



# The Urban Institute

Financial Statements  
Years Ended December 31, 2019 and 2018

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, 2019 and 2018

# 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, 2019 and 2018, and the related statements of activities and change in net assets, functional expenses, 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, 2019 and 2018, 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 18, 2020

## Financial Statements

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

<i>December 31,</i>	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 25,017,446	\$ 17,133,175
Endowment-related cash and cash equivalents	1,704,391	3,927,631
Contract receivables, net	15,848,822	14,714,129
Other receivables	13,122,161	355,440
Contributions receivable, net	34,216,375	11,106,153
Prepaid expenses and other assets	1,154,359	1,218,612
Property and equipment, net	3,428,639	6,719,177
Long-term investments	120,775,661	114,669,610
<b>Total assets</b>	<b>\$ 215,267,854</b>	<b>\$ 169,843,927</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 4,289,027	\$ 3,689,965
Accrued payroll	1,516,014	2,251,981
Accrued paid time off	3,159,582	3,040,547
Other accrued expenses	355,595	321,818
Contract liabilities	10,484,501	13,344,402
Deferred rent	4,800,854	393,893
<b>Total liabilities</b>	<b>24,605,573</b>	<b>23,042,606</b>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions	128,799,847	115,928,103
With donor restrictions	61,862,434	30,873,218
<b>Total net assets</b>	<b>190,662,281</b>	<b>146,801,321</b>
<b>Total liabilities and net assets</b>	<b>\$ 215,267,854</b>	<b>\$ 169,843,927</b>

*See accompanying notes to the financial statements.*

# The Urban Institute

## Statement of Activities and Change in Net Assets

<i>Year Ended December 31, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating activities</b>			
<b>Operating revenues</b>			
Contract amounts earned	\$ 34,001,151	\$ -	\$ 34,001,151
Program and project grants	29,836,833	54,032,608	83,869,441
General support grants and contributions	1,474,815	1,695,915	3,170,730
Publication income	10,100	-	10,100
Investment return designated for operations	4,310,189	83,573	4,393,762
Other income	164,527	-	164,527
	69,797,615	55,812,096	125,609,711
Net assets released from restrictions	25,643,413	(25,643,413)	-
<b>Total operating revenues</b>	<b>95,441,028</b>	<b>30,168,683</b>	<b>125,609,711</b>
<b>Operating expenses</b>			
Research expenses			
Incurred under contracts	30,845,231	-	30,845,231
Incurred under grants	30,604,074	-	30,604,074
Incurred for other research	28,701,129	-	28,701,129
Total program costs	90,150,434	-	90,150,434
Development	701,323	-	701,323
Publication and public affairs costs	369,183	-	369,183
Other costs	6,905,743	-	6,905,743
<b>Total operating expenses</b>	<b>98,126,683</b>	<b>-</b>	<b>98,126,683</b>
<b>Change in net assets from operations</b>	<b>(2,685,655)</b>	<b>30,168,683</b>	<b>27,483,028</b>
<b>Non-operating activities</b>			
Investment return, net	19,867,588	913,702	20,781,290
Investment income allocation	(4,310,189)	(83,573)	(4,393,762)
Contributions received	-	(9,596)	(9,596)
<b>Total non-operating activities</b>	<b>15,557,399</b>	<b>820,533</b>	<b>16,377,932</b>
Change in net assets	12,871,744	30,989,216	43,860,960
Net assets at the beginning of the year	115,928,103	30,873,218	146,801,321
<b>Net assets at the end of the year</b>	<b>\$ 128,799,847</b>	<b>\$ 61,862,434</b>	<b>\$ 190,662,281</b>

