



# The Urban Institute

## Financial Statements

Years Ended December 31, 2017 and 2016

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



# The Urban Institute

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Financial Statements  
Years Ended December 31, 2017 and 2016

# The Urban Institute

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## Independent Auditor's Report

Board of Trustees  
The Urban Institute  
Washington, D.C.

### Report on the Financial Statements

We have audited the accompanying financial statements of The Urban Institute (the Institute), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Urban Institute as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BDO USA, LLP*

McLean, Virginia  
June 1, 2018

## Financial Statements

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**The Urban Institute**  
**Statements of Financial Position**

| <i>December 31,</i>                         | 2017                  | 2016                  |
|---|-----------------------|-----------------------|
| <b>Assets</b>                               |                       |                       |
| Cash and cash equivalents                   | \$ 8,873,111          | \$ 7,889,952          |
| Endowment-related cash and cash equivalents | 3,465,807             | 3,764,976             |
| Accounts receivable, net                    | 21,013,046            | 18,926,812            |
| Contributions receivable, net               | 18,886,729            | 26,269,909            |
| Prepaid expenses and other assets           | 1,015,240             | 881,791               |
| Property and equipment, net                 | 4,718,614             | 4,509,203             |
| Long-term investments                       | 121,705,208           | 111,243,233           |
| <b>Total assets</b>                         | <b>\$ 179,677,755</b> | <b>\$ 173,485,876</b> |
| <b>Liabilities and Net Assets</b>           |                       |                       |
| <b>Liabilities</b>                          |                       |                       |
| Accounts payable                            | \$ 3,691,361          | \$ 3,554,269          |
| Accrued payroll                             | 1,983,031             | 1,386,684             |
| Accrued paid time off                       | 2,918,994             | 2,667,336             |
| Other accrued expenses                      | 381,258               | 170,299               |
| Deferred revenue                            | 11,139,564            | 12,076,796            |
| Deferred rent                               | 1,517,306             | 2,469,225             |
| <b>Total liabilities</b>                    | <b>21,631,514</b>     | <b>22,324,609</b>     |
| <b>Commitments and contingencies</b>        |                       |                       |
| <b>Net assets</b>                           |                       |                       |
| Unrestricted                                | 124,192,932           | 112,950,766           |
| Temporarily restricted                      | 30,400,107            | 34,769,191            |
| Permanently restricted                      | 3,453,202             | 3,441,310             |
| <b>Total net assets</b>                     | <b>158,046,241</b>    | <b>151,161,267</b>    |
| <b>Total liabilities and net assets</b>     | <b>\$ 179,677,755</b> | <b>\$ 173,485,876</b> |

*See accompanying notes to the financial statements.*

# The Urban Institute

## Statement of Activities and Change in Net Assets

| <i>Year Ended December 31, 2017</i>         | Unrestricted         | Temporarily Restricted | Permanently Restricted | 2017 Total            |
|---|----------------------|------------------------|------------------------|-----------------------|
| <b>Operating activities</b>                 |                      |                        |                        |                       |
| <b>Operating revenues</b>                   |                      |                        |                        |                       |
| Contract amounts earned                     | 35,394,372           | \$ -                   | \$ -                   | \$ 35,394,372         |
| Program and project grants                  | 31,298,044           | 13,958,146             | -                      | 45,256,190            |
| General support grants and contributions    | 1,588,491            | 56,024                 | -                      | 1,644,515             |
| Publication income                          | 41,695               | -                      | -                      | 41,695                |
| Investment return designated for operations | 5,052,045            | -                      | -                      | 5,052,045             |
| Other income                                | 23,641               | -                      | -                      | 23,641                |
|   | 73,398,288           | 14,014,170             | -                      | 87,412,458            |
| Net assets released from restrictions       | 19,035,790           | (19,035,790)           | -                      | -                     |
| <b>Total operating revenues</b>             | <b>92,434,078</b>    | <b>(5,021,620)</b>     | <b>-</b>               | <b>87,412,458</b>     |
| <b>Operating expenses</b>                   |                      |                        |                        |                       |
| Research expenses                           |                      |                        |                        |                       |
| Incurred under contracts                    | 33,630,149           | -                      | -                      | 33,630,149            |
| Incurred under grants                       | 31,797,949           | -                      | -                      | 31,797,949            |
| Incurred for other research                 | 20,415,647           | -                      | -                      | 20,415,647            |
| Total program costs                         | 85,843,745           | -                      | -                      | 85,843,745            |
| Development                                 | 790,224              | -                      | -                      | 790,224               |
| Publication and public affairs costs        | 80,542               | -                      | -                      | 80,542                |
| Other costs                                 | 5,673,120            | -                      | -                      | 5,673,120             |
| <b>Total operating expenses</b>             | <b>92,387,631</b>    | <b>-</b>               | <b>-</b>               | <b>92,387,631</b>     |
| <b>Change in net assets from operations</b> | <b>46,447</b>        | <b>(5,021,620)</b>     | <b>-</b>               | <b>(4,975,173)</b>    |
| <b>Non-operating activities</b>             |                      |                        |                        |                       |
| Interest and dividends, net                 | 1,334,215            | 53,583                 | -                      | 1,387,798             |
| Gain on long-term investments, net          | 14,913,549           | 598,953                | -                      | 15,512,502            |
| Investment income allocation                | (5,052,045)          | -                      | -                      | (5,052,045)           |
| Contributions received                      | -                    | -                      | 11,892                 | 11,892                |
| <b>Total non-operating activities</b>       | <b>11,195,719</b>    | <b>652,536</b>         | <b>11,892</b>          | <b>11,860,147</b>     |
| Change in net assets                        | 11,242,166           | (4,369,084)            | 11,892                 | 6,884,974             |
| Net assets at the beginning of the year     | 112,950,766          | 34,769,191             | 3,441,310              | 151,161,267           |
| <b>Net assets at the end of the year</b>    | <b>\$124,192,932</b> | <b>\$ 30,400,107</b>   | <b>\$ 3,453,202</b>    | <b>\$ 158,046,241</b> |

