	**-**	**21,254**	23,186
Fundraising	**3,590**	**-**	**-**	**3,590**	3,395
Total expenses	**97,986**	**-**	**-**	**97,986**	102,410
Change in net assets before non-operating activities	**1,178**	**13,749**	**4,422**	**19,349**	7,787

(Continued)

The Brookings Institution and Affiliates

Consolidated Statement of Activities (Continued)
Year Ended June 30, 2017
(With Comparative Totals for 2016)
(In Thousands)

	2017				
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	2016 Total
Non-operating activities:					
Investment return in excess of amounts designated for operations:					
Realized gain from sale of investments	**$ 4,763**	**$ 3,536**	**$ -**	**$ 8,299**	$ 11,734
Unrealized gain (loss) from investments	**30,494**	**8,341**	**-**	**38,835**	(12,882)
Interest and dividends, net of investment office expenses of $1.349 million	**(331)**	**1,002**	**-**	**671**	1,515
Investment income allocation	**(10,804)**	**(4,538)**	**-**	**(15,342)**	(15,098)
Total investment return in excess of (under) amounts designated for operations	**24,122**	**8,341**	**-**	**32,463**	(14,731)
Change in net assets before post-retirement related changes	**25,300**	**22,090**	**4,422**	**51,812**	(6,944)
Post-retirement related changes	**367**	**-**	**-**	**367**	319
Change in net assets	**25,667**	**22,090**	**4,422**	**52,179**	(6,625)
Net assets:					
Beginning	**192,230**	**137,765**	**84,270**	**414,265**	420,890
Ending	**$ 217,897**	**$ 159,855**	**$ 88,692**	**$ 466,444**	$ 414,265

See notes to consolidated financial statements.

The Brookings Institution and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2017
(With Comparative Totals for 2016)
(In Thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 52,179**	$ (6,625)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization expense	**4,978**	5,900
Write-off of property and equipment	**46**	10
Reduction in revenue	**-**	1,700
Change in allowance for receivables	**376**	(13)
Amortization of discount on receivables	**2,330**	(825)
Net realized gain from sale of investments	**(8,299)**	(11,734)
Net unrealized (gain) loss from investments	**(38,835)**	12,882
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(17,699)**	(8,645)
Other assets	**1,019**	1,623
(Decrease) increase in:		
Accounts payable and accrued expenses	**(678)**	(341)
Deferred revenue	**402**	(143)
Accrued post-retirement benefit obligation	**(367)**	(319)
Net cash used in operating activities	**(4,548)**	(6,530)
Cash flows from investing activities:		
Purchases of investments	**(128,609)**	(183,955)
Proceeds from sales of investments	**140,390**	195,404
Purchases of property and equipment	**(2,633)**	(3,770)
Net cash provided by investing activities	**9,148**	7,679
Cash flows from financing activities:		
Principal payments on note payable set of amortization	**(709)**	(1,105)
Net cash used in financing activities	**(709)**	(1,105)

(Continued)

The Brookings Institution and Affiliates

Consolidated Statement of Cash Flows (Continued)
Year Ended June 30, 2017
(With Comparative Totals for 2016)
(In Thousands)

	2017	2016
Net increase in cash and cash equivalents	**$ 3,891**	$ 44
Cash and cash equivalents:		
Beginning	**21,176**	21,132
Ending	**$ 25,067**	$ 21,176
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 1,189**	$ 1,207

See 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 staffs. 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 compliments 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 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.

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 and the Race, Place, and Opportunity Initiative). 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 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. Communications oversees the commentary and analysis that appear on Brookings' website located at www.brookings.edu, a key component of outreach and education.

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.

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 1.22%.

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, 2017.

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, 2017, was $1.327 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.

Because the liability associated with these financial investments has the potential to exceed the amount that the partnerships recognize as a liability in their consolidated 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 consolidated financial statements at fair value on the date of donation.

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.

Investments: 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 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, 2017, are presented in accordance with the fair value standards in Note 4.

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 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.

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, 2017.