*See accompanying notes to the financial statements.*



# The Urban Institute

## Statement of Activities and Change in Net Assets

<i>Year Ended December 31, 2018</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating activities</b>			
<b>Operating revenues</b>			
Contract amounts earned	\$ 35,943,071	\$ -	\$ 35,943,071
Program and project grants	28,408,434	17,136,213	45,544,647
General support grants and contributions	2,926,326	312,500	3,238,826
Publication income	25,574	-	25,574
Investment return designated for operations	5,207,522	-	5,207,522
Other income	28,722	-	28,722
	72,539,649	17,448,713	89,988,362
Net assets released from restrictions	20,213,503	(20,213,503)	-
<b>Total operating revenues</b>	92,753,152	(2,764,790)	89,988,362
<b>Operating expenses</b>			
Research expenses			
Incurred under contracts	33,715,948	-	33,715,948
Incurred under grants	29,710,393	-	29,710,393
Incurred for other research	22,872,285	-	22,872,285
Total program costs	86,298,626	-	86,298,626
Development	791,176	-	791,176
Publication and public affairs costs	172,809	-	172,809
Other costs	3,016,594	-	3,016,594
<b>Total operating expenses</b>	90,279,205	-	90,279,205
<b>Change in net assets from operations</b>	2,473,947	(2,764,790)	(290,843)
<b>Non-operating activities</b>			
Investment return, net	(5,531,254)	(248,712)	(5,779,966)
Investment income allocation	(5,207,522)	-	(5,207,522)
Contributions received	-	33,411	33,411
<b>Total non-operating activities</b>	(10,738,776)	(215,301)	(10,954,077)
Change in net assets	(8,264,829)	(2,980,091)	(11,244,920)
Net assets at the beginning of the year	124,192,932	33,853,309	158,046,241
<b>Net assets at the end of the year</b>	\$ 115,928,103	\$ 30,873,218	\$ 146,801,321

*See accompanying notes to the financial statements.*

## The Urban Institute

### Statement of Functional Expenses

Year Ended December 31, 2019

	Research and Public Policy Analysis	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
<b>Expenses</b>						
Salaries, wages, and benefits	\$ 51,549,357	\$ 51,549,357	\$ 10,327,887	\$ 1,362,784	\$ 11,690,671	\$ 63,240,028
Subcontracts	11,961,214	11,961,214	-	-	-	11,961,214
Facilities costs	7,527,894	7,527,894	1,508,213	199,011	1,707,224	9,235,118
Other general expenses	1,943,573	1,943,573	1,464,968	28,778	1,493,746	3,437,319
Professional services	2,184,501	2,184,501	1,185,087	12,862	1,197,949	3,382,450
Consultant fees and expenses	1,897,675	1,897,675	124,686	1,958	126,644	2,024,319
Depreciation and amortization	1,362,618	1,362,618	286,613	29,286	315,899	1,678,517
Travel	1,276,526	1,276,526	59,838	12,634	72,472	1,348,998
Seminars, workshops, conferences	718,182	718,182	53,447	2,330	55,777	773,959
Telephone	333,161	333,161	25,020	6,282	31,302	364,463
Temporary help	31,490	31,490	185,022	1,875	186,897	218,387
Expendable supplies	159,699	159,699	15,624	2,903	18,527	178,226
Purchase order contracts	134,541	134,541	29,835	986	30,821	165,362
Publications/library services	63,552	63,552	24,635	1,008	25,643	89,195
Postage and delivery	16,286	16,286	12,559	283	12,842	29,128
<b>Total</b>	<b>\$ 81,160,269</b>	<b>\$ 81,160,269</b>	<b>\$ 15,303,434</b>	<b>\$ 1,662,980</b>	<b>\$ 16,966,414</b>	<b>\$ 98,126,683</b>

*See accompanying notes to the financial statements.*

# The Urban Institute

## Statement of Functional Expenses

Year Ended December 31, 2018

	Research and Public Policy Analysis	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
<b>Expenses</b>						
Salaries, wages, and benefits	\$ 48,156,929	\$ 48,156,929	\$ 10,263,113	\$ 1,168,566	\$ 11,431,679	\$ 59,588,608
Subcontracts	11,062,289	11,062,289	-	-	-	11,062,289
Facilities costs	6,099,717	6,099,717	1,299,960	148,014	1,447,974	7,547,691
Other general expenses	1,640,713	1,640,713	1,288,835	57,291	1,346,126	2,986,839
Consultant fees and expenses	1,925,115	1,925,115	192,549	5,909	198,458	2,123,573
Professional services	1,604,915	1,604,915	457,374	6,590	463,964	2,068,879
Depreciation and amortization	1,164,658	1,164,658	262,192	21,503	283,695	1,448,353
Travel	1,130,291	1,130,291	62,116	18,875	80,991	1,211,282
Purchase order contracts	921,603	921,603	64,353	3,353	67,706	989,309
Seminars, workshops, conferences	331,926	331,926	63,449	2,658	66,107	398,033
Temporary help	177,708	177,708	110,412	3,242	113,654	291,362
Telephone	248,111	248,111	21,452	5,743	27,195	275,306
Expendable supplies	144,778	144,778	15,944	2,070	18,014	162,792
Publications/library services	94,697	94,697	12,194	2,224	14,418	109,115
Postage and delivery	7,208	7,208	8,469	97	8,566	15,774
<b>Total</b>	<b>\$ 74,710,658</b>	<b>\$ 74,710,658</b>	<b>\$ 14,122,412</b>	<b>\$ 1,446,135</b>	<b>\$ 15,568,547</b>	<b>\$ 90,279,205</b>