*See accompanying notes to the financial statements.*

# The Urban Institute

## Statement of Activities and Change in Net Assets

| <i>Year Ended December 31, 2016</i>         | Unrestricted          | Temporarily Restricted | Permanently Restricted | 2016 Total            |
|---|-----------------------|------------------------|------------------------|-----------------------|
| <b>Operating activities</b>                 |                       |                        |                        |                       |
| <b>Operating revenues</b>                   |                       |                        |                        |                       |
| Contract amounts earned                     | \$ 37,207,473         | \$ -                   | \$ -                   | \$ 37,207,473         |
| Program and project grants                  | 28,154,133            | 21,323,857             | -                      | 49,477,990            |
| General support grants and contributions    | 1,221,602             | 256,491                | -                      | 1,478,093             |
| Publication income                          | 19,376                | -                      | -                      | 19,376                |
| Investment return designated for operations | 5,429,196             | -                      | -                      | 5,429,196             |
| Other income                                | 267,920               | -                      | -                      | 267,920               |
|   | 72,299,700            | 21,580,348             | -                      | 93,880,048            |
| Net assets released from restrictions       | 13,743,565            | (13,743,565)           | -                      | -                     |
| <b>Total operating revenues</b>             | <b>86,043,265</b>     | <b>7,836,783</b>       | <b>-</b>               | <b>93,880,048</b>     |
| <b>Operating expenses</b>                   |                       |                        |                        |                       |
| <b>Research expenses</b>                    |                       |                        |                        |                       |
| Incurred under contracts                    | 34,398,940            | -                      | -                      | 34,398,940            |
| Incurred under grants                       | 28,402,316            | -                      | -                      | 28,402,316            |
| Incurred for other research                 | 16,215,501            | -                      | -                      | 16,215,501            |
| Total program costs                         | 79,016,757            | -                      | -                      | 79,016,757            |
| Development                                 | 742,596               | -                      | -                      | 742,596               |
| Publication and public affairs costs        | 36,620                | -                      | -                      | 36,620                |
| Other costs                                 | 6,233,369             | -                      | -                      | 6,233,369             |
| <b>Total operating expenses</b>             | <b>86,029,342</b>     | <b>-</b>               | <b>-</b>               | <b>86,029,342</b>     |
| <b>Change in net assets from operations</b> | <b>13,923</b>         | <b>7,836,783</b>       | <b>-</b>               | <b>7,850,706</b>      |
| <b>Non-operating activities</b>             |                       |                        |                        |                       |
| Interest and dividends, net                 | 1,350,582             | 37,527                 | -                      | 1,388,109             |
| Loss on long-term investments, net          | 5,323,010             | 147,902                | -                      | 5,470,912             |
| Investment income allocation                | (5,429,196)           | -                      | -                      | (5,429,196)           |
| Contributions received                      | -                     | -                      | 31,887                 | 31,887                |
| <b>Total non-operating activities</b>       | <b>1,244,396</b>      | <b>185,429</b>         | <b>31,887</b>          | <b>1,461,712</b>      |
| Change in net assets                        | 1,258,319             | 8,022,212              | 31,887                 | 9,312,418             |
| Net assets at the beginning of the year     | 111,692,447           | 26,746,979             | 3,409,423              | 141,848,849           |
| <b>Net assets at the end of the year</b>    | <b>\$ 112,950,766</b> | <b>\$ 34,769,191</b>   | <b>\$ 3,441,310</b>    | <b>\$ 151,161,267</b> |

*See accompanying notes to the financial statements.*

**The Urban Institute**  
**Statements of Cash Flows**

| <i>Years Ended December 31,</i>  | 2017                 | 2016                 |
|--|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>   |                      |                      |
| Change in net assets   | \$ 6,884,974         | \$ 9,312,418         |
| Adjustments to reconcile change in net assets to net cash and cash equivalents used in operating activities: |                      |                      |
| Change in contributions receivable discount  | (194,062)            | (39,542)             |
| Realized/unrealized gain loss on long-term investments   | (15,818,902)         | (5,805,506)          |
| Depreciation and amortization  | 1,391,686            | 1,339,302            |
| Changes in operating assets and liabilities:   |                      |                      |
| Accounts receivable  | (2,086,234)          | 456,081              |
| Contributions receivable   | 7,577,242            | (5,378,044)          |
| Prepaid expenses   | (133,449)            | 3,601                |
| Other assets   | -                    | 871                  |
| Accounts payable   | 137,091              | (1,738,967)          |
| Accrued payroll  | 596,347              | 327,797              |
| Accrued paid time off  | 251,658              | 13,828               |
| Other accrued expenses   | 210,959              | (25,144)             |
| Deferred revenue   | (937,232)            | (784,464)            |
| Deferred rent  | (951,919)            | 1,315,977            |
| <b>Total adjustments</b>   | <b>(9,956,815)</b>   | <b>(10,314,210)</b>  |
| <b>Net cash and cash equivalents used in operating activities</b>  | <b>(3,071,841)</b>   | <b>(1,001,792)</b>   |
| <b>Cash flows from investing activities:</b>   |                      |                      |
| Purchases of property and equipment  | (1,601,096)          | (1,041,987)          |
| Purchases of investments   | (17,395,888)         | (7,897,376)          |
| Sales of investments   | 22,752,815           | 11,573,888           |
| <b>Net cash and cash equivalents provided by investing activities</b>  | <b>3,755,831</b>     | <b>2,634,525</b>     |
| Net increase in cash and cash equivalents  | 683,990              | 1,632,733            |
| Cash and cash equivalents, beginning of the year   | 11,654,928           | 10,022,195           |
| <b>Cash and cash equivalents, end of the year</b>  | <b>\$ 12,338,918</b> | <b>\$ 11,654,928</b> |
| <b>Reconciliation of cash and cash equivalents to statements of financial position:</b>                      |                      |                      |
| Cash and cash equivalents  | \$ 8,873,111         | \$ 7,889,952         |
| Endowment-related cash and cash equivalents  | 3,465,807            | 3,764,976            |
|  | <b>\$ 12,338,918</b> | <b>\$ 11,654,928</b> |
| <b>Supplemental cash flow information:</b>   |                      |                      |
| Cash paid for taxes  | \$ -                 | \$ 13,775            |