Bond defeasance issue costs: The 2009 DC Revenue bonds were legally defeased during the prior fiscal year and the corresponding bond issue costs of $0.694 million were written off as of June 30, 2015. Bond defeasance issue costs represent legal costs and other fees associated with refinancing the 2009 D.C. Revenue Bonds. These costs are being amortized over a 15-year period and are included in notes payable in the accompanying consolidated 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, 2017, none of the reserve was spent and the reserve was unencumbered in fiscal year 2016. At June 30, 2017, the amount of unrestricted net assets in the board designated strategic reserve amounted to $4.863 million.

In February 2015, a second fund was established and to be funded on a discretionary basis annually. This fund was to be funded with excess unrestricted net assets up to $0.5 million per year. At June 30, 2017, the amount of unrestricted net assets in this board designated strategic reserve amount to $1.391 million.

Revenue recognition: Brookings recognizes 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 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.

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

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Brookings' audited consolidated financial statements for the year ended June 30, 2016, 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, debt refunding gains and losses, 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.

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 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 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, 2017, 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 2014.

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.

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

Adopted accounting pronouncement: In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs*. This ASU simplifies the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. This ASU is effective for the Brookings for the fiscal year beginning July 1, 2016. Early adoption is permitted. Brookings applied the new guidance on a retrospective basis, wherein the consolidated balance sheet of each individual period presented was adjusted to reflect the period-specific effects of applying the new guidance.

Upcoming accounting pronouncements:
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 financial statements, with certain practical expedients available. Brookings is currently evaluating the impact of our 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 currently evaluating the impact of this ASU 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 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.

Reclassifications: Certain 2016 amounts previously reported have been reclassified to be consistent with the 2017 presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: Brookings evaluated subsequent events through November 9, 2017, which is the date the consolidated financial statements were 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 2.82% and 3.22% for the respective periods of collection. As of June 30, 2017, receivables were due as follows:

	Dollars in Thousands
Less than one year	$ 50,546
One to five years	48,605
More than five years	3,950
	103,101
Less allowance for doubtful accounts	(1,327)
Less unamortized discount to present value	(4,854)
	$ 96,920

Note 3. Investments

Investments are stated at fair value and include cash equivalents held for investment purposes. As of June 30, 2017, investments consisted of the following:

	Dollars in Thousands
Pooled equity funds	$ 51,807
U.S. Treasury fund	19,620
Money market funds	6,720
Partnerships:	
Absolute return	85,718
Real assets	48,667
Developed international equity	80,829
Domestic equity	33,214
Private equity	19,844
Total endowment investments	$ 346,419
U.S. Treasury fund	$ 18,649
Total other investments	$ 18,649

Note 4. Fair Value Measurements

The following table summarizes Brookings' assets measured at fair value on a recurring basis as of June 30, 2017, 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	$ 18,649	$ -	$ 18,649	$ -
Total other investments	$ 18,649	$ -	$ 18,649	$ -
Endowment investments:				
Money market funds	6,720	-	6,720	-
U.S. Treasury fund	19,620	-	19,620	-
Long-biased equities:				
U.S. funds	34,535	5,525	29,010	-
Developed non-U.S. funds	22,187	-	22,187	-
Emerging markets funds	38,775	-	38,775	-
Total long-biased equities	95,497	5,525	89,972	-
Investments valued at NAV	224,582	-	-	-
Total endowment investments	$ 346,419	$ 5,525	$ 116,312	$ -
Contributions receivable:				
Interest in CRUT	$ 1,130	$ -	$ -	$ 1,130
Total assets held at fair value	$ 366,198	$ 5,525	$ 134,961	$ 1,130

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.

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, 2017.

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 1.22%.

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows for the year ended June 30, 2017 (dollars in thousands):

	Balance at June 30, 2016	Realized and Unrealized Loss	Purchases	Sales	Balance at June 30, 2017
CRUT	$ 1,239	$ (109)	$ -	$ -	$ 1,130
	$ 1,239	$ (109)	$ -	$ -	$ 1,130

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, 2017:

	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	$ 33,215	$ -	Varies	Varies
Developed non-U.S. funds	3	37,646	-	Varies	Varies
Emerging market fund	1	5,018	-	Varies	Varies
Hedge funds (b):					
Credit strategy	4	42,287	581	Varies	Varies
Multi-strategy	3	21,891	-	Varies	Varies
Equity long/short	2	21,539	-	Annually	Varies
Private equity limited partnerships (c):					
Oil and gas	6	17,002	8,930	Ineligible	N/A
Real estate	11	26,140	8,758	Ineligible	N/A
Equities	6	19,844	6,732	Ineligible	N/A
	37	$ 224,582	$ 25,001		

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. While daily market valuations are publicly available for almost all of the underlying securities. In the emerging market funds, one fund, which makes up $5,018 of the total value, is available monthly with 90 days' notification. In the developed non-U.S. funds, one fund, which makes up $17,578 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 $11,010 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 $9,058 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 $19,624 of the value, has 20% of value available for redemption annually at September 30. Another credit strategy fund, which makes up $16,067 of the value, has 50% of value available annually for redemption at January 31. Another credit strategy fund, which makes up $3,531 of the value, will be available quarterly with 90 days' notice starting March 30, 2019. Another credit strategy fund, which makes up $3,065 of the value, will distribute proceeds periodically but cannot be liquidated in advance of its natural termination. In the multi-strategy category, one fund, which makes up $7,182 of the value, has 83% of value available for redemption annually at December 31. In the long/short category, one-third of one fund, which makes up $9,157 of the value, and 100% of another fund, which makes up $14,595 of the value, are available for redemption annually at December 31. Another long/short fund, which makes up $12,382 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, 2017:

	Dollars in Thousands
Land	$ 4,156
Buildings and improvements	53,573
Computer equipment and software	21,294
Furniture and equipment	5,934
	84,957
Less accumulated depreciation and amortization	(50,033)
	$ 34,924

Depreciation and amortization expense was approximately $5 million for the year ended June 30, 2017.

Note 6. Temporarily Restricted Net Assets

As of June 30, 2017, temporarily restricted net assets were available for the following programs for future periods:

	Dollars in Thousands
Institutional and President's special initiatives	$ 58,427
Economic studies	32,962
Global economy and development	18,805
Foreign policy	26,016
Governance studies	11,901
Metropolitan policy	7,571
Time restricted	3,548
Communications	625
	$ 159,855

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, 2017, Brookings' endowment had the following net asset composition:

	Dollars in Thousands			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 43,779	$ 88,692	$ 132,471
Board designated	219,975	-	-	219,975
Endowment net assets, end of year	$ 219,975	$ 43,779	$ 88,692	$ 352,446

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.

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, 2017, 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, 2017, spending amounted to $15,342 million, in addition to $0.737 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.

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, 2017, Brookings' endowment had the following activity:

	Dollars in Thousands			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 195,860	$ 35,591	$ 84,270	$ 315,721
Investment income, net of fees	34,919	12,879	-	47,798
Contributions and change in value of CRUT	-	(153)	4,422	4,269
Appropriations for expenditure	(10,804)	(4,538)	-	(15,342)
Endowment net assets, end of year	$ 219,975	$ 43,779	$ 88,692	$ 352,446

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	$ 65,758
General	22,934
	$ 88,692

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

	Dollars in Thousands
Without purpose restrictions	$ 3,548
With purpose restrictions	40,231
	$ 43,779

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 1.82% as of June 30, 2017. There was no interest expense relating to the line of credit for the year ended June 30, 2017, due to no borrowings during the fiscal year. This credit facility is renewed annually and currently expires June 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 $1.189 million for the year ended June 30, 2017.

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

	Dollars in Thousands
Years ending June 30:	
2018	$ 756
2019	776
2020	795
2021	816
2022	836
Thereafter	42,904
Unamortized debt issuance costs	(358)
	$ 46,525

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, 2017, including rent in foreign offices, amounted to $1.730 million. Brookings also subleases a portion of its office buildings. Rental income was $556 thousand for the year ended June 30, 2017. Future minimum lease payments and receipts for all operating leases are as follows:

	Dollars in Thousands		
	Payments	Receipts	Net
Years ending June 30:			
2018	$ 1,500	$ (453)	$ 1,047
2019	1,520	(395)	1,125
2020	1,555	(13)	1,542
2021	1,586	-	1,586
2022	1,642	-	1,642
2023 - 2027	6,838	-	6,838
Total	$ 14,641	$ (861)	$ 13,780

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.

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, 2017:

	Dollars in Thousands
Change in benefit obligation:	
Accumulated post-retirement benefit obligation, beginning of fiscal year	$ 1,788
Service cost	-
Interest cost	52
Plan amendments	-
Retiree contributions	142
Benefits paid	(244)
Actuarial (gain)	(317)
Accumulated post-retirement benefit obligation, end of fiscal year	$ 1,421
Change in plan assets:	
Fair value of plan assets, beginning of fiscal year	$ -
Employer contributions	102
Retiree contributions	142
Benefits paid	(244)
Fair value of plan assets, end of fiscal year	$ -
Funded status, end of fiscal year	$ (1,421)

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, 2017:

	Dollars in Thousands
Service cost	$ -
Interest cost	52
Amortization of prior service credit	(66)
Recognized actuarial gain	(67)
Net periodic post-retirement benefit cost	$ (81)

Note 10. Employee Benefits (Continued)

Amounts recognized in the consolidated balance sheet are as follows:

	Dollars in Thousands
Liabilities	$ (1,421)
Plan assets, beginning of year	$ -
Employer contributions	102
Retiree contributions	142
Benefits paid	(244)
Plan assets, end of year	$ -

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	$ (1,421)
Prior service credit	(787)
Total	$ (2,208)

Amounts expected to be amortized from unrestricted net assets into net periodic benefit cost for the year ending June 30, 2018, are as follows:

	Dollars in Thousands
Prior service credit	$ (67)
Unrecognized gain	(94)
Total	$ (161)

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

	Dollars in Thousands
Years ending June 30:	
2018	$ 100
2019	113
2020	108
2021	101
2022	98
2023 – 2027	467
Total	$ 987

As the plan is unfunded, contributions are expected to be equivalent to future estimated benefit payments. Accordingly, for the year ending June 30, 2018, Brookings expects to contribute approximately $100 thousand to its post-retirement health care benefit plan.

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 2018. The rate was assumed to decrease gradually to 5.0% by 2020 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 $156 thousand and the sum of the service cost and interest cost for fiscal year 2017 by $5 thousand. Decreasing the assumed health care cost trend rates by 1% would decrease the accumulated post-retirement benefit obligation by $87 thousand and the sum of the service cost and interest cost for fiscal year 2017 by $4 thousand.

For the year ended June 30, 2017, the assumed weighted average discount rates used in determining the accumulated post-retirement obligation and the net periodic benefit cost was 3.40% and 3.00% 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 $4.305 million for the year ended June 30, 2017.

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 Internal Revenue Service (IRS) limits. Employee deposits and accumulations are accounted for as an asset and offsetting liability on the Brookings's balance sheets until they are distributed to the participants. The amount of deposits and related accumulations were $650,260 and $496,415 at June 30, 2017 and 2016, respectively. The asset and liability are included on the balance sheet in other assets and accounts payable and accrued expenses, respectively.

Note 11. 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, 2017, Brookings had cash in New Delhi, India, and Doha, Qatar, totaling $8.011 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 2017 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, 2017. 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, 2017, 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

Washington, D.C.
November 9, 2017

The Brookings Institution and Affiliates

Statement of Consolidated Functional Expenses
Year Ended June 30, 2017
(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	$ 10,205	$ 9,855	$ 7,296	$ 2,848	$ 4,756	$ 4,997	$ 1,171	$ 3,274
Travel	351	636	610	606	192	114	27	47
Conference	626	556	399	294	111	127	23	(10)
Contractors/professional fees	2,003	1,446	1,732	3,659	1,001	719	26	255
Occupancy	-	-	-	550	-	-	-	-
Editing and publishing	170	208	245	104	70	70	607	130
Communications and mailing	29	99	36	65	20	11	62	10
General supplies	33	42	26	40	17	14	6	8
Information technology	93	52	88	150	154	16	25	1,123
Marketing and fulfillment	37	-	3	13	-	21	300	244
Other direct costs	107	74	59	224	543	23	45	20
Interest	-	-	-	-	-	-	-	-
Bad debt	26	66	-	-	-	-	-	-
Depreciation and amortization	2	-	-	29	64	-	-	252
Taxes and licenses	-	23	8	39	5	4	3	-
	13,682	13,057	10,502	8,621	6,933	6,116	2,295	5,353
Facilities allocation	1,370	1,414	940	478	817	810	250	504
Website allocation	891	864	663	461	420	401	-	(3,700)
Total – operating expenses	15,943	15,335	12,105	9,560	8,170	7,327	2,545	2,157
Allocation of supporting services:								
Information technology	1,114	1,080	828	570	525	501	-	-
Management and administration	2,614	2,534	1,944	1,352	1,232	1,176	-	-
Total expenses	$ 19,671	$ 18,949	$ 14,877	$ 11,482	$ 9,927	$ 9,004	$ 2,545	$ 2,157

(Continued)

The Brookings Institution and Affiliates

Statement of Consolidated Functional Expenses (Continued)
Year Ended June 30, 2017
(In Thousands)

	Supporting Services				
	Management and General				
	Administration	Information Technology Services	Occupancy Services	Fundraising	Total
Salaries and benefits	$ 8,022	$ 2,720	$ 1,513	$ 2,257	$ 58,914
Travel	168	24	10	204	2,989
Conference	128	13	1,035	537	3,839
Contractors/professional fees	1,163	937	855	65	13,861
Occupancy	-	-	3,207	-	3,757
Editing and publishing	5	1	1	9	1,620
Communications and mailing	57	149	57	22	617
General supplies	46	-	76	20	328
Information technology	196	832	124	54	2,907
Marketing and fulfillment	1	-	1	36	656
Other direct costs	548	59	89	64	1,855
Interest	-	-	1,217	-	1,217
Bad debt	250	-	1	-	343
Depreciation and amortization	294	1,261	3,076	-	4,978
Taxes and licenses	23	-	-	-	105
	10,901	5,996	11,262	3,268	97,986
Facilities allocation	1,290	404	(8,599)	322	-
Website allocation	-	-	-	-	-
Total – operating expenses	12,191	6,400	2,663	3,590	97,986
Allocation of supporting services:					
Information technology	95	(4,713)	-	-	-
Management and administration	(10,852)	-	-	-	-
Total expenses	$ 1,434	$ 1,687	$ 2,663	$ 3,590	$ 97,986

Department for International Development, United Kingdom
The Middle East: Planning Now to Stabilize Conflict Zones and Overcome State Fragility

Grant No:	CRB0013
Recipient:	The Brookings Institution
Project Title:	The Middle East: Planning Now to Stabilize Conflict Zones and Overcome State Fragility
Start Date:	06/06/2016
End Date:	2/28/2017

	Total Project Budget (as in Project Document)	Expenditures 07/01/2016 to 02/28/2017
Expenditures:		
Salaries and benefits	$ 100,544	$ 74,183
Contracts and honoraria	-	6,000
Travel and conference	7,071	407
Editing, publishing, and web	6,934	5,126
ITS	8,667	6,407
Other direct costs	7,946	4,829
Total direct costs	131,162	96,952
Indirect costs	20,339	15,036
Total expenditures	$ 151,501	$ 111,988

Summary 1:	
Total cumulative cash receipts	$ 47,667
Less total cumulative expenditures	142,754
Total unencumbered balance	$ (95,087)

Royal Norwegian Ministry of Foreign Affairs - GRA0247
Financial Support for the Center for Universal Education: QZA-15/0172
Strengthening Quality Global Education

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

	Total Project Budget (as in Project Document)	Expenditures 07/01/2016 to 06/30/2017
Expenditures:		
Salaries and benefits	$ 2,478,750	$ 469,278
Contracts and honoraria	807,060	341,645
Travel and conference	524,779	44,796
Editing, publishing, and web	292,944	39,880
ITS	302,430	48,577
Other direct costs	417,154	61,069
Total direct costs	4,823,117	1,005,245
Indirect costs	709,701	113,995
Total expenditures	$ 5,532,818	$ 1,119,240

Summary 1:	
Total cumulative cash receipts	$ 2,314,785
Less total cumulative expenditures	2,074,063
Total unencumbered balance	$ 240,722