

# **The Brookings Institution**

Financial Report  
June 30, 2021

## Contents

---

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

---

Financial statements	
Statement of financial position	3
Statement of activities	4-5
Statement of functional expenses	6-7
Statement of cash flows	8
Notes to financial statements	9-27

---

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

---

Supplementary information	
Bernard Van Leer – GRA0592 – financial report	29
The Minderoo Foundation – GRA0682 – financial report	30
Bernard Van Leer – GRA0813 – financial report	31
Department for Business, Energy & Industrial Strategy, United Kingdom – CRB0039 – financial report	32
The Embassy of Denmark in Washington, D.C. – GRA0712 – financial report	33

---

## Independent Auditor's Report

Board of Trustees  
The Brookings Institution

### Report on the Financial Statements

We have audited the accompanying financial statements of The Brookings Institution (Brookings), which comprise the statement of financial position as of June 30, 2021, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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 as of June 30, 2021, and the changes in its 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' 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 18, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 29, 2021, 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 29, 2021

The Brookings Institution

Statement of Financial Position  
June 30, 2021  
(With Comparative Totals for 2020)  
(In Thousands)

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 37,112	\$ 24,871
Receivables, net	32,895	63,465
Investments – endowment	460,563	355,188
Investments – other	9,038	19,042
Property and equipment, net	26,106	27,720
Other assets	2,530	2,262
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 568,244</b>	<b>\$ 492,548</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,641	\$ 8,646
Deferred revenue	6,649	2,010
Accrued post-retirement benefit obligation	982	1,304
Note payable, net	43,837	44,624
<b>Total liabilities</b>	<b>61,109</b>	<b>56,584</b>
Net assets:		
Without donor restrictions	272,355	207,950
With donor restrictions	234,780	228,014
<b>Total net assets</b>	<b>507,135</b>	<b>435,964</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 568,244</b>	<b>\$ 492,548</b>

See notes to financial statements.

The Brookings Institution

Statement of Activities  
Year Ended June 30, 2021  
(With Comparative Totals for 2020)  
(In Thousands)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and support:				
Investment return designated for operations	\$ 13,115	\$ 5,778	\$ 18,893	\$ 17,991
Grants and contracts	2,400	18,891	21,291	33,464
Contributions	5,265	20,911	26,176	29,584
Program service revenue	738	-	738	1,124
Brookings press	1,374	-	1,374	1,491
Facility revenue	-	-	-	1,621
Rental loss	-	-	-	(18)
Interest, dividends and currency exchange gains (losses)	27	(18)	9	745
Other income	76	-	76	278
Net assets released from restrictions	64,709	(64,709)	-	-
<b>Total revenue and support</b>	<b>87,704</b>	<b>(19,147)</b>	<b>68,557</b>	<b>86,280</b>
Expenses (pre-allocation):				
Program services:				
Economic studies	14,850	-	14,850	16,632
Foreign policy studies	11,882	-	11,882	14,852
Global economy and development	11,429	-	11,429	11,540
Governance studies	9,815	-	9,815	9,721
Institutional initiatives	3,609	-	3,609	6,032
Metropolitan policy	8,927	-	8,927	8,466
Brookings press	1,827	-	1,827	1,928
Communications	1,318	-	1,318	1,677
<b>Total program services</b>	<b>63,657</b>	<b>-</b>	<b>63,657</b>	<b>70,848</b>
Supporting services:				
Management and general	17,741	-	17,741	19,481
Fundraising	2,799	-	2,799	3,043
<b>Total expenses</b>	<b>84,197</b>	<b>-</b>	<b>84,197</b>	<b>93,372</b>
<b>Change in net assets before non-operating activities</b>	<b>3,507</b>	<b>(19,147)</b>	<b>(15,640)</b>	<b>(7,092)</b>

(Continued)

The Brookings Institution

Statement of Activities (Continued)  
 Year Ended June 30, 2021  
 (With Comparative Totals for 2020)  
 (In Thousands)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Non-operating activities:				
Investment return (loss) in excess of amounts designated for operations:				
Realized and unrealized gain (loss) on investments	\$ 73,237	\$ 31,691	\$ 104,928	\$ (11,343)
Interest and dividends	454	-	454	1,405
Investment income allocation	(13,115)	(5,778)	(18,893)	(17,991)
<b>Total investment return in excess of (under) amounts designated for operations</b>	<b>60,576</b>	<b>25,913</b>	<b>86,489</b>	<b>(27,929)</b>
Other non-operating activities:				
Write off due to bond debt refinancing	-	-	-	(275)
Post-retirement related changes	322	-	322	(40)
<b>Total non-operating activities</b>	<b>60,898</b>	<b>25,913</b>	<b>86,811</b>	<b>(28,244)</b>
<b>Change in net assets</b>	<b>64,405</b>	<b>6,766</b>	<b>71,171</b>	<b>(35,336)</b>
Net assets:				
Beginning	207,950	228,014	435,964	471,300
Ending	\$ 272,355	\$ 234,780	\$ 507,135	\$ 435,964

See notes to financial statements.

## The Brookings Institution

### Statement of Functional Expenses Year Ended June 30, 2021 (With Comparative Totals for 2020) (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	\$ 10,469	\$ 9,009	\$ 8,555	\$ 6,706	\$ 727	\$ 6,312	\$ 939	\$ 3,028
Travel	3	5	4	-	84	-	-	-
Conference	49	71	29	29	13	21	4	7
Contractors/professional fees	1,757	730	1,244	1,701	2,266	1,229	65	333
Occupancy	-	-	-	-	102	-	-	-
Editing and publishing	245	90	74	60	55	13	364	135
Communications and mailing	42	41	13	10	4	4	55	21
General supplies	5	3	3	3	16	11	-	2
Information technology	67	33	35	17	23	112	26	514
Marketing and fulfillment	19	1	5	4	-	-	168	55
Other direct costs	221	45	41	23	70	59	37	27
Interest	-	-	-	-	-	-	-	-
Bad debt	-	65	-	-	-	-	-	-
Depreciation and amortization	2	-	-	-	9	28	-	35
Taxes and licenses	5	4	8	1	11	5	3	-
	<b>12,884</b>	<b>10,097</b>	<b>10,011</b>	<b>8,554</b>	<b>3,380</b>	<b>7,794</b>	<b>1,661</b>	<b>4,157</b>
Facilities allocation	1,134	1,116	777	760	26	650	166	490
Website allocation	832	669	641	501	203	483	-	(3,329)
<b>Total – operating expenses</b>	<b>14,850</b>	<b>11,882</b>	<b>11,429</b>	<b>9,815</b>	<b>3,609</b>	<b>8,927</b>	<b>1,827</b>	<b>1,318</b>
Allocation of supporting services:								
Information technology	1,040	836	802	627	206	604	-	-
Management and administration	2,441	1,962	1,881	1,470	592	1,418	-	-
<b>Total expenses</b>	<b>\$ 18,331</b>	<b>\$ 14,680</b>	<b>\$ 14,112</b>	<b>\$ 11,912</b>	<b>\$ 4,407</b>	<b>\$ 10,949</b>	<b>\$ 1,827</b>	<b>\$ 1,318</b>

(Continued)

## The Brookings Institution

### Statement of Functional Expenses (Continued) Year Ended June 30, 2021 (With Comparative Totals for 2020) (In Thousands)

	Supporting Services				2021 Total	2020 Total
	Management and General					
	Administration	Information Technology Services	Occupancy Services	Fundraising		
Salaries and benefits	\$ 9,218	\$ 2,666	\$ 1,218	\$ 2,265	\$ 61,112	\$ 60,545
Travel	1	1	-	-	98	1,819
Conference	1	-	7	12	243	3,460
Contractors/professional fees	1,389	1,074	176	76	12,040	13,871
Occupancy	-	-	2,153	-	2,255	3,314
Editing and publishing	-	-	-	-	1,036	967
Communications and mailing	17	81	44	7	339	418
General supplies	7	57	22	8	137	249
Information technology	199	1,209	99	13	2,347	2,495
Marketing and fulfillment	-	-	-	17	269	298
Other direct costs	413	7	43	107	1,093	1,243
Interest	-	-	742	-	742	1,115
Bad debt	9	-	-	-	74	399
Depreciation and amortization	238	298	1,739	-	2,349	3,080
Taxes and licenses	26	-	-	-	63	99
	<b>11,518</b>	<b>5,393</b>	<b>6,243</b>	<b>2,505</b>	<b>84,197</b>	<b>93,372</b>
Facilities allocation	496	334	(6,243)	294	-	-
Website allocation	-	-	-	-	-	-
<b>Total – operating expenses</b>	<b>12,014</b>	<b>5,727</b>	<b>-</b>	<b>2,799</b>	<b>84,197</b>	<b>93,372</b>
Allocation of supporting services:						
Information technology	-	(4,115)	-	-	-	-
Management and administration	(9,764)	-	-	-	-	-
<b>Total expenses</b>	<b>\$ 2,250</b>	<b>\$ 1,612</b>	<b>\$ -</b>	<b>\$ 2,799</b>	<b>\$ 84,197</b>	<b>\$ 93,372</b>

See notes to financial statements.

## The Brookings Institution

### Statement of Cash Flows Year Ended June 30, 2021 (With Comparative Totals for 2020) (In Thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 71,171	\$ (35,336)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	2,349	3,080
Loss on disposal of equipment	-	149
Amortization of discount on receivables	(864)	(1,659)
Change in allowance for receivables	-	-
Contributions restricted in perpetuity to endowment	(4,132)	(6,092)
Loss on uncollectible contributions	899	1,237
Amortization of bond issuance costs	17	302
Realized and unrealized (gains) and losses, interest and dividends on investments, net of investments expenses and amounts appropriated for expenses	(86,489)	27,929
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	30,535	14,242
Other assets	(268)	346
Increase (decrease) in:		
Accounts payable and accrued expenses	995	(1,667)
Deferred revenue	4,639	863
Accrued post-retirement benefit obligation	(322)	40
<b>Net cash provided by operating activities</b>	<b>18,530</b>	<b>3,434</b>
Cash flows from investing activities:		
Purchases of investments	(162,122)	(108,014)
Proceeds from sales of investments	153,240	91,962
Purchases of property and equipment	(735)	(1,230)
<b>Net cash used in investing activities</b>	<b>(9,617)</b>	<b>(17,282)</b>
Cash flows from financing activities:		
Principal payments on note payable	(804)	(728)
Payments on endowment pledges	4,132	6,092
<b>Net cash provided by financing activities</b>	<b>3,328</b>	<b>5,364</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>12,241</b>	<b>(8,484)</b>
Cash and cash equivalents:		
Beginning	24,871	33,355
Ending	\$ 37,112	\$ 24,871
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 726	\$ 1,088

See notes to financial statements.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**Nature of activities:** The Brookings Institution (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, 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.

In recent years, Brookings has developed an overarching strategy for responsive global engagement that capitalizes on its partnerships and relationships with preeminent organizations in critical regions to foster dialogue and idea exchange, which expands the Institution's global reach. In alignment with this strategy and in recognition of their place as leaders in their respective regions, Brookings has worked to transition its overseas centers to informal partnerships or separate organizations. On September 11, 2020, the Brookings Institution India Center transitioned to a separate center named the Centre for Social and Economic Progress. This was preceded by a financial separation from Brookings effective March 31, 2020. On October 1, 2020, Brookings transitioned its Brookings-Tsinghua Center to an updated informal partnership with Tsinghua University (Brookings-Tsinghua China). The Brookings Doha Center financially separated from Brookings effective on February 28, 2021, with plans to launch the Middle East Council on Global Affairs, a newly-named separate center in late 2021.

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:** Foreign Policy conducts research, analysis and dialogue in order to inform public understanding and policy decisions concerning the most pressing geopolitical and security issues facing the U.S. policymaking community and the world.

**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.

**Institutional Initiatives:** Includes research initiatives of the Executive Office and 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 the WashU at BROOKINGS program, a partnership with Washington University in St. Louis.

**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.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**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, manages the Brookings website and digital footprint (including social media properties and newsletters), oversees public Brookings events and serves as producer for the Brookings Podcast Network.

A summary of Brookings' significant accounting policies follows:

**Basis of accounting:** Brookings' 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 May 2014, the FASB issued Accounting Standards Update (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 adopted this new standard and finalized the implementation in 2021. The impact on the financial statements as a result of this adoption is immaterial.

In August 2018, the FASB issued ASU No. 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements (Topic 820) (ASU 2018-13)*, which improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Brookings has adopted the new standard effective July 1, 2020 and the adoption of this guidance did not have a material impact on its financial statements.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**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

**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 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.

Financial assets and liquidity resources available for general expenditure within one year of the June 30, 2021, statement of financial position include the following (in thousands):

	<u>Available</u>
Financial assets available on June 30, 2021:	
Cash and cash equivalents, available	\$ 34,112
Accounts receivable due in one year	22,688
Investments:	
Board-directed reserve*	11,431
Short-term investments	9,038
Financial assets available on June 30, 2021, for current use	<u>77,269</u>
Financial commitments due within one year:	
Bond payments	(1,530)
Operating liabilities	(9,581)
Financial commitments due in one year	<u>(11,111)</u>
Net financial assets available on June 30, 2021, for general expenditures	66,158
Liquidity resources:	
Budgeted endowment appropriation	20,723
Cash management reserves*	39,458
Line of credit, including \$5 million accordion feature	<u>10,000</u>
Total financial assets and liquidity resources available for general expenditures within one year	<u>\$ 136,339</u>

\* Additional resources: \$10.5 million is invested in endowment money market funds at June 30, 2021

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**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. 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.
- **Promises to give:** Unconditional promises to give are recorded as contribution revenue upon receipt of the promise. Conditional promises to give, that is those with a measurable performance barrier or other barrier and a right of return, are not recognized until they become unconditional, which is the time the conditions are substantially met. 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.
- **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. The CRUT was dissolved in FY21 due to trustee's passing and \$1.4M was recorded as a receivable as of June 30, 2021, which Brookings subsequently received in July 2021.

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, 2021, 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.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

Investments are stated at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair value of investments that are not listed on national markets or over-the-counter markets and for which quoted market prices are not available, and which are generally subject to certain withdrawal restrictions, is provided by the general partners or external investment managers and may be based on historical cost, appraisals, obtainable prices for similar assets or other estimates. Because of the inherent uncertainty of the valuation of these investments and in certain of the underlying investments held by the fund managers, values for those investments may differ from values that would have been used had a ready market for the investments existed. Brookings reviews and evaluates the values provided by its investment managers and agrees with the valuation methods and assumptions used in determining the fair value. 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 financial statements at fair value on the date of donation.

**Derivative financial instruments and hedging activities:** Brookings invests with certain funds who may utilize various derivative strategies (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.

**Financial instruments with off-balance sheet risk:** In the course of the trading activities entered into by Brookings' various investment managers, certain financial instruments involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded in the financial statements. As 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 statement of financial position and does not include the notional amounts of the specific contracts.

**Fair value measurements:** 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.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

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, 2021, are presented in accordance with the fair value measurement standards in Note 4.

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

**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, 2021.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**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, 2021, none of the reserve has been utilized and its assets are no longer encumbered. At June 30, 2021, the balance of the subject reserve amounted to \$6.897 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, 2021, the amount of net assets without donor restrictions in this board designated strategic reserve amounted to \$4.534 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 statement of financial position.

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 statement of activities as net assets released from restrictions.

Revenue from 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 statement of financial position.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**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 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 statement of activities separately reports 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, write -off due to bond debt refinancing, 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 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 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, 2021, 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 three years from the filing date.

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

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**Upcoming accounting pronouncements:** 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 statement of financial position 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. 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 financial statements.

**Subsequent events:** Brookings evaluated subsequent events through November 29, 2021, which is the date the 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 ranging between 1.80% and 3.60% for the respective periods of collection. As of June 30, 2021, receivables were due as follows (dollar in thousands):

Less than one year	\$ 24,261
One to five years	9,834
More than five years	350
	<hr/>
	34,445
Less allowance for doubtful accounts	(901)
Less unamortized discount to present value	(649)
	<hr/>
	<u>\$ 32,895</u>

Brookings has conditional grants from grantors and donors of \$ 22.67 million as of June 30, 2021. Future payments are contingent upon Brookings meeting donor-imposed barriers stipulated by the grant agreement.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

#### Note 3. Investments

Investments are stated at fair value and include cash equivalents held for investment purposes. As of June 30, 2021, investments consisted of the following (dollars in thousands):

Investments:	
Money market funds	\$ 10,500
U.S. Treasury fund	38,579
Developed market public equities	
Separately managed	47,228
Pooled funds	125,282
Equity-biased funds	90,972
Emerging market equities funds	47,939
Hedge and credit strategies	31,924
VentureCapital&Partnerships	
Hedge and credit strategies	4,058
Real assets	42,945
Private equity	21,136
Total Investments	<u>\$ 460,563</u>
Investments:	
U.S. Treasury fund	\$ 9,038
Total other investments	<u>\$ 9,038</u>

#### Note 4. Fair Value Measurements

The following table summarizes Brookings' assets measured at fair value on a recurring basis as of June 30, 2021, in accordance with fair value measurement standards (dollars in thousands):

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (a)
Investments:					
Money market funds	\$ 10,500	\$ 10,500	\$ -	\$ -	\$ -
U.S. Treasury fund	38,579	-	38,579	-	-
Long-biased equities:					
Developed market public funds	29,530	11,418	18,112	-	-
Emerging markets funds	-	-	-	-	-
Total long-biased equities	29,530	11,418	18,112	-	-
Non-marketable alternatives	381,954	-	-	-	381,954
Total Investments	<u>\$ 460,563</u>	<u>\$ 21,918</u>	<u>\$ 56,691</u>	<u>\$ -</u>	<u>\$ 381,954</u>
Other investments:					
U.S. Treasury fund	\$ 9,038	\$ -	\$ 9,038	\$ -	\$ -
Total other investments	<u>\$ 9,038</u>	<u>\$ -</u>	<u>\$ 9,038</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets held at fair value	<u>\$ 469,601</u>	<u>\$ 21,918</u>	<u>\$ 65,729</u>	<u>\$ -</u>	<u>\$ 381,954</u>

(a) Investments measured at fair value using NAV per share (or its equivalent) preferred expert have not been changed within the fair value hierarchy. The fair value amounts presented in this table, are intended to permit reconciliation of the fair value hierarchy to amounts presented in the statement of financial position.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

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

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 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, 2021.

The following table details Brookings' ability to redeem investment funds as of June 30, 2021:

	Number of Funds	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period (Days)
Levels 1 and 2:					
Money Market	1	\$ 10,500	\$ -	Daily	0-2
U.S. Treasury	1	38,579	-	Daily	0-2
Developed Market Public Equities	5	29,530	-	Daily	0-2
Non-marketable alternatives					
Developed Market Public Equities	3	53,577	-	Daily	0-2
Developed Market Public Equities	1	19,869	-	Weekly	7-10
Developed Market Public Equities	1	19,976	-	Monthly	7-10
Developed Market Public Equities	1	58,914	-	Quarterly	30-89
Developed Market Public Equities	1	12,790	-	Annually	90
Emerging Markets Equity	1	29,427	-	Daily	0-2
Emerging Markets Equity	2	18,513	-	Monthly	90
Equity-Biased	1	10,000	-	Annually	90
Equity-Biased	1	9,567	-	Annually	5-45
Equity-Biased	5	48,580	-	Annually	30-89
Equity-Biased	1	678	-	Illiquid	n/a
Private Equity	10	21,135	25,737	Illiquid	n/a
Real Assets	17	42,945	8,651	Illiquid	n/a
Credit	2	19,037	20,707	Annually	30-89
Credit	5	16,946	-	Illiquid	n/a
Total Investments		<u>\$ 460,563</u>	<u>\$ 55,095</u>		

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

#### Note 5. Property and Equipment

Brookings held the following property and equipment as of June 30, 2021:

Land	\$	4,155
Buildings and improvements		52,540
Computer equipment and software		11,389
Furniture and equipment		4,527
		<u>72,611</u>
Less accumulated depreciation and amortization		(46,505)
	\$	<u>26,106</u>

Depreciation and amortization expense totaled approximately \$2.349 million for the year ended June 30, 2021.

#### Note 6. Net Assets with Donor Restrictions

At June 30, 2021, net assets with donor restrictions are as follows:

Economic studies	\$	40,420
Governance studies		22,056
Foreign policy		21,709
Institutional and President's special initiatives		18,458
Global economy and development		16,566
Metropolitan policy		10,107
Time restricted		6,114
Endowment – perpetuity		99,350
	\$	<u>234,780</u>

#### 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 to function as endowments, or quasi-endowments. As of June 30, 2021, Brookings' Endowment had the following net asset composition (dollars in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted	\$ -	\$ 162,322	\$ 162,322
Board designated	266,110	-	266,110
Endowment net assets, end of year	<u>\$ 266,110</u>	<u>\$ 162,322</u>	<u>\$ 428,432</u>

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**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
- 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.

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, 2021, \$18.893 million was distributed from the Endowment for expenditures, including \$0.670 million for long-term debt principal payments.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

For the year ended June 30, 2021, Brookings' Endowment had the following activity (dollars in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 205,534	\$ 136,226	\$ 341,760
Investment income, net of fees	73,691	31,691	105,382
Contributions and change in value of CRUT	-	183	183
Appropriations for expenditure	(13,115)	(5,778)	(18,893)
Endowment net assets, end of year	<u>\$ 266,110</u>	<u>\$ 162,322</u>	<u>\$ 428,432</u>

**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:

Chairs and fellowships	\$ 76,640
General	22,710
	<u>\$ 99,350</u>

The cumulative appreciation earned on endowment funds restricted in perpetuity is as follows:

With purpose restrictions	\$ 56,857
Without purpose restrictions	6,115
	<u>\$ 62,972</u>

**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, 2021, there were no underwater Endowment funds in the Brookings portfolio.

#### 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 0.84% as of June 30, 2021. 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.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

**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 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.

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. The interest expense relating to the note payable totaled \$0.726 million for the year ended June 30, 2021.

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

Years ending June 30:	
2022	\$ 817
2023	830
2024	844
2025	858
2026	872
Thereafter	39,928
	<hr/>
	44,149
Unamortized debt issuance costs	(312)
	<hr/>
	<u>\$ 43,837</u>

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

#### Note 9. Leases

Brookings has two non-cancellable lease agreements for office space in Washington, D.C. that expire through August 31, 2026. Under the terms of the leases, Brookings is committed to annual rentals adjusted for defined escalations. Office rent expense for the year ended June 30, 2021, including rent in foreign offices, amounted to \$0.733 million. Future minimum lease payments and receipts for all operating leases are as follows:

	Payments	Receipts	Net
Years ending June 30:			
2022	\$ 1,408	\$ (700)	\$ 708
2023	1,446	(721)	725
2024	1,485	(745)	740
2025	1,518	(562)	956
2026	1,553	(562)	991
2027	262	(94)	168
Total	<u>\$ 7,672</u>	<u>\$ (3,384)</u>	<u>\$ 4,288</u>

#### Note 10. Employee Benefits

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

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

### Notes to Financial Statements (In Thousands)

---

#### 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, 2021:

Change in benefit obligation:

Accumulated post-retirement benefit obligation, beginning of fiscal year	\$	1,304
Service cost		-
Interest cost		25
Plan amendments		-
Retiree contributions		152
Benefits paid		(224)
Actuarial (gain)		(275)
Accumulated post-retirement benefit obligation, end of fiscal year	\$	<u>982</u>

Change in plan assets:

Fair value of plan assets, beginning of fiscal year		
Employer contributions	\$	72
Retiree contributions		152
Benefits paid		(224)
Fair value of plan assets, end of fiscal year	\$	<u>-</u>

Funded status, end of fiscal year	\$	<u>(982)</u>
-----------------------------------	----	--------------

The components of the net periodic post-retirement benefit costs recognized in the accompanying statement of activities are as follows for the year ended June 30, 2021:

Service cost	\$	-
Interest cost		25
Amortization of prior service credit		(67)
Recognized actuarial gain		(87)
Net periodic post-retirement benefit cost	\$	<u>(129)</u>

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

Liabilities	\$	<u>(982)</u>
Plan assets, beginning of year	\$	-
Employer contributions		72
Retiree contributions		152
Benefits paid		(224)
Plan assets, end of year	\$	<u>-</u>

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

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

Net gain	\$	(1,312)
Prior service credit		(519)
Total	\$	<u>(1,831)</u>

Amounts expected to be amortized from net assets without donor restrictions into net periodic benefit cost for the year ending June 30, 2021, are as follows:

Prior service credit	\$	(64)
Unrecognized gain		(107)
Total	\$	<u>(171)</u>

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

Years ending June 30:		
2022	\$	93
2023		98
2024		82
2025		83
2026		73
2027-2031		308
Total	\$	<u>737</u>

As the plan is unfunded, contributions are expected to be equivalent to future estimated benefit payments. Accordingly, for the year ending June 30, 2022, Brookings expects to contribute approximately \$93 thousand to its post-retirement health care benefit plan.

For measurement purposes, a 7.0% annual rate of increase in the cost of health care benefits was assumed for fiscal year 2022. The rate was to decline in increments of 0.25% each year until the ultimate rate of 5.00% is reached, 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, 2021, there is a cumulative unrecognized gain of \$1,311,949, which exceeds the corridor of \$98,200. As a result, there is amortization of \$107,000 for fiscal year 2022.

## The Brookings Institution

### Notes to Financial Statements (In Thousands)

---

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

For the year ended June 30, 2021, the assumed weighted-average discount rates used in determining the accumulated post-retirement obligation and the net periodic benefit cost was 2.2%.

**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 \$4.631 million for the year ended June 30, 2021.

**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' statement of financial position until they are distributed to the participants. The amount of deposits and related accumulations were \$937,181 June 30, 2021. The asset and liability are included on the 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 2021 will not have a material effect on the financial position of Brookings.

**Provisional indirect cost rates:** Billings under cost-reimbursable government grants and contracts are calculated using direct rates that permit recovery of indirect costs in accordance with Brookings' negotiated indirect cost rate agreement with the cognizant agency. 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 financial statements of The Brookings Institution (Brookings) as of and for the year ended June 30, 2021, and have issued our report thereon, which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Washington, D.C.  
November 29, 2021

**Bernard van Leer Foundation**  
**Learning Landscapes: Combining Placemaking and Learning Science to**  
**Support Early Childhood Development**

Brookings Grant No: GRA0592 Recipient: The Brookings Institution Project Title: Learning Landscapes: Combining Placemaking and Learning Science to Support Early Childhood Development Start Date: 4/1/2019 End Date: 6/30/2021
--

	<b>Expenditures</b>	
	<b>4/1/2019 – 6/30/2021</b>	
Expenditures:		
Human Resources	\$	50,017
Contracts and Honoraria		128,976
Staff Travel		5,978
Office Running Costs:		
<i>Facilities</i>		16,647
<i>Web</i>		12,187
<i>ITS</i>		15,234
General and Administrative		20,313
Other Expenses		1,550
		<hr/>
<b>Total costs</b>	<b>\$</b>	<b>250,902</b>
		<hr/> <hr/>
Summary 1:		
Total cumulative cash receipts (USD)	\$	279,834
Less total cumulative expenditures		250,902
		<hr/>
<b>Total unencumbered balance</b>	<b>\$</b>	<b>28,932</b>
		<hr/> <hr/>

**The Minderoo Foundation**  
**Berggruen – Minderoo – Brookings – Tsinghua U.S.-China Artificial Intelligence**  
**Dialogue on Security**

Brookings Grant No: GRA0682 Recipient: The Brookings Institution Project Title: Berggruen – Minderoo – Brookings – Tsinghua U.S.-China Artificial Intelligence Dialogue on Security Start Date: 10/1/2019 End Date: 6/30/2021
--

	<b>Expenditures</b>	
	<b>10/1/2019 – 6/30/2021</b>	
Expenditures:		
Fellowship Support	\$	132,053
Contracts & Honoraria		-
Editing Publishing Website		7,948
		<hr/>
<b>Total expenditures</b>	<b>\$</b>	<b>140,001</b>
		<hr/> <hr/>
Summary 1:		
Total cumulative cash receipts (USD)	\$	140,000
Less total cumulative expenditures		140,000
		<hr/>
<b>Total unencumbered balance</b>	<b>\$</b>	<b>-</b>
		<hr/> <hr/>

**Bernard van Leer Foundation**  
**Ahlan Simsim Scale Up Support**

Brookings Grant No: GRA0813 Recipient: The Brookings Institution Project Title: Ahlan Simsim Scale Up Support Start Date: 1/1/2021 End Date: 6/30/2021
--

	<b>Expenditures</b>	
	<b>1/1/2021 – 6/30/2021</b>	
	<hr/>	
Expenditures:		
Human Resources	\$	42,782
Contracts and Honoraria		-
Staff Travel		-
Office Running Costs:		
<i>Facilities</i>		1,927
<i>Web</i>		2,682
<i>ITS</i>		3,353
<i>General and Administrative</i>		4,471
Sub-contracts, re-granting		-
Other Expenses		-
	<hr/>	
<b>Total costs</b>	<b>\$</b>	<b>55,215</b>
	<hr/> <hr/>	
Summary 1:		
Total cumulative cash receipts (USD)	\$	119,070
Less total cumulative expenditures		55,215
	<hr/>	
<b>Total unencumbered balance</b>	<b>\$</b>	<b>63,855</b>
	<hr/> <hr/>	

**Department for Business, Energy & Industrial Strategy, United Kingdom**  
**Sustainable and Inclusive Growth Through Climate Action and International Finance**

Brookings Grant No: CRB0039 Recipient: The Brookings Institution Project Title: Sustainable and Inclusive Growth Through Climate Action and International Finance Start Date: 12/1/2020 End Date: 6/30/2021
---

	<b>Expenditures</b>	
	<b>12/1/2020 – 6/30/2021</b>	
	<hr/>	
Expenditures:		
Salaries and Fringe	\$	269,490
Contracts and Honoraria		-
Travel and Conference Costs		-
Editing, Publishing and Web		17,067
ITS Allocation		21,334
Facilities		-
Other Direct Costs		14,967
General and Administrative		50,065
		<hr/>
<b>Total expenditures</b>	<b>\$</b>	<b>372,923</b>
		<hr/> <hr/>
Summary 1:		
Total cumulative cash receipts (USD)	\$	231,158
Less total cumulative expenditures		372,924
		<hr/>
<b>Total unencumbered balance</b>	<b>\$</b>	<b>(141,766)</b>
		<hr/> <hr/>

**Embassy of Denmark**  
**Rising to the Challenge: Development Policies and Peaceful Solutions**

Brookings 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: 6/30/20/21

		<b>Expenditures 12/2019 – 6/2021</b>
Expenditures:		
Research Stream No. 1: SDGs and Financing for Development	\$	119,098
Research Stream No. 2: Multilateral Cooperation in the Face of Challenges		78,447
Overhead		14,869
<b>Total expenditures</b>	<b>\$</b>	<b>212,414</b>
Summary 1:		
Total cumulative cash receipts (USD)	\$	230,237
Less total cumulative expenditures		212,414
<b>Total unencumbered balance</b>	<b>\$</b>	<b>17,823</b>