*See accompanying notes to the financial statements.*

# The Urban Institute

## Notes to the Financial Statements

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### 1. Organization and Significant Accounting Policies

The Urban Institute (the Institute) is a non-profit policy research organization established in Washington, D.C., in 1968. The Institute's objectives are to sharpen thinking about society's problems and efforts to solve them, improve government decisions and their implementation, and increase citizens' awareness about important public choices. Institute researchers identify and measure the extent of social problems, assess developing trends and solutions to those problems, evaluate existing social and economic programs and policy options, and offer conceptual clarification and technical assistance in the development of new strategies. The Institute receives contracts and grants from the federal government and private sponsors.

The significant accounting policies followed by the Institute are described below.

#### *Basis of Accounting*

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America utilizing the accrual basis of accounting.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Such estimates also affect the reported amounts of revenues and expenses during the reporting year. Actual results may differ from estimates under different assumptions or conditions.

#### *Revenue Recognition*

Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered or goods delivered, the contract price is fixed or determinable, and collectability is reasonably assured. Revenue associated with work performed prior to the completion and signing of contract documents is recognized only when it can be reliably estimated and realization is probable. The Institute bases its estimates on previous experiences with the customer, communications with the customer regarding funding status, and its knowledge of available funding for the contract.

Revenue under federal and non-federal cost-reimbursable and fixed price contracts is recognized on the basis of direct costs incurred plus provisional overhead, which is allocated by the application of rates approved by the Institute's federal oversight agency, plus an allocable portion of fixed fee. Revenue from federal and non-federal time and material contracts is recognized on the basis of man-hours utilized, plus other reimbursable direct costs incurred during the year. Some contracts are invoiced in advance of costs being incurred. These amounts are reflected in the accompanying statements of financial position as deferred revenue.

Program and project grants represent resources received for restricted operating purposes as provided by each specific grant. Each grant is accounted for separately, and related expenditures constitute current revenues in the year expended. Some grant payments are received in advance of related expenditures. These amounts are reflected in the accompanying statements of financial position as deferred revenue.

# The Urban Institute

## Notes to the Financial Statements

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Contract costs include direct labor, combined with allocations of operational overhead and other direct costs. Provisions for estimated losses on uncompleted production contracts, as defined by the applicable authoritative guidance, are made in the year in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and revenue, and are recognized in the year in which such revisions are determined.

The Institute reports contributions of cash and other assets, including promises to give, as restricted support if they are received with donor stipulations that restrict the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and change in net assets as net assets released from restrictions.

General support grants and contributions are not designated for specific purposes but are received for general support to the Institute's research programs and are recognized as revenue when notice of intent is given.

Other revenues are recognized when earned.

### *Cash Equivalents*

Cash equivalents include money market funds and repurchase agreements with original maturities of 90 days or less.

### *Accounts Receivable*

Accounts receivable are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities. Billed receivables represent amounts invoiced and currently due from funders. Unbilled receivables represent recoverable costs incurred and, where applicable, accrued fixed fees related to contracts and grants for which the funder has not been invoiced. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Uncollectible amounts will be written off when all efforts to collect these receivables have been exhausted or when management receives notification that an amount will not be collected.

Receivables relating to pending investment sales represent unreceived proceeds from the sales of the Institute's investments.

### *Contributions Receivable*

Contributions receivable consist of unconditional promises to give, which are recorded as contribution revenue upon receipt of the promise. Promises that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected beyond one year are recorded at their net present value. Management believes that all contributions receivable are collectible.

# The Urban Institute

## Notes to the Financial Statements

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### *Property and Equipment*

The Institute's policy is to capitalize property and equipment purchases in excess of \$1,000. Property and equipment are carried at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation and amortization is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective year. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the lesser of the lease or life of the asset. The asset categories and their estimated useful lives are as follows:

| Assets                  | Estimated Useful Lives                   |
|-------------------------|--|
| Leasehold improvements  | Lesser of life of lease or life of asset |
| Software                | 3 - 8 years                              |
| Computer equipment      | 3 years                                  |
| Furniture and equipment | 5 - 7 years                              |

Equipment purchased under the execution of a specific contract or grant is expensed in the year of acquisition.

### *Long-Term Investments*

Long-term investments are carried at fair value. The fair value of the investments is based upon quoted market prices where available or values provided by investment companies if the investments are not publicly traded. Interest and dividend income is accounted for on the accrual basis. Investment income or loss generated from long-term investments are considered non-operating activities and are classified accordingly in the accompanying statements of activities and change in net assets.

As of December 31, 2017 and 2016, the Institute's long-term investments are comprised of shares held in several investment funds. These investment funds also may invest in foreign and domestic equity and debt instruments, derivative instruments such as hedges and foreign currency contracts, and also certain leveraged arrangements. Any significant changes in the fair value of these investment funds could significantly affect the overall value of the Institute's investment portfolio and its net assets.

### *Accrued Paid Time Off*

Under the Institute's paid time off policy, employees are permitted to accumulate unused paid time off up to certain maximum amounts. The policy also provides for payment to employees of such unused amounts at termination. The Institute accrues paid time off as it is earned by the employees.

# The Urban Institute

## Notes to the Financial Statements

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### *Benefit Plans*

The Institute has a non-contributory defined contribution retirement plan (the Plan) covering substantially all full-time employees. The Institute recorded contributions of \$3,677,259 and \$3,320,536 to the Plan for the years ended December 31, 2017 and 2016, respectively, based on a fixed rate applied to annual compensation of covered employees. All retirement costs accrued are funded, and there are no unfunded prior service costs in connection with the Plan.

The Institute established a trust in 1993 to serve as a funding vehicle for benefits provided under the Institute's contributory health and welfare plans. The Institute recorded expenses of \$2,048,219 and \$2,148,326 for the years ended December 31, 2017 and 2016, respectively, based on an estimate of expected claims, reinsurance premiums, and administrative costs under the health and welfare plans.

### *Classification of Net Assets*

The Institute groups net assets into the following three classes:

*Unrestricted net assets* - Unrestricted net assets generally result from net revenues derived from contracts and grants, unrestricted contributions, publication activities, investment income and other net inflows of assets whose use by the Institute is not limited by donor-imposed restrictions.

*Temporarily restricted net assets* - Temporarily restricted net assets generally result from net contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to those stipulations.

*Permanently restricted net assets* - Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Institute.

The Institute's donor-restricted endowment is subject to the authoritative guidance issued by the Financial Accounting Standards Board (the FASB) on net asset classifications of endowment funds, such that earnings on donor-restricted endowment funds for not-for-profit organizations that are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) are classified as temporarily restricted net assets until such amounts are appropriated for expenditure.

### *Functional Allocation of Expenses*

The costs of providing the programs and other activities have been summarized on a functional basis in the accompanying statements of activities and change in net assets. Accordingly, certain costs have been allocated among the activities benefited. Support costs are reflected as development, publication and public affairs costs, and other costs in the accompanying statements of activities and change in net assets.

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## Notes to the Financial Statements

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### *Income Taxes*

Under provisions of the Internal Revenue Code (the IRC) Section 501(c)(3) and the applicable regulations of the District of Columbia, the Institute is exempt from taxes on income other than unrelated business income. The Institute incurred no unrelated business income tax expense for the years ended December 31, 2017 and 2016. The Institute is not a private foundation under Section 509(a)(1) of the IRC.

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the FASB, the Institute recognizes tax liabilities for uncertain tax positions when it is more likely than not that a tax position will not be sustained upon examination and settlement with various taxing authorities. Liabilities for uncertain tax positions are measured based upon the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, and interest and penalties on income taxes. With few exceptions, the Institute is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended December 31, 2013 and prior. Management has evaluated the Institute's tax positions and has concluded that the Institute has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

### *Fair Value of Financial Instruments*

The fair value of the Institute's short-term financial instruments, including cash and cash equivalents, accounts receivable, contributions receivable, prepaid expenses, accounts payable, accrued payroll, accrued paid time off, other accrued expenses, and deferred revenue approximate their carrying amounts due to the short maturity of these instruments.

### *Valuation of Long-Lived Assets*

The Institute accounts for the valuation of long-lived assets under authoritative guidance issued by the FASB, which requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the assets. 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. No indicators of impairment were identified for the years ended December 31, 2017 and 2016.

### *Concentrations of Credit Risk*

The Institute's assets that are exposed to credit risk consist primarily of cash and cash equivalents, long-term investments, accounts receivable and contributions receivable. Domestic deposits are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Institute has never experienced any losses related to these balances. Amounts on deposit in excess of federally insured limits at December 31, 2017 approximate \$13.1 million. The Institute

# The Urban Institute

## Notes to the Financial Statements

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invests its excess cash and cash equivalents, and maintains its investments with high-quality financial institutions. The Institute performs yearly evaluations of these institutions for relative credit standing. Management regularly monitors the composition and maturities of investments. The Institute limits the amount of credit exposure to any one financial institution. Accounts receivable consist primarily of amounts due from various agencies of the federal government or prime contractors doing business with the federal government. Contributions receivable consist of amounts due from private foundations, individual donors and major donors (see Note 10). Historically, the Institute has not experienced significant losses related to accounts and contributions receivable and, therefore, believes that the credit risk related to these receivables is minimal.

### *Recent Accounting Pronouncements Not Yet Adopted*

In May 2014, the FASB issued guidance on revenue recognition. The update establishes a comprehensive revenue recognition standard for virtually all industries under GAAP, including those that previously followed industry-specific guidance. Under the guidance, all entities should recognize revenue to depict the transfer of promised goods and services under a contract to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is currently effective on January 1, 2019 for the Institute. The Institute is currently evaluating the impact this update will have on the financial statements.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 (ASU 2016-02), *Leases*, which requires that a lessee recognize on the statement of financial position assets and liabilities for leases with lease terms of more than 12 months. (Leases with terms of less than 12 months are exempt from the new standard.) The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. ASU 2016-02 is effective on January 1, 2020 for the Institute, however, the Institute plans to adopt the provisions of the ASU on the effective date of the new headquarters lease. See Note 11. Early adoption is permitted. The Institute is currently evaluating the impact this update will have on the financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Institute as of January 1, 2019. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. The Institute is currently evaluating the impact this update will have on the financial statements.

**The Urban Institute**  
**Notes to the Financial Statements**

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**2. Accounts Receivable**

Accounts receivable consist of the following at December 31:

|  | 2017          | 2016          |
|--|---------------|---------------|
| <hr/>                                  |               |               |
| Receivables from U.S. Government       |               |               |
| Billed                                 | \$ 5,374,829  | \$ 5,189,428  |
| Unbilled                               | 8,998,622     | 7,736,665     |
|  | <hr/>         | <hr/>         |
|  | 14,373,451    | 12,926,093    |
| <hr/>                                  |               |               |
| Other receivables                      |               |               |
| Billed                                 | 257,426       | 1,196,760     |
| Unbilled                               | 2,389,442     | 2,722,704     |
| Pending investment sales               | 4,094,438     | 2,190,658     |
| Travel and other advances to employees | 13,289        | 5,597         |
|  | <hr/>         | <hr/>         |
|  | 6,754,595     | 6,115,719     |
| <hr/>                                  |               |               |
| Subtotal                               | 21,128,046    | 19,041,812    |
| Less: allowance for doubtful accounts  | (115,000)     | (115,000)     |
|  | <hr/>         | <hr/>         |
|  | \$ 21,013,046 | \$ 18,926,812 |
| <hr/>                                  |               |               |

**3. Contributions Receivable**

Contributions receivable consist of amounts due in:

|   | 2017          | 2016          |
|---|---------------|---------------|
| <hr/>                                   |               |               |
| Less than one year                      | \$ 15,771,126 | \$ 15,290,166 |
| One year to five years                  | 3,252,370     | 11,310,572    |
|   | <hr/>         | <hr/>         |
|   | 19,023,496    | 26,600,738    |
| Less: contributions receivable discount | (136,767)     | (330,829)     |
|   | <hr/>         | <hr/>         |
|   | \$ 18,886,729 | \$ 26,269,909 |
| <hr/>                                   |               |               |

Contributions due in more than one year have been recorded at their present value using a discount rate of 2.57% and 1.77% in 2017 and 2016, respectively.

**The Urban Institute**  
**Notes to the Financial Statements**

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**4. Property and Equipment**

Property and equipment consists of the following at December 31:

|   | 2017         | 2016         |
|---|--------------|--------------|
| Software  | \$ 5,730,188 | \$ 5,705,836 |
| Leasehold improvements                          | 5,255,304    | 5,240,688    |
| Computer equipment                              | 3,508,311    | 3,261,768    |
| Furniture and equipment                         | 2,126,673    | 2,241,822    |
|   | 16,620,476   | 16,450,114   |
| Less: accumulated depreciation and amortization | (11,901,862) | (11,940,911) |
|   | \$ 4,718,614 | \$ 4,509,203 |

Depreciation and amortization expense on property and equipment aggregated \$1,391,686 and \$1,339,302 for the years ended December 31, 2017 and 2016, respectively.

**5. Investments**

Investment income is comprised of the following for the years ended December 31:

|   | 2017          | 2016         |
|---|---------------|--------------|
| Interest and dividend income            | \$ 1,387,798  | \$ 1,388,109 |
| Net realized gain on investments        | 2,340,905     | 1,583,251    |
| Net unrealized gain on investments      | 13,991,987    | 4,535,244    |
|   | 17,720,690    | 7,506,604    |
| Less:                                   |               |              |
| Management fees and investment expenses | (820,390)     | (647,583)    |
| Investment return allocation            | (5,052,045)   | (5,429,196)  |
|   | \$ 11,848,255 | \$ 1,429,825 |

**6. Bank Line-of-Credit**

The Institute has an unsecured bank line-of-credit under which it may borrow up to \$7,000,000 from a commercial bank. The terms allow the Institute to borrow at the thirty-day indexed LIBOR plus one percent (2.57% as of December 31, 2017). There were no outstanding balances due under the bank line-of-credit as of December 31, 2017 or 2016. The line-of-credit expires, if not renewed, on August 29, 2018.

# The Urban Institute

## Notes to the Financial Statements

### 7. Net Assets

The Institute receives contributions for several programmatic research areas, which are classified as temporarily restricted contributions. The accumulated balance of unexpended contributions is consolidated below by Institute Research Center. Ongoing research areas and programs funded by contributions include: Tax Policy Center program support; Informing and Assessing Philanthropic Investments; Pay for Success Initiative; Evidence-Based Policymaking Collaborative; Policy Advisory Group program support; Assisted Housing Initiative; Commission on U.S. Poverty and Economic Mobility; Technology and Transportation as School Choice Ecosystem Enablers; Effects of School Choice; Education Policy program support; Social Genome Model; Janice Nittoli Solutions Fellowship; Detroit Dialogues Initiative; Finance, Policy, and the Real Economy; Culture of Health - Policies for Action; Medicare Enrollees' Access to Physician Services; Center on Nonprofits and Philanthropy program support; Housing Finance Policy Center program support; Mortgage Servicing Collaborative; and Opportunity and Ownership Initiative.

Accumulated unappropriated earnings on the Institute's permanently restricted endowment fund are classified as temporarily restricted net assets (see Note 8).

Temporarily restricted net assets consist of the following as of December 31:

|   | 2017                 | 2016                 |
|---|----------------------|----------------------|
| Purpose restrictions                            |                      |                      |
| Tax Policy Center                               | \$ 9,672,135         | \$ 12,588,993        |
| Policy Advisory Group                           | 7,397,737            | 11,767,701           |
| Center on Nonprofits and Philanthropy           | 3,979,326            | 1,067,537            |
| Endowment funds                                 | 2,672,576            | 2,037,971            |
| Health Policy Center                            | 2,648,938            | 1,099,965            |
| Income and Benefits Policy Center               | 1,591,329            | 3,885,562            |
| Executive Office Research                       | 1,447,841            | 1,191,469            |
| Housing Finance Policy Center                   | 673,296              | 354,981              |
| Center on Labor, Human Services, and Population | 66,929               | 131,036              |
| Time restrictions                               |                      |                      |
| General support grants and contributions        | 250,000              | 643,976              |
|   | <b>\$ 30,400,107</b> | <b>\$ 34,769,191</b> |

Permanently restricted net assets consist of the following as of December 31:

|                   | 2017                | 2016                |
|-------------------|---------------------|---------------------|
| Tax Policy Center | \$ 2,453,202        | \$ 2,441,310        |
| Endowment funds   | 1,000,000           | 1,000,000           |
|                   | <b>\$ 3,453,202</b> | <b>\$ 3,441,310</b> |

# The Urban Institute

## Notes to the Financial Statements

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### 8. Endowment

The Institute's endowment consists of two donor-restricted endowment funds and a board-designated quasi-endowment fund. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Institute has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Institute and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Institute
- (7) The investment policies of the Institute

The Board of Trustees authorized the establishment of the quasi-endowment fund in 1983 to provide an ongoing source of funding for general operations. The donors' intent in contributing to the Institute's endowment fund was to provide an ongoing source of funding for senior scholars in social policy analysis. The investment committee of the Board of Trustees is responsible for the oversight and management of the Institute's endowment.

The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor-restricted fund that the Institute must hold in perpetuity as well as the board-designated fund. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to maximize the total rate of return for assets consistent with prudent investment management, taking into consideration the potential for market appreciation, the safety of principal, and income.

To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# The Urban Institute

## Notes to the Financial Statements

Institute management is authorized by the Board to draw up to 2.5% of endowment assets on an annual basis in support of ongoing organizational health and operations. The Board may also approve an additional annual draw of up to 2.5% during the annual budget review process in order to support the Institute's mission. The endowment asset balance used to calculate the annual percentage draw is based on the average of the quarter-end endowment value from the prior twenty quarters. The unexpended balance of an approved annual draw may be carried over for use in the subsequent fiscal year. The President or his/her designee may draw additional amounts from the endowment without Board approval where required to meet the Institute's short-term borrowing needs for cash flow purposes provided that such amounts are repaid to the endowment within thirty days from the date when borrowed.

Endowment net assets consist of the following at December 31:

|                                       | 2017                  |                        |                        |
|---------------------------------------|-----------------------|------------------------|------------------------|
|                                       | Unrestricted          | Temporarily Restricted | Permanently Restricted |
| Board-designated quasi-endowment fund | \$ 119,998,446        | \$ -                   | \$ -                   |
| Donor-restricted endowment fund       | -                     | 2,672,576              | 2,500,000              |
| <b>Total endowment funds</b>          | <b>\$ 119,998,446</b> | <b>\$ 2,672,576</b>    | <b>\$ 2,500,000</b>    |

  

|                                       | 2016                  |                        |                        |
|---------------------------------------|-----------------------|------------------------|------------------------|
|                                       | Unrestricted          | Temporarily Restricted | Permanently Restricted |
| Board-designated quasi-endowment fund | \$ 110,720,245        | \$ -                   | \$ -                   |
| Donor-restricted endowment fund       | -                     | 2,037,973              | 2,250,000              |
| <b>Total endowment funds</b>          | <b>\$ 110,720,245</b> | <b>\$ 2,037,973</b>    | <b>\$ 2,250,000</b>    |

# The Urban Institute

## Notes to the Financial Statements

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended December 31, 2017 and 2016:

|   | Unrestricted   | Temporarily Restricted | Permanently Restricted |
|---|----------------|------------------------|------------------------|
| Endowment net assets, December 31, 2015 | \$ 111,580,734 | \$ 1,862,621           | \$ 1,750,000           |
| Investment return                       |                |                        |                        |
| Investment income, net                  | 1,350,582      | 37,527                 | -                      |
| Net gain                                | 5,953,086      | 165,409                | -                      |
| Investment management fees              | (630,077)      | (17,506)               | -                      |
| Total investment return                 | 6,673,591      | 185,430                | -                      |
| Contributions                           | 10,078         | -                      | 500,000                |
| Appropriations                          | (5,414,214)    | (10,078)               | -                      |
| Transfer to accounts receivable         | (2,129,944)    | -                      | -                      |
| Endowment net assets, December 31, 2016 | 110,720,245    | 2,037,973              | 2,250,000              |
| Investment return                       |                |                        |                        |
| Investment income, net                  | 1,334,213      | 53,583                 | -                      |
| Net gain                                | 15,702,266     | 630,627                | -                      |
| Investment management fees              | (788,714)      | (31,676)               | -                      |
| Total investment return                 | 16,247,765     | 652,534                | -                      |
| Contributions                           | 17,931         | -                      | 250,000                |
| Appropriations                          | (5,083,714)    | (17,931)               | -                      |
| Transfer to accounts receivable         | (1,903,781)    | -                      | -                      |
| Endowment net assets, December 31, 2017 | \$ 119,998,446 | \$ 2,672,576           | \$ 2,500,000           |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with authoritative guidance issued by the FASB, deficiencies of this nature are classified as unrestricted net assets. There were no such deficiencies as of December 31, 2017 and 2016.

# The Urban Institute

## Notes to the Financial Statements

### 9. Natural Classification of Expenses

For the years ended December 31, 2017 and 2016, the Institute incurred the following operating expenses:

|                                      | 2017                 | 2016                 |
|--------------------------------------|----------------------|----------------------|
| Salaries, wages, and benefits        | \$ 56,987,998        | \$ 52,556,355        |
| Subcontracts                         | 14,029,442           | 11,558,248           |
| Facilities costs                     | 7,632,646            | 7,603,754            |
| Other general expenses               | 3,035,722            | 3,229,603            |
| Purchase order contracts             | 2,879,771            | 2,687,019            |
| Consultant fees and expenses         | 2,429,814            | 3,006,827            |
| Travel                               | 1,405,031            | 1,182,658            |
| Depreciation and amortization        | 1,391,686            | 1,339,302            |
| Professional services                | 829,219              | 969,441              |
| Seminars, workshops, and conferences | 672,363              | 428,272              |
| Temporary help                       | 421,202              | 733,285              |
| Publications/library services        | 225,801              | 223,826              |
| Telephone                            | 221,266              | 229,154              |
| Expendable supplies                  | 209,240              | 256,969              |
| Postage and delivery                 | 16,430               | 15,269               |
| Field office expenses                | -                    | 9,360                |
|                                      | <b>\$ 92,387,631</b> | <b>\$ 86,029,342</b> |

### 10. Major Donors

As of December 31, 2017 and 2016, three donors accounted for 75% and 73%, respectively, of the Institute's total contributions receivable. For the years ended December 31, 2017 and 2016, two and one donor represented 59% and 53%, respectively, of the Institute's total contributions revenue balance which is included in program and project grants on the statement of activities and change in net assets.

### 11. Commitments and Contingencies

#### *General*

The Institute may enter into service agreements with service providers in which it agrees to indemnify the service provider against certain losses and liabilities arising from the service provider's performance under the agreement. Generally, such indemnification obligations do not apply in situations in which the service provider is grossly negligent, engages in willful misconduct, or acts in bad faith. The indemnifications serve to place the Institute in a liability position no different than if it had performed the services for itself. The Institute was not aware of any liability under such agreements for either of the years ended December 31, 2017 or 2016.

In the normal course of business, the Institute is a party to certain claims and assessments. In the opinion of management, these matters will not have a material effect on the Institute's financial position, change in net assets, or cash flows.

# The Urban Institute

## Notes to the Financial Statements

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### *Leases*

The Institute currently leases office space under operating leases expiring at various dates through 2019. The headquarters office space lease contains escalation provisions requiring scheduled increases of 2.5% annually, plus operating expense escalations as estimated by property management. The lease includes provisions which allow the minimum rental payments to be adjusted annually for increases in operating expenses and real estate taxes attributed to the leased property. In accordance with authoritative guidance issued by the FASB, the Institute is recognizing the total cost of its office leases ratably over the respective lease periods. The difference between rent paid and rent expense is reflected as deferred rent and is being recorded on a straight-line basis over the term of the office space lease. The deferred rent liability in the accompanying statements of financial position represents the difference between annual cash payments for rent and the annual recorded expense based on recording rent on a straight-line basis over the life of the lease. Total rent expense, net of sublease income, under operating leases was \$7,632,646 and \$7,603,754 for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, approximate future minimum rental payments due under the current operating leases for the office facilities are as follows:

#### *Years Ending December 31,*

|      |  |              |
|------|--|--------------|
| 2018 |  | \$ 7,414,000 |
| 2019 |  | 2,492,000    |
|      |  | \$ 9,906,000 |

On December 30, 2016, the Institute signed a new lease agreement for their headquarters, located in Washington, D.C. The lease will commence on or about March 1, 2019, for a term of 15 years, with a five-year option to extend at the end of the initial lease term. As the total cost of the lease is still to be determined based upon certain real estate credits and other factors, exact rental expense and future minimum lease payments are not known as of the date of the report. However, the total estimated cost will be \$109 million, which will include tenant improvements as well as property tax rebates and credits. The Institute plans to early adopt the provisions of ASU 2016-02 *Leases (Topic 842)* on the effective date of the lease commencement.

The Institute subleases office space under the terms of a sublease agreement. On January 1, 2011, the Institute entered into a sublease agreement for office space beginning April 1, 2011 and expiring on April 29, 2019. The following is a schedule of the approximate future minimum sublease payments scheduled under a noncancelable sublease agreement that has a remaining term in excess of one year as of December 31, 2017:

#### *Years Ending December 31,*

|      |  |            |
|------|--|------------|
| 2018 |  | \$ 243,000 |
| 2019 |  | 82,000     |
|      |  | \$ 325,000 |

# The Urban Institute

## Notes to the Financial Statements

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### *Contracts and grants*

A substantial number of the Institute's contracts and grants are with departments or agencies of the United States Government and are subject to audit by government auditors. Contract and grant revenue has been recorded in amounts that are expected to be realized upon final settlement. The Institute is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the financial statements.

### 12. Fair Value Measurements

Certain assets are recorded at fair value. Fair value is defined as the price that would be received to sell an asset between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received. Fair value is based on assumptions market participants would make in pricing the asset. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Institute reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Investments at net asset value are excluded from the fair market value hierarchy.

The Institute's assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.
- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Institute uses to measure its financial assets at fair value.

# The Urban Institute

## Notes to the Financial Statements

### Investments

Investments include debt securities, equity securities, hedge funds, and other alternative investments.

In general, and where applicable, the Institute uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments such as certain debt and equity securities. If quoted prices in active markets for identical assets are not available to determine fair value, then the Institute uses quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2.

As of December 31, 2017 and 2016, \$73,770,689 and \$67,445,789, respectively, of the Institute's investments are reported at net asset value under the practical expedient rule. The remaining \$47,934,519 and \$43,797,444 for 2017 and 2016, respectively, of investments are classified as Level 1 investments. All investment managers used by the Institute undergo annual financial statement audits. In addition, the Institute employs third-party investment advisors for detailed independent reviews of all investment managers holding Institute funds. These reviews entail an assessment of the methodologies used in measuring fair value. The Institute reports the investment fund fair values as calculated by the investment managers without adjustment.

Institute senior management and the investment committee of the Board of Trustees regularly review the monthly and year-to-date returns for each investment in order to analyze individual returns as well as overall investment performance. There were no changes in valuation techniques noted for the Institute's investments for 2017 and 2016.

Investments measured at fair value on a recurring basis are summarized below:

| Description   | As of December 31, 2017             |                            |         |         |
|---|-------------------------------------|----------------------------|---------|---------|
|   | Assets<br>Measured at<br>Fair Value | Fair Value Hierarchy Level |         |         |
|   |                                     | Level 1                    | Level 2 | Level 3 |
| Debt securities   |                                     |                            |         |         |
| Trading debt securities   | \$ 20,153,126                       | \$ 20,153,126              | \$ -    | \$ -    |
| Total debt securities   | 20,153,126                          | 20,153,126                 | -       | -       |
| Equity securities   |                                     |                            |         |         |
| Domestic equity   | 9,533,036                           | 9,533,036                  | -       | -       |
| Global equity   | 8,600,611                           | 8,600,611                  | -       | -       |
| International equity  | 6,163,736                           | 6,163,736                  | -       | -       |
| Emerging markets  | 3,484,010                           | 3,484,010                  | -       | -       |
| Total equity securities   | 27,781,393                          | 27,781,393                 | -       | -       |
| Hedge funds and alternatives<br>Measured at net asset<br>value* | 73,770,689                          | -                          | -       | -       |
| Total   | \$ 121,705,208                      | \$ 47,934,519              | \$ -    | \$ -    |

# The Urban Institute

## Notes to the Financial Statements

- \* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

| Description                         | As of December 31, 2016             |                            |             |             |
|-------------------------------------|-------------------------------------|----------------------------|-------------|-------------|
|                                     | Assets<br>Measured at<br>Fair Value | Fair Value Hierarchy Level |             |             |
|                                     |                                     | Level 1                    | Level 2     | Level 3     |
| <b>Debt securities</b>              |                                     |                            |             |             |
| Trading debt securities             | \$ 18,219,921                       | \$ 18,219,921              | \$ -        | \$ -        |
| <b>Total debt securities</b>        | <b>18,219,921</b>                   | <b>18,219,921</b>          | <b>-</b>    | <b>-</b>    |
| <b>Equity securities</b>            |                                     |                            |             |             |
| Domestic equity                     | 11,966,957                          | 11,966,957                 | -           | -           |
| Global equity                       | 6,593,007                           | 6,593,007                  | -           | -           |
| International equity                | 3,904,642                           | 3,904,642                  | -           | -           |
| Emerging markets                    | 3,112,917                           | 3,112,917                  | -           | -           |
| <b>Total equity securities</b>      | <b>25,577,523</b>                   | <b>25,577,523</b>          | <b>-</b>    | <b>-</b>    |
| <b>Hedge funds and alternatives</b> |                                     |                            |             |             |
| Measured at net asset value*        | 67,445,789                          | -                          | -           | -           |
| <b>Total</b>                        | <b>\$ 111,243,233</b>               | <b>\$ 43,797,444</b>       | <b>\$ -</b> | <b>\$ -</b> |

The major categories of the Institute's investments that are valued at net asset value or its equivalent, including general information related to each category, are as follows at December 31, 2017:

|  | Fair Value           | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Notice Period (Days) |
|--|----------------------|----------------------|--|----------------------|
| Multi-strategy <sup>(1)</sup>          | \$ 21,556,763        | -                    | Quarterly, Biennially, Annually              | 60, 65, 90, 105      |
| Global equity <sup>(2)</sup>           | 16,696,986           | -                    | Quarterly, Annually                          | 30, 90               |
| Emerging markets equity <sup>(3)</sup> | 11,879,167           | -                    | Monthly, Annually                            | 30, 90               |
| Private equity <sup>(4)</sup>          | 8,100,335            | 2,023,423            | N/A  | N/A                  |
| International equity <sup>(5)</sup>    | 6,050,600            | -                    | Monthly                                      | 10                   |
| Domestic equity <sup>(6)</sup>         | 4,641,508            | -                    | Monthly                                      | 30                   |
| Long/short equity <sup>(7)</sup>       | 3,910,678            | -                    | Quarterly, Annually                          | 60, 105              |
| Private debt <sup>(8)</sup>            | 934,652              | 146,060              | N/A  | N/A                  |
| <b>Balance at December 31, 2017</b>    | <b>\$ 73,770,689</b> | <b>\$ 2,169,483</b>  |  |                      |

# The Urban Institute

## Notes to the Financial Statements

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- (1) Investments include credit and debt vehicles from both foreign and domestic issuers. Assets may also be invested in equity long/short, event-driven, relative value, and global asset allocation. The fair value of the investments in this class have been estimated using the net asset value per share of the investments. 99% of the investments in this category have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window. The remaining 1% of investments in the category have been given notice to liquidate and represent side pockets to be distributed upon liquidation of the underlying investments.
- (2) Investments include equity securities in both domestic and developed foreign markets. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. 68% of the investments in the category have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window. The remaining 32% will be not available for redemption for a period of 24 months.
- (3) Investments include equity security holdings in emerging foreign markets. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. 74% of the investments have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window. 26% of investments are subject to an initial investment lock-up period of four months as of year-end.
- (4) This class includes private equity funds investing in small to mid-market buyout and growth opportunities and investments in the energy, mining, and power industries. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of these funds are liquidated.
- (5) Investments include equity security holdings in developed foreign markets. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. All investments are subject to an initial investment lock-up period of six months as of year-end.
- (6) Investments include domestic equity security holdings. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. All investments have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window.
- (7) These managers invest primarily in equity long/short underlying hedge funds or direct investments. Some event-driven opportunities may be utilized. Strategies range from value to growth and small to large capitalization. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. 100% of the investments have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window.
- (8) This class includes holdings of private debt funds of commercial mortgage backed securitizations. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of these funds are liquidated.

**The Urban Institute**  
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The following table presents the estimated fair value of the Institute's financial instruments that are not measured at fair value on a recurring basis as of the years ended December 31, 2017 and 2016:

|                                  | 2017               |               | 2016               |               |
|----------------------------------|--------------------|---------------|--------------------|---------------|
|                                  | Carrying<br>Amount | Fair Value    | Carrying<br>Amount | Fair Value    |
| Contributions<br>receivable, net | \$ 18,886,729      | \$ 18,886,729 | \$ 26,269,909      | \$ 26,269,909 |

The fair value of contributions receivable is estimated using risk free interest rates applied to multi-year contributions receivable when notice of intent is given. There have been no changes in the valuation techniques for the years ended December 31, 2017 and 2016. Contributions receivable are classified as Level 2 assets under the fair value hierarchy.

**13. Subsequent Events**

The Institute has evaluated its December 31, 2017 financial statements for subsequent events through June 1, 2018, the date the financial statements were available to be issued. The Institute is not aware of any subsequent events which would require recognition or disclosure in the financial statements.