*See accompanying notes to the financial statements.*

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

<i>Years Ended December 31,</i>	2019	2018
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 43,860,960	\$ (11,244,920)
Adjustments to reconcile change in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Change in contributions receivable discount	839,485	2,186
Realized/unrealized (gain) loss on long-term investments	(18,640,163)	7,020,192
Depreciation and amortization	1,678,517	1,448,353
Changes in operating assets and liabilities:		
Contract receivables, net	(1,134,693)	1,933,765
Other receivables	(12,766,721)	4,009,712
Contributions receivable, net	(23,949,707)	7,778,390
Prepaid expenses and other assets	64,253	(203,372)
Accounts payable	599,062	(1,396)
Accrued payroll	(735,967)	268,950
Accrued paid time off	119,035	121,553
Other accrued expenses	33,777	(59,440)
Contract liabilities	(2,859,901)	2,204,838
Deferred rent	4,406,961	(1,123,413)
Total adjustments	(52,346,062)	23,400,318
<b>Net cash (used in) provided by operating activities</b>	<b>(8,485,102)</b>	<b>12,155,398</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	1,612,021	(3,448,916)
Purchases of investments	(5,352,799)	(11,805,409)
Sales of investments	17,886,911	11,820,815
<b>Net cash provided by (used in) investing activities</b>	<b>14,146,133</b>	<b>(3,433,510)</b>
Net increase in cash and cash equivalents	5,661,031	8,721,888
Cash and cash equivalents, beginning of the year	21,060,806	12,338,918
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 26,721,837</b>	<b>\$ 21,060,806</b>
<b>Reconciliation of cash and cash equivalents to statements of financial position:</b>		
Cash and cash equivalents	\$ 25,017,446	\$ 17,133,175
Endowment-related cash and cash equivalents	1,704,391	3,927,631
	<b>\$ 26,721,837</b>	<b>\$ 21,060,806</b>
<b>Supplemental cash flow information:</b>		
Cash paid for income taxes	\$ 82,027	\$ 53,090

*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 in the United States of America (U.S. GAAP) 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***

The Institute adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU), 2014-09, *Revenue from Contracts with Customers (Topic 606)*, including all subsequent amendments (collectively, ASC 606) and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective January 1, 2019. See *Accounting Pronouncements Adopted* section for further information regarding the adoption of ASC 606 and ASU 2018-08.

The effect of ASC 606 and ASU 2018-08 on the Institute's financial statements were examined in conjunction with one another. Certain of the Institute's revenue-producing arrangements do not meet the definition of a contract under ASC 606, as the arrangement does not have commercial substance and does not meet the definition of an exchange transaction under the clarified guidance in ASU 2018-08. However, certain of the Institute's revenue-producing arrangements do meet the definition of a contract under ASC 606, as the customer receives commensurate value.

#### **Contracts with Customers Accounted for in Accordance with ASC 606**

##### ***Contract amounts earned***

The Institute recognizes revenue as performance obligations are satisfied under a contract. A performance obligation is the unit of account for revenue recognition and refers to a promise in a contract to transfer a distinct service or good to the customer and may be satisfied over time or at

# The Urban Institute

## Notes to the Financial Statements

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a point in time. Contract amounts earned contain a single performance obligation involving various activities that are highly interrelated and/or interdependent which are performed together to deliver a combined programmatic research service or solution.

The Institute recognizes revenue over time as the customer simultaneously receives and consumes the benefits of performance as the promised services are performed over the duration of the contract. For U.S. federal government contracts, continuous transfer of control to the customer is evidenced by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay for costs incurred plus a reasonable profit and take control of any work-in-process.

Contract amounts earned are derived from contracts with departments or agencies of the U.S. federal government. The Institute's contracts do not include any significant financing terms. The Institute performs under various types of contracts, which include time-and-materials (T&M), cost-plus-fixed-fee (CPFF), and firm-fixed-price (FFP) contracts. Revenue from T&M and CPFF contracts is recognized over time using the right-to-invoice practical expedient as the Institute is contractually able to invoice the customer based on the control transferred to the customer. Revenue from FFP contracts is recognized over time using either a cost-input method (referred to as the cost-to-cost method) or a milestone method (an output method). The Institute utilizes the cost-input method to measure the extent of progress towards completion of a performance obligation over time and revenue is recognized based on the proportion of total costs incurred to estimated total costs-at-completion (EAC). A performance obligation's EAC includes all direct costs such as materials, labor, subcontract costs, overhead and a ratable portion of general and administrative costs. Under the milestone method, revenue is recognized upon a customer's acceptance of a deliverable on the assigned due date as each distinct payment invoiced by the Institute corresponds directly with the value of services performed for the amount invoiced. Some contracts are invoiced in advance of costs being incurred. These amounts are reflected in the accompanying statements of financial position as contract liabilities.

Contract costs include direct labor, combined with allocations of operational overhead and other direct costs. During the performance of the Institute's contracts, estimated final contract prices and costs are reviewed periodically and changes are made as required and recorded as changes in revenue and cost of revenue in the period in which they are determined. Amounts representing contract change orders or limitations in funding on contracts are variable consideration. Changes in contract revenue and cost estimates and the related effect to operating income are recognized using a cumulative catch-up adjustment, which recognizes in the current period the cumulative effect of the changes on current and prior periods based on a contract's percentage of completion. Changes in estimated revenue and cost could result in a forward loss or an adjustment to a forward loss. Provisions for estimated losses on uncompleted long-term contracts are recognized on a contract level in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to cost and revenue and are recognized in the year in which such revisions are determined.

### **Revenue Accounted for in Accordance with ASU 2018-08**

#### *Program and project grants and general contributions*

The Institute receives contributions from individuals, government, private institutions and other organizations. Contributions are transactions under which the donor does not receive commensurate value. Contributions may be either conditional or unconditional transactions. Depending on the type of the agreement, if unconditional, the Organization recognizes the revenue the earlier of the

# The Urban Institute

## Notes to the Financial Statements

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period received or promised, or if conditional, when the condition has been met. Contributions received are considered to be without donor restriction unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes are reported as net assets with donor restrictions. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as net assets with donor restrictions. When the donor-imposed restrictions are met, the funds are released with an offset to without donor restrictions support.

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.

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.

### ***Contract Receivables***

Contract receivables consists of billed receivables, net and contract assets. Contract receivables are generated from prime and subcontracting arrangements with federal governmental agencies and various commercial entities.

Billed receivables, net represent the Institute's unconditional right to consideration under the contract and include the amounts billed and currently due from customers. The amounts are stated at their net estimated realizable value. There were no significant impairment losses related to billed receivables in 2019 or 2018. 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. Management has recorded an allowance for contract receivables that are considered to be uncollectible. Billed contract receivables are considered past due if the invoice has been outstanding more than 30 days. The Institute does not charge interest on billed contract receivables; however, federal governmental agencies generally pay interest on invoices outstanding more than 30 days. The Institute records interest income from federal governmental agencies when received.

Contract assets represent amounts that are invoiced as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. When revenue recognition occurs before billing, it results in contract assets.

### ***Other Receivables***

Other receivables largely consists of pending investment sales representing proceeds not yet received from the sales of the Institute's investments.

# The Urban Institute

## Notes to the Financial Statements

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### ***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.

### ***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, 2019 and 2018, 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.



# The Urban Institute

## Notes to the Financial Statements

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### ***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.

### ***Contract Liabilities***

The Institute receives advances and milestone payments from customers on selected contracts that exceed revenue earned to date, resulting in contract liabilities. Contract liabilities typically are not considered a significant financing component because they are used to meet working capital demands that can be higher in the early stages of a contract and they protect the Institute from the customer failing to adequately complete some or all of its obligations under the contract. Contract liabilities are reported in the statements of financial position on a net contract basis at the end of each reporting period.

### ***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 \$4,046,293 and \$3,849,725 to the Plan for the years ended December 31, 2019 and 2018, 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 plan. The Institute recorded expenses of \$2,158,402 and \$2,277,679 for the years ended December 31, 2019 and 2018, 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 two classes:

***Net assets without donor restrictions*** - Net assets without donor restrictions 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. Net assets without donor restrictions also include some net assets that have been designated by the Board of Trustees for specific purposes as a quasi-endowment fund. The board approves spending from the board designated quasi-endowment fund each year and appropriates funds to certain programs at their discretion.

***Net assets with donor restrictions*** - Net assets with donor restrictions consist of amounts that are subject to donor restrictions and income earned on net assets with donor restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Institute is permitted to use up or expend these assets in accordance with the donors' restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

# The Urban Institute

## Notes to the Financial Statements

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The Institute's donor-restricted endowment is subject to the authoritative guidance issued by 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 District of Columbia Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) are classified as net assets with restrictions until such amounts are appropriated for expenditure.

### *Operating and Non-operating Activities*

Operating activities include all transactions and other events which generally involve providing the Institute's services. Non-operating activities are investing activities related to the management of the Institute's endowments and other net assets with donor restrictions.

### *Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses for the years ended December 31, 2019 and 2018. Accordingly, certain costs, including general and administrative costs, have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function, requiring allocation of these expenses on a reasonable basis that is consistently applied. Expenses that are allocated include occupancy costs, furniture repair, depreciation and amortization, which are allocated by labor dollar, information technology by labor hours, salaries and benefits by timesheet job costing, and remaining costs by job costing dollars.

The statements of activities and change in net assets reports operating costs as incurred under contracts, grants, and for other research. Further, costs are reported as development, publication and public affairs and other costs. These categories sum to total program costs as reported in the statements of functional expenses.

### *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, 2019 and 2018, respectively. The Institute is not a private foundation under Section 509(a)(2) 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, 2015 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.

# The Urban Institute

## Notes to the Financial Statements

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### ***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, 2019 and 2018.

### ***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 historically not experienced any losses related to these balances. Amounts on deposit in excess of federally insured limits at December 31, 2019 approximate \$26.8 million. The Institute 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.

### ***Recently Adopted Authoritative Guidance***

In May 2014, the FASB issued ASC 606 and related amendments, which superseded all prior revenue recognition methods and industry-specific guidance. The core principle of ASC 606 is an entity should recognize revenue to depict the transfer of control for promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity is required to identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (i.e., either over time or point in time). ASC 606 further requires that companies disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with

# The Urban Institute

## Notes to the Financial Statements

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customers. See “*Revenue Recognition*” above for additional information regarding the Institute’s revenue recognition policy and adoption of ASC 606, which was effective January 1, 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the Emerging Issues Task Force)*. ASU 2016-15 is intended to reduce differences in practice in how certain transactions are classified in the statement of cash flows. The ASU is effective for the Institute beginning January 1, 2019. The adoption of the new standard had no impact on the accompanying financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU assists in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The ASU is effective for transactions in which the Institute serves as the resource recipient beginning on January 1, 2019. The adoption of the new standard had no impact on the accompanying financial statements.

### ***Recent Accounting Pronouncements Not Yet Adopted***

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard relates to leasing for both lessees and lessors. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability 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. 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. The ASU is effective for the Institute’s year beginning on January 1, 2022. Management is currently evaluating the impact of this ASU on their financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This update, along with ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. Entities will be required to estimate credit losses over the entire contractual term of an instrument. The ASU is effective for the Institute’s year beginning on January 1, 2023. Early adoption may be selected for fiscal years beginning after December 15, 2018. An entity must apply the amendments in the ASU through a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective except for certain exclusions. Management is currently evaluating the impact of this ASU on their financial statements.

The Institute has assessed other accounting pronouncements issued or effective during the year ended December 31, 2019 and deemed they were not applicable to the Institute or are not anticipated to have a material effect on the financial statements.

# The Urban Institute

## Notes to the Financial Statements

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### *Reclassifications*

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have no effect on the previously reported change in net assets.

### **2. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at:

<i>December 31,</i>		2019
Cash and cash equivalents	25,017,446	
Less: donor restricted	(21,411,573)	\$ 3,605,873
Endowment related cash and cash equivalents	1,704,391	
Less: board restricted	(1,704,391)	-
Contract receivables, net		15,848,822
Other receivables		13,122,161
Contributions receivable, net	34,216,375	
Less: donor restricted contributions	(34,216,375)	
Add: amounts due in one year or less	807,142	807,142
Investments	120,775,661	
Less: donor restricted	(6,234,486)	
Less: board restricted	(114,541,175)	
Add: carry forward and 2.5% of board restricted to be appropriated for general expenditures in one year or less	5,474,736	5,474,736
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		\$ 38,858,734

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**Notes to the Financial Statements**

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<i>December 31,</i>	<i>2018</i>
Cash and cash equivalents	17,133,175
Less: donor restricted	(14,508,455)
	\$ 2,624,720
Endowment related cash and cash equivalents	3,927,631
Less: board restricted	(3,927,631)
	-
Contract receivables, net	14,714,129
Other receivables	355,440
Contributions receivable, net	11,106,153
Less: donor restricted contributions	(11,106,153)
Add: amounts due in one year or less	312,500
	312,500
Investments	114,669,610
Less: donor restricted	(5,258,610)
Less: board restricted	(109,411,000)
Add: carry forward and 2.5% of board restricted to be appropriated for general expenditures in one year or less	6,473,140
	6,473,140
	\$ 24,479,929

The Organization has donor-restricted endowment funds of approximately \$6.7 million and \$5.9 million, which are included in net assets with donor restrictions of approximately \$61.9 million and \$30.9 million as of December 31, 2019 and 2018, respectively. Donor-restricted endowment funds and unspent donor-restricted gifