The Brookings Institution and Affiliates

Consolidated Financial Report
June 30, 2020

Contents

RSM US LLP

Independent Auditor's Report

Board of Trustees
The Brookings Institution

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 statement of financial position as of June 30, 2020, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Brookings Institution and Affiliates as of June 30, 2020, 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' 2019 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 18, 2020, on our consideration of Brookings' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Brookings' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Brookings internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
November 18, 2020

The Brookings Institution and Affiliates

Consolidated Statement of Financial Position
June 30, 2020
(With Comparative Totals for 2019)
(In Thousands)

	2020	2019
Assets		
Cash and cash equivalents	**$ 24,871**	$ 33,355
Receivables, net	**63,465**	77,285
Investments – endowment	**355,188**	377,235
Investments – other	**19,042**	8,872
Property and equipment, net	**27,720**	29,719
Other assets	**2,262**	2,608
Total assets	**$ 492,548**	$ 529,074
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 8,646**	$ 10,313
Deferred revenue	**2,010**	1,147
Accrued post-retirement benefit obligation	**1,304**	1,264
Note payable, net	**44,624**	45,050
Total liabilities	**56,584**	57,774
Net assets:		
Without donor restrictions	**207,950**	225,101
With donor restrictions	**228,014**	246,199
Total net assets	**435,964**	471,300
Total liabilities and net assets	**$ 492,548**	$ 529,074

See notes to consolidated financial statements.

The Brookings Institution and Affiliates

Consolidated Statement of Activities
Year Ended June 30, 2020
(With Comparative Totals for 2019)
(In Thousands)

	2020			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2019 Total
Revenue and support:				
Investment return designated for operations	**$ 12,589**	**$ 5,402**	**$ 17,991**	$ 17,597
Grants and contracts	**2,294**	**31,170**	**33,464**	50,476
Contributions	**4,785**	**24,799**	**29,584**	27,954
Program service revenue	**1,124**	**-**	**1,124**	470
Brookings press	**1,491**	**-**	**1,491**	1,533
Facility revenue	**1,621**	**-**	**1,621**	2,359
Rental (loss) income, net of expenses of $60	**(18)**	**-**	**(18)**	561
Interest, dividends and currency exchange gains	**762**	**(17)**	**745**	831
Other income	**278**	**-**	**278**	241
Net assets released from restrictions	**70,927**	**(70,927)**	**-**	-
Total revenue and support	**95,853**	**(9,573)**	**86,280**	102,022
Expenses (pre-allocation):				
Program services:				
Economic studies	**16,632**	**-**	**16,632**	16,141
Foreign policy studies	**14,852**	**-**	**14,852**	15,331
Global economy and development	**11,540**	**-**	**11,540**	11,203
Governance studies	**9,721**	**-**	**9,721**	9,142
Institutional initiatives	**6,032**	**-**	**6,032**	6,190
Metropolitan policy	**8,466**	**-**	**8,466**	8,407
Brookings press	**1,928**	**-**	**1,928**	1,975
Communications	**1,677**	**-**	**1,677**	1,216
Total program services	**70,848**	**-**	**70,848**	69,605
Supporting services:				
Management and general	**19,481**	**-**	**19,481**	20,486
Fundraising	**3,043**	**-**	**3,043**	3,495
Total expenses	**93,372**	**-**	**93,372**	93,586
Change in net assets before non-operating activities	**2,481**	**(9,573)**	**(7,092)**	8,436

(Continued)

The Brookings Institution and Affiliates

Consolidated Statement of Activities (Continued)
Year Ended June 30, 2020
(With Comparative Totals for 2019)
(In Thousands)

	2020			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2019 Total
Non-operating activities:				
Investment return in excess of amounts designated for operations:				
Realized gain from sale of investments	**$ 2,711**	**$ 5,402**	**$ 8,113**	$ 16,439
Unrealized loss from investments	**(10,844)**	**(8,612)**	**(19,456)**	(12,328)
Interest and dividends	**1,405**	**-**	**1,405**	1,565
Investment income allocation	**(12,589)**	**(5,402)**	**(17,991)**	(17,597)
Total investment return in excess of (under) amounts designated for operations	**(19,317)**	**(8,612)**	**(27,929)**	(11,921)
Other non-operating activities:				
Write off due to bond debt refinancing	**(275)**	**-**	**(275)**	-
Post-retirement related changes	**(40)**	**-**	**(40)**	45
Total non-operating activities	**(19,632)**	**(8,612)**	**(28,244)**	(11,876)
Change in net assets	**(17,151)**	**(18,185)**	**(35,336)**	(3,440)
Net assets:				
Beginning	**225,101**	**246,199**	**471,300**	474,740
Ending	**$ 207,950**	**$ 228,014**	**$ 435,964**	$ 471,300

See notes to consolidated financial statements.

The Brookings Institution and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2020
(With Comparative Totals for 2019)
(In Thousands)

	Program Services							
	Economic Studies	Foreign Policy Studies	Global Economy and Development	Governance Studies	Institutional Initiatives	Metropolitan Policy	Brookings Press	Communications
Salaries and benefits	$ 10,454	$ 10,525	$ 8,430	$ 6,367	$ 509	$ 5,711	$ 919	$ 3,085
Travel	356	416	272	85	231	167	10	23
Conference	460	366	265	118	371	65	9	44
Contractors/professional fees	2,624	829	767	1,587	3,864	972	50	557
Occupancy	-	-	-	-	381	-	-	-
Editing and publishing	132	30	92	42	80	6	458	108
Communications and mailing	27	66	23	23	9	6	56	10
General supplies	28	22	16	13	24	14	2	8
Information technology	56	39	30	32	123	165	28	526
Marketing and fulfillment	21	6	5	24	1	-	172	50
Other direct costs	210	55	32	25	132	65	26	30
Interest	-	-	-	-	-	-	-	-
Bad debt	-	340	-	-	(91)	-	-	-
Depreciation and amortization	2	-	-	-	40	65	-	272
Taxes and licenses	4	5	18	3	55	4	-	-
	14,374	12,699	9,950	8,319	5,729	7,240	1,730	4,713
Facilities allocation	1,352	1,332	940	902	30	767	198	573
Website allocation	906	821	650	500	273	459	-	(3,609)
Total – operating expenses	16,632	14,852	11,540	9,721	6,032	8,466	1,928	1,677
Allocation of supporting services:								
Information technology	1,131	1,026	813	625	202	574	-	-
Management and administration	2,654	2,409	1,907	1,467	801	1,347	-	-
Total expenses	$ 20,417	$ 18,287	$ 14,260	$ 11,813	$ 7,035	$ 10,387	$ 1,928	$ 1,677

(Continued)

The Brookings Institution and Affiliates
Consolidated Statement of Functional Expenses (Continued)
Year Ended June 30, 2020
(With Comparative Totals for 2019)
(In Thousands)

	Supporting Services					
	Management and General					
	Administration	Information Technology Services	Occupancy Services	Fundraising	2020 Total	2019 Total
Salaries and benefits	$ 8,077	$ 2,852	$ 1,480	$ 2,136	$ 60,545	$ 59,701
Travel	154	5	6	94	1,819	2,438
Conference	101	2	1,498	161	3,460	4,699
Contractors/professional fees	1,246	894	364	117	13,871	11,764
Occupancy	-	-	2,933	-	3,314	4,050
Editing and publishing	2		1	16	967	1,073
Communications and mailing	27	96	53	22	418	494
General supplies	39	15	56	12	249	257
Information technology	212	1,173	92	19	2,495	2,310
Marketing and fulfillment	-	-	-	19	298	324
Other direct costs	481	41	59	87	1,243	1,212
Interest	-	-	1,115	-	1,115	1,179
Bad debt	150	-	-	-	399	(13)
Depreciation and amortization	250	587	1,864	-	3,080	3,984
Taxes and licenses	9	-	1	-	99	114
	10,748	5,665	9,522	2,683	93,372	93,586
Facilities allocation	1,256	398	(8,108)	360	-	-
Website allocation	-	-	-	-	-	-
Total – operating expenses	12,004	6,063	1,414	3,043	93,372	93,586
Allocation of supporting services:						
Information technology	-	(4,371)	-	-	-	-
Management and administration	(10,585)	-	-	-	-	-
Total expenses	$ 1,419	$ 1,692	$ 1,414	$ 3,043	$ 93,372	$ 93,586

See notes to consolidated financial statements.

The Brookings Institution and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2020
(With Comparative Totals for 2019)
(In Thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	**$ (35,336)**	$ (3,440)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	**3,080**	3,984
Loss on disposal of equipment	**149**	-
Amortization of discount on receivables	**(1,659)**	(1,227)
Change in allowance for receivables	**-**	(388)
Contributions restricted to permanent endowment	**(6,092)**	-
Loss on uncollectible contributions	**1,237**	-
Amortization of bond issuance costs	**302**	28
Realized gains, interest and dividends on investments, net of investments expenses and amounts appropriated for expenses	**8,473**	(407)
Net unrealized loss from investments	**19,456**	12,328
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**14,242**	(1,667)
Other assets	**346**	466
Increase (decrease) in:		
Accounts payable and accrued expenses	**(1,667)**	1,989
Deferred revenue	**863**	(193)
Accrued post-retirement benefit obligation	**40**	(45)
Net cash provided by operating activities	**3,434**	11,428
Cash flows from investing activities:		
Purchases of investments	**(108,014)**	(120,331)
Proceeds from sales of investments	**91,962**	113,630
Purchases of property and equipment	**(1,230)**	(1,315)
Net cash used in investing activities	**(17,282)**	(8,016)
Cash flows from financing activities:		
Principal payments on note payable	**(728)**	(775)
Payments on endowment pledges	**6,092**	1,131
Net cash provided by financing activities	**5,364**	356
Net (decrease) increase in cash and cash equivalents	**(8,484)**	3,768
Cash and cash equivalents:		
Beginning	**33,355**	29,587
Ending	**$ 24,871**	$ 33,355
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 1,088**	$ 1,151

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 staff. Headquartered in Washington, D.C., Brookings is organized into five research programs that focus on domestic and international economics, foreign policy, international development, governance and metropolitan policy. Brookings has overseas centers in India, Qatar and China. 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.

On April 2, 2020, Brookings announced its decision to transition its relationship with the Brookings Institution India Center (BIIC), an independent research entity in New Delhi, by revoking the trademark agreement that allows it to use the Brookings name. BIIC was established in 2013, in accordance with Indian law, as an independent entity affiliated with Brookings. Brookings is proud of the tremendous impact that BIIC scholars have within India and around the world. India remains a crucial area of research and interest for Brookings, and our scholars and affiliates will continue to advance their important work on India policy across a range of sectors. The financial separation was effective as of March 31, 2020, while all other changes will need to be implemented by September 11, 2020, when BIIC will cease to exist and the new independent center will be called the Center for Social and Economic Progress.

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:

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.

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.

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. It also includes expenses associated with partnerships with two universities: The Brookings Mountain West program with the University of Nevada, Las Vegas and WashU at Brookings 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.

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

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

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

A summary of Brookings' significant accounting policies follows:

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

Basis of accounting: Brookings' consolidated financial statements are presented on the accrual basis of accounting. In accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), unconditional gifts and grants, including promises to give, is recorded when received, other 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 (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 two classes of net assets: with donor restrictions and without donor restrictions.

Adopted accounting pronouncements: In March 2017, the FASB issued Accounting Standards Update (ASU) 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the consolidated statement of activities separately from the service component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and post-retirement costs to be eligible for capitalization. Management has implemented ASU 2017-07 in the consolidated financial statements for fiscal 2020. The change as a result of this adoption is immaterial.

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

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contribution Made,* with the purpose of improving consistency in reporting whether a transfer of assets is a contribution or an exchange transaction. ASU 2018-08 clarifies how an entity determines whether a resource provider is receiving commensurate value in return for the resource transferred. Additionally, ASU 2018-08 requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and whether a right of return of assets transferred exists. Brookings adopted and implemented this ASU for the fiscal year starting July 1, 2019, on a modified prospective basis, in which the change in accounting principle is applied only to agreements that are entered into after the adoption date.

Cash and cash equivalents: Cash includes currency on hand and demand deposits held by financial institutions. Cash equivalents includes short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near maturity that they present insignificant interest rate risk.

Cash in U.S. banks may, at times, exceed federally insured limits. Brookings has not experienced any losses in such accounts and believes its exposure for such losses is insignificant. The value of cash and cash equivalents held by foreign financial institutions can be adversely affected by potential factors such as currency devaluation and political unrest. Brookings has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on such accounts.

Financial assets and liquidity resources: ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* requires a nonprofit entity to present information about the availability of and how it manages its liquid available resources to meet cash needs for general expenditures within one year of the date of the consolidated statement of financial position.

Brookings has various sources of liquidity at its disposal, including cash and cash equivalents, investments, receivables due within one year, and a line of credit. Brookings strategically manages these financial resources to maximize investment return on funds not required for operations. As part of liquidity management, Brookings invests cash in excess of six-month requirements in low-risk liquid short-term investments. Brookings operates with a balanced budget and, in conjunction with its cash management procedure, closely monitors budget and forecast performance metrics. The most significant element of the Brookings business model is the ongoing pursuit of contributions and grants to support its mission. Since grantors typically provide advance funding to support project activities, the cost of these activities is generally cash-neutral or cash-positive, and thereby mitigates the risk of cash shortfalls necessitating utilization of Brookings' prior year resources, reserves or the line of credit.

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

Financial assets and liquidity resources available for general expenditure within one year of the June 30, 2020, consolidated statement of financial position include the following:

	Available
Financial assets available on June 30, 2020:	
Cash and cash equivalents, available	$ 20,782
Accounts receivable due in one year	39,380
Investments:	
Board-directed reserve*	8,329
Short-term investments	19,042
Financial assets available on June 30, 2020 for current use	87,533
Financial commitments due within one year:	
Bond payments	(1,530)
Operating liabilities	(8,458)
Financial commitments due in one year	(9,988)
Net financial assets available on June 30, 2020 for general expenditures	77,545
Liquidity resources:	
Budgeted endowment appropriation	19,440
Cash management reserves*	18,925
Line of credit, including $5 million accordion feature	10,000
Total financial assets and liquidity resources available for general expenditures within one year	$ 125,910

* Additional resources: $14.479 million is invested in endowment money market funds at June 30, 2020

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. and with foreign governments which support various programs on a cost-reimbursement basis. Revenue is recognized as reimbursable expenditures are incurred and includes recoveries of facility and administrative costs. Unconditional grants from private foundations and other organizations are recognized in the period when received. Starting July 1, 2019, Brookings adopted ASU 2018-08, for which Brookings has implemented new processes and procedures to ensure the new revenue recognition standards and rules are followed.

- ***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 the net present value of anticipated future cash flows. 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)

- ***Contributions receivable in a charitable remainder unitrust (CRUT):*** Included in accounts, grants and contributions receivable is a 6% CRUT held by an outside trustee. Brookings' remainder interest in the CRUT is revalued annually by applying the appropriate Internal Revenue Service (IRS) remainder interest factor, based on the life income beneficiary's current age, to the market value of the trust assets.

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, 2020, was $0.9 million.

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

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

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

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

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.

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 consolidated financial statements. As previously stated, 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 statement of financial position and does not include the notional amounts of the specific contracts.

The ASC topic on fair value measurement for financial assets and liabilities measured on a recurring basis defines fair value and establishes a framework for measuring fair value in accordance with U.S. 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, 2020, 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 three to 20 years, with no salvage value. Costs incurred in the development of software for internal use are expensed during the preliminary and post-implementation operation stages, including data conversion, training and maintenance costs. Costs incurred during the application development stage of software development are capitalized. The buildings are stated at cost and are depreciated using the straight-line method over an estimated useful life of 50 years, with no salvage value. Building improvements greater than $2.5 thousand are capitalized and amortized using the straight-line method over the remaining estimated life of the related building or the estimated life of the asset, whichever is less. Expenditures for minor repairs and maintenance costs are expensed when incurred. Land and artwork are recorded at cost or fair value at time of donation. Upon the retirement or disposal of assets, the cost and accumulated depreciations are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses.

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

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, 2020.

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:

- ***Net assets without donor restrictions:*** Resources available to support Brookings' general operations and includes board designated net assets and quasi-endowment funds.

- ***Net assets with donor restrictions:*** Resources received by Brookings from contributors or grantors that are purpose-restricted, time-restricted or both purpose and time restricted. Time restrictions include resources received with donor instructions that they be held by Brookings in perpetuity. Investment earnings on these perpetual assets with purpose restrictions accrue to the purpose designated by the donor.

In fiscal year 2005, the Brookings Board of Trustees (Board) directed placement of $5 million of net assets without donor restrictions in a discrete reserve fund. The fund is available to Brookings, with Board approval, to fund specific costs or activities, including operating losses, and to be the repository for operating earnings. In fiscal year 2012, the Board approved the use of the 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. As of June 30, 2020, none of the reserve has been utilized and its assets are no longer encumbered. At June 30, 2020, the balance of the subject reserve amounted to $5.31 million.

In February 2015, a second reserve was established, to be funded with up to $0.5 million excess net assets without donor restrictions each year, on a discretionary basis. At June 30, 2020, the amount of net assets without donor restrictions in this board designated strategic reserve amounted to $3.02 million.

Revenue recognition: Brookings recognizes unconditional contributions, non-federal grants and contracts, including unconditional promises to give, as revenue in the period received, and/or when unconditional promises are received. All unconditional contributions, non-federal grants and contracts are considered to be available for unrestricted use, unless specifically restricted by the donor. Unconditional gifts, grants and contracts that are expected to be collected within one year are recorded at net realizable value. Unconditional gifts, grants and contracts that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using market rates that are commensurate with the risks identified. The portion of unconditional gifts, grants and contracts that was discounted in prior fiscal years but is collected in the current year is recorded as revenue in the current year. Contributions, non-federal grants and contracts that have been committed to Brookings but have not been received are reflected as receivable in the accompanying consolidated statement of financial position. For the fiscal year 2020, Brookings adopted the ASU 2018-08 in the revenue recognition process. The institution introduced new process and procedures to ensure a comprehensive revenue recognition analysis of each new gift agreement executed on or after July 1, 2019.

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

Net assets with donor restrictions become net assets without donor restrictions when the respective time restriction expires, or during the period the funds are used for the restricted purpose. The conversion of net assets with donor restrictions to net assets without donor restrictions is reported in the accompanying consolidated 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 reported as deferred revenue in the accompanying consolidated statement of financial position.

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. The ASC 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.

Measure of operations: The consolidated statements of activities separately report changes in net assets from operating and changes in net assets from non-operating activities. Operating activities consist primarily of revenues and expenses related to ongoing research programs and administrative activities, including contributions and grants, investment income from operating cash accounts and investment return appropriated from long-term investments. Non-operating activities consist primarily of returns generated by long-term investments in excess of amounts appropriated for operating activities, and changes in the value of post-retirement benefit obligations.

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 IRS as a publicly supported organization under Section 509(a)(1) of the Code. Brookings engages in certain activities that produce unrelated business income, as defined by federal income tax regulations.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated statement of financial position, 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, 2020, and for the year then ended, there were no material unrecognized/derecognized tax benefits or tax penalties or interest.

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

Generally, Brookings is no longer subject to U.S. federal income tax examinations by tax authorities for years before fiscal year 2017.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming accounting pronouncements: In May 2014, the FASB issued ASU 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 U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* which deferred the effective date of ASU 2014-09 one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* further delaying the effective date an additional year, making it effective for annual reporting periods beginning after December 15, 2019. Brookings has begun evaluating the impact of its pending adoption of the new standard on the consolidated financial statements and plans to finalize the implementation of this new standard soon.

In February 2016, the FASB issued ASU 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 income statement. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* which defers the effective date an additional year, making it effective for annual reporting periods beginning after December 15, 2021. 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 its pending adoption of the new standard on the consolidated financial statements.

Subsequent events: Brookings evaluated subsequent events through November 18, 2020, which is the date the consolidated financial statements were available to be issued.

Subsequent to the coronavirus outbreak in 2020 in North America, there has been substantial volatility in financial markets and the economy. The coronavirus and actions to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets, including the geographical areas in which Brookings operates. While it is unknown how long these conditions will last and what the overall financial impact will be to Brookings, to date, Brookings has not experienced any significant disruptions to its business, loss of donors or decrease in revenues.

Note 2. Receivables

Receivables expected to be collected within one year are recorded at their net realizable value. Grants and contributions expected to be collected after one year are recorded at their present value using a discount rate between 2.35% and 3.75% for the respective periods of collection. As of June 30, 2020, receivables were due as follows:

	Dollars in Thousands
Less than one year	$ 39,380
One to five years	25,537
More than five years	962
	65,879
Less allowance for doubtful accounts	(900)
Less unamortized discount to present value	(1,514)
	$ 63,465

Brookings has conditional grants from grantors and donors of $13.338 million as of June 30, 2020. Future payments are contingent upon Brookings meeting donor imposed barriers stipulated by the grant agreement.

Note 3. Investments

Investments are stated at fair value and include cash equivalents held for investment purposes. As of June 30, 2020, investments consisted of the following:

	Dollars in Thousands
Endowment investments:	
Money market funds	$ 14,479
U.S. Treasury fund	41,177
Developed market public equities	
Separately managed	4,299
Pooled funds	96,629
Equity-biased funds	49,915
Emerging market equities funds	34,730
Partnerships:	
Hedge and credit strategies	30,576
Real assets	33,305
Developed market public equities	34,515
Private equity	15,563
Total endowment investments	$ 355,188
Other investments:	
U.S. Treasury fund	$ 19,042
Total other investments	$ 19,042

Note 4. Fair Value Measurements

The following table summarizes Brookings' assets measured at fair value on a recurring basis as of June 30, 2020, 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)
Endowment investments:				
Money market funds	$ 14,479	$ 14,479	$ -	$ -
U.S. Treasury fund	41,177	-	41,177	-
Long-biased equities:				
Developed market public funds	53,727	9,955	43,772	-
Emerging markets funds	30,084	-	30,084	-
Total long-biased equities	83,811	9,955	73,856	-
Investments valued at NAV	215,721	-	-	-
Total endowment investments	$ 355,188	$ 24,434	$ 115,033	$ -
Other investments:				
U.S. Treasury fund	$ 19,042	$ -	$ 19,042	$ -
Total other investments	$ 19,042	$ -	$ 19,042	$ -
Contributions receivable:				
Interest in charitable remainder unitrust	$ 997	$ -	$ -	$ 997
Total assets held at fair value	$ 375,227	$ 24,434	$ 134,075	$ 997

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

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

Investments valued at net asset value: These investments include hedge funds, partnerships and other long-biased equities that are subject to certain liquidity restrictions and generally have no established trading market. Fair value is determined based on the investment's net asset value (NAV) as provided by the fund's management or the general partner of the respective fund. The fair values are based on third-party appraisals, discounted cash flow models and publicly-traded companies, among other things. Brookings has performed significant due diligence around the valuation of these investments, including assessments of factors such as manager compliance, price transparency and valuation procedures in place and the ability to redeem at NAV at the measurement date and the existence of certain redemption restrictions at the measurement date, to ensure NAV is an appropriate measure of fair value as of June 30, 2020.

Note 4. Fair Value Measurements (Continued)

Contributions receivable in a Charitable Remainder Unitrust (CRUT): Brookings is the remainder interest beneficiary of a 6% CRUT held by an outside trustee. The fair value of the remainder interest is revalued annually by applying the appropriate IRS remainder interest factor, based on the life income beneficiary's current age, to the market value of the trust assets as reported by the trustee.

A roll forward of the fair value measurements using unobservable inputs (Level 3) is as follows for the year ended June 30, 2020 (dollars in thousands):

	Balance at June 30, 2019	Actuarial Change in Beneficial Interest	Balance at June 30, 2020
Charitable remainder unitrust	$ 961	$ 36	$ 997

The following table details Brookings' ability to redeem endowment investment funds as of June 30, 2020:

	Dollars in Thousands			Redemption	
	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period (Days)
Levels 1 and 2:					
Money Market	1	$ 14,479	$ -	Daily	0-2
U.S. Treasury	1	41,177	-	Daily	0-2
Developed Market Public Equities	4	48,071	-	Daily	0-2
Emerging Market Equity	1	20,989	-	Daily	0-2
Emerging Market Equity	1	9,095	-	Monthly	30-89
Equity-Biased Funds	3	5,656	-	Daily	0-2
Net Asset Valued (NAV) investments:					
Developed Market Public Equities	1	15,581	-	Weekly	7-10
Developed Market Public Equities	1	18,934	-	Monthly	7-10
Developed Market Public Equities	1	43,127	-	Quarterly	30-89
Developed Market Public Equities*	1	973	-	Annually	90
Developed Market Public Equities*		8,759	-	Illiquid	n/a
Emerging Markets Equity	1	4,646	-	Monthly	90
Equity-Biased*	1	2,771	-	Quarterly	5-45
Equity-Biased*		5,541	-	Illiquid	n/a
Equity-Biased*	4	7,069	-	Annually	30-89
Equity-Biased*		16,976	-	Illiquid	n/a
Equity-Biased	1	11,901	-	Annually	30-89
Equity-Biased	1	1	-	Illiquid	n/a
Private Equity	8	15,563	11,635	Illiquid	n/a
Real Assets	20	33,304	12,533	Illiquid	n/a
Credit*	1	8,656	-	Annually	30-89
Credit*		8,656	-	Illiquid	n/a
Credit	4	13,263	3,100	Illiquid	n/a
Total endowment investments		$ 355,188	$ 27,268		

* Investment funds with multiple redemption provisions

Note 5. Property and Equipment

Brookings held the following property and equipment as of June 30, 2020:

	Dollars in Thousands
Land	$ 4,156
Buildings and improvements	53,215
Computer equipment and software	19,109
Furniture and equipment	4,591
	81,071
Less accumulated depreciation and amortization	(53,351)
	$ 27,720

Depreciation and amortization expense totaled approximately $3.1 million for the year ended June 30, 2020.

Note 6. Net Assets with Donor Restrictions

At June 30, 2020, net assets with donor restrictions are as follows:

	Dollars in Thousands
Economic studies	$ 37,302
Institutional and President's special initiatives	25,969
Foreign policy	11,175
Global economy and development	20,397
Governance studies	18,725
Metropolitan policy	10,875
Time restricted	4,302
Endowment – perpetuity	99,269
	$ 228,014

Note 7. Endowment Funds

Brookings' endowment consists of individual funds established for a variety of purposes. The endowment includes donor-restricted funds to be maintained in perpetuity, and expendable funds, with and without donor restrictions, which have been designated by the Board of Trustees (Board) to function as endowments, or quasi-endowments. As of June 30, 2020, Brookings' Endowment had the following net asset composition:

	Dollars in Thousands		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	$ -	$ 136,226	$ 136,226
Board designated	205,534	-	205,534
Endowment net assets, end of year	$ 205,534	$ 136,226	$ 341,760

Interpretation of relevant law: Brookings has interpreted UPMIFA as requiring preservation of the original fair value of gifts received with donor instructions that the contributed resources are intended to create or to supplement a fund to be maintained in perpetuity. The perpetual assets are invested, and a portion of the earnings thereon are accumulated or are appropriated for expenditure in a manner consistent with UPMIFA. Accumulated investment earnings are classified as net assets with donor restrictions until the amounts appropriated for expenditure are spent.

Performance objectives and spending and investment policies: In accordance with UPMIFA, Brookings considers the following factors in its construct of its investment policies, including the portfolio asset allocation and spending policy:

- 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 and
- The availability of other Brookings resources.

As a going concern organization intending to pursue its mission in perpetuity, the Endowment provides 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.

A portion of the portfolio is invested in risk-free U.S. government bonds in order to protect Brookings' immediate spending requirements. 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; uncorrelated strategies utilizing bonds, loans, 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.

Note 7. Endowment Funds (Continued)

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 continuity in annual support while also preventing imprudent over-spending when valuations are unreliably high. In order to provide this amount of support into the future, the Endowment must earn a real return of 5%, annualized, over the long term.

For the year ended June 30, 2020, $17.992 million was distributed from the endowment for expenditures, and $0.771 for long-term debt principal payments.

For the year ended June 30, 2020, Brookings' Endowment had the following activity:

	Dollars in Thousands		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 224,844	$ 135,896	$ 360,740
Investment income (loss), net of fees	(6,721)	(3,210)	(9,931)
Contributions and change in value of CRUT	-	8,942	8,942
Appropriations for expenditure	(12,589)	(5,402)	(17,991)
Endowment net assets, end of year	$ 205,534	$ 136,226	$ 341,760

Net assets with donor restrictions: The portion of endowment funds required to be retained in perpetuity, either by explicit donor stipulation or by UPMIFA, is as follows:

	Dollars in Thousands
Chairs and fellowships	$ 76,491
General	22,778
	$ 99,269

The portion of endowment funds that do not remain in perpetuity but is subject to a purpose or time restriction under UPMIFA is as follows:

	Dollars in Thousands
Without purpose restrictions	$ 4,302
With purpose restrictions	32,655
	$ 36,957

Note 7. Endowment Funds (Continued)

Funds with deficiencies: From time to time, the fair value of assets associated with a donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires be preserved in perpetuity. Generally, such deficient conditions occur in recently created endowment funds when investment market performance has not produced a return greater than Brookings' spending rate. The calculated spending appropriation continues to be made for these funds, often referred to as "underwater," because the perpetual time horizon with which endowment assets are invested ensures any deficiency is likely to be recovered as investment assets appreciate. ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* modified previous guidance to now require underwater fund deficiencies be classified as net assets with donor restrictions. On June 30, 2020, underwater Endowment funds in the Brookings portfolio amounted to 0.390 million.

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 January 30, 2019. This line of credit includes an accordion feature which allows Brookings to borrow up to a total loan amount of $10 million. The interest rate was calculated based on the one-month London Interbank Offered Rate (LIBOR) plus 60 basis points, which was 0.78% as of June 30, 2020. There was no interest expense relating to the line of credit for the year ended June 30, 2020, due to no borrowings during the fiscal year. This credit facility is renewed every three years and currently has been extended with an expiration date of January 31, 2022.

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 was payable in semi-annual installments of $1.150 million, until principal payments commence on October 1, 2035. The bonds were 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. 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 five 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 $1.088 million for the year ended June 30, 2020.

On May 21, 2020, the series 2015 District of Columbia Variable Rate Revenue Bond was modified and refinanced, with reissuance by District of Columbia (the issuer) of the Amended and Restated Bonds at an Issue Price of $44.952 million. Brookings selected a direct purchase structure, with a 20-year maturity and a five-year call feature, reducing the current 2.52% coupon rate to 1.63% with the current bond holder, TD Bank. Taking advantage of historically low interest rates, Brookings realized total debt service savings of approximately $400 thousand in annual savings compared to the current annual debt service of $1.93 million. As a result of this bond refinancing, Brookings recognized the remaining unamortized bond issuance costs as a onetime write off in the amount of $275 thousand.

Note 8. Line of Credit and Note Payable (Continued)

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

	Dollars in Thousands
Years ending June 30:	
2021	$ 804
2022	817
2023	830
2024	844
2025	858
Thereafter	40,799
	44,952
Unamortized debt issuance costs	(328)
	$ 44,624

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, 2020, including rent in foreign offices, amounted to $0.952 million. Brookings also subleases a portion of its office buildings. Rental income was $42 thousand for the year ended June 30, 2020. Future minimum lease payments and receipts for all operating leases are as follows:

	Dollars in Thousands		
	Payments	Receipts	Net
Years ending June 30:			
2021	$ 1,372	$ (685)	$ 687
2022	1,408	(700)	708
2023	1,446	(721)	725
2024	1,485	(745)	740
2025	1,518	-	1,518
2026 – 2027	1,816	-	1,816
Total	$ 9,045	$ (2,851)	$ 6,194

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.

Note 10. Employee Benefits (Continued)

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 10 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. It also significantly reduced the expected years of future service of active plan participants, causing a curtailment, as defined in the applicable accounting rules. The event of a curtailment required accelerated recognition, in FY2011, of the unrecognized prior service related to prior plan amendments.

The 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, 2020:

	Dollars in Thousands
Change in benefit obligation:	
Accumulated post-retirement benefit obligation, beginning of fiscal year	$ 1,264
Service cost	-
Interest cost	36
Plan amendments	-
Retiree contributions	146
Benefits paid	(229)
Actuarial (gain)	87
Accumulated post-retirement benefit obligation, end of fiscal year	$ 1,304
Change in plan assets:	
Fair value of plan assets, beginning of fiscal year	
Employer contributions	$ 83
Retiree contributions	146
Benefits paid	(229)
Fair value of plan assets, end of fiscal year	$ -
Funded status, end of fiscal year	$ (1,304)

Note 10. Employee Benefits (Continued)

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, 2020:

		Dollars in Thousands
Service cost	$	-
Interest cost		36
Amortization of prior service credit		(67)
Recognized actuarial gain		(96)
Net periodic post-retirement benefit cost	$	(127)

Amounts recognized in the consolidated statement of financial position are as follows:

		Dollars in Thousands
Liabilities	$	(1,304)
Plan assets, beginning of year	$	-
Employer contributions		83
Retiree contributions		146
Benefits paid		(229)
Plan assets, end of year	$	-

Amounts recognized in net assets without donor restrictions that have not yet been recognized in net periodic post-retirement benefit cost are as follows:

		Dollars in Thousands
Net gain	$	(1,124)
Prior service credit		(586)
Total	$	(1,710)

Amounts expected to be amortized from net assets without donor restrictions into net periodic benefit cost for the year ending June 30, 2020, are as follows:

		Dollars in Thousands
Prior service credit	$	(67)
Unrecognized gain		(87)
Total	$	(154)

Note 10. Employee Benefits (Continued)

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

	Dollars in Thousands
Years ending June 30:	
2021	$ 100
2022	106
2023	107
2024	92
2025	93
2026-2030	392
Total	$ 890

As the plan is unfunded, contributions are expected to be equivalent to future estimated benefit payments. Accordingly, for the year ending June 30, 2020, Brookings expects to contribute approximately $100 thousand to its post-retirement health care benefit plan.

For measurement purposes, a 6.5% annual rate of increase in the cost of health care benefits was assumed for fiscal year 2021. The rate was assumed to decrease gradually to 5% by 2026 and to remain at that level thereafter. The health care cost trend rate assumption has an effect on the amounts reported. Actuarial gains or losses from experience varying from expected or from changes in assumptions are accumulated in a “corridor” set at 10% of the APBO. Because all the plan participants are either inactive or already fully eligible for benefits, cumulative unrecognized gain or loss in excess of the 10% corridor is amortized over the average remaining life expectancy of the inactive participants. As of July 1, 2020, there is a cumulative unrecognized gain of $1,124,073, which exceeds the corridor of $130,400. As a result, there is amortization of $87,000 for fiscal year 2021.

For the year ended June 30, 2020, the assumed weighted-average discount rates used in determining the accumulated post-retirement obligation and the net periodic benefit cost was 3% and 2%, 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 $4.632 million for the year ended June 30, 2020.

Supplemental employee retirement plan: Brookings has a Section 457(b) supplemental employee retirement plan (the Plan). Under the terms of the Plan, eligible employees elect to deposit a percentage of their compensation into the Plan, subject to IRS limits. Employee deposits and accumulations are accounted for as an asset and offsetting liability on the Brookings’ consolidated statement of financial position until they are distributed to the participants. The amount of deposits and related accumulations were $891,111 and $792,552 at June 30, 2020 and 2019, respectively. The asset and liability are included on the consolidated statement of financial position in other assets and accounts payable and accrued expenses, respectively.

Note 11. Commitments and Contingencies

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 2020 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. Brookings was granted approval by its cognizant agency of a predetermined indirect cost rate for a period of three years, ending June 30, 2022.

RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Trustees
The Brookings Institution

We have audited the consolidated financial statements of The Brookings Institution and Affiliates as of and for the year ended June 30, 2020, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

McLean, Virginia
November 18, 2020

Embassy of Denmark, Washington, D.C.
No Country Left Behind: Security and Development in the 21st Century

Grant No: GRA0481
Recipient: The Brookings Institution
Project Title: No Country Left Behind: Security and Development in the 21st Century
Start Date: 12/20/2017
End Date: 12/19/2019

		Expenditures 12/20/2017 - 12/19/2019
Expenditures:		
Salaries and Benefits	$	227,246.95
Contracts and Honoraria		-
Travel and Conference		7,886.91
Editing, Publishing and Web		16,705.41
ITS		19,381.79
Facilities		-
Other Direct Costs		22,089.80
Total Direct Costs	**$**	**293,310.86**
Indirect Costs		20,390.03
Total Expenditures	**$**	**313,700.89**

Summary 1:		
Total cumulative cash receipts (DKK)		DKK 2,000,000
Total cumulative cash receipts (USD)	$	313,700.89
Less total cumulative expenditures		313,700.89
Total unencumbered balance	**$**	**-**

Embassy of Denmark, Washington, D.C.
Rising to the Challenge: Development Policies and Peaceful Solutions

Grant No: GRA0712
Recipient: The Brookings Institution
Project Title: Rising to the Challenge: Development Policies and Peaceful Solutions
Start Date: 12/1/2019
End Date: 11/30/2021

		Expenditures 12/1/2019 - 6/30/2020
Expenditures:		
Salaries and Benefits	$	56,374.13
Contracts and Honoraria		-
Travel and Conference		-
Editing, Publishing and Web		3,658.86
ITS		4,573.57
Facilities		-
Other Direct Costs		4,607.07
Total Direct Costs	**$**	**69,213.63**
Indirect Costs		5,209.64
Total Expenditures	**$**	**74,423.27**

Summary 1:		
Total cumulative cash receipts (DKK)		DKK 500,000
Total cumulative cash receipts (USD)	$	72,788.68
Less total cumulative expenditures		74,423.27
Total unencumbered balance	**-$**	**1,634.59**

Bernard Van Leer - GRA0592

Learning Landscapes: Combining Placemaking and the Learning Sciences to Support Early Childhood Development

Grant No:	GRA0592
Recipient:	The Brookings Institution
Project Title:	Learning Landscapes: Combining Placemaking and the Learning Sciences to Support Early Early Childhood Development
Start Date:	4/1/2019
End Date:	3/31/2021

		Expenditures 4/2019 - 6/2020
Expenditures:		
Salaries and Benefits	$	22,883.49
Contracts and Honoraria		52,269.40
Travel		3,471.69
Conference		2,496.00
Editing and Publishing		75.00
Web Allocation		5,352.92
ITS Allocation		6,691.13
Facilities		8,009.63
Other Direct Costs		52.75
Total Direct Costs	**$**	**101,302.01**
Indirect Costs		8,921.80
Total Expenditures	**$**	**110,223.81**

Summary 1:		
Total cumulative cash receipts (EUR)		EUR 132,737
Total cumulative cash receipts (USD)	$	150,643.00
Less total cumulative expenditures		110,223.81
Total unencumbered balance	**$**	**40,419.19**

The Minderoo Foundation

Berggruen - Minderoo - Brookings - Tsinghua U.S.-China Artificial Intelligence Dialogue on Security

Grant No: GRA0682
Recipient: The Brookings Institution
Project Title: Berggruen - Minderoo - Brookings - Tsinghua U.S.-China Artificial Intelligence Dialogue on Security
Start Date: 09/01/2019
End Date: 12/31/2020

		Expenditures 7/2019 - 6/30/2020
Expenditures:		
Fellowship Support	$	46,236.67
Contracts and Honoraria		-
Travel and Conference		-
Editing, Publishing and Web		2,217.59
ITS		-
Facilities		-
Other Direct Costs		-
Total	**$**	**48,454.26**

Summary 1:		
Total cumulative cash receipts (SEK)		SEK 0
Total cumulative cash receipts (USD)	$	140,000.00
Less total cumulative expenditures		48,454.26
Total unencumbered balance	**$**	**91,545.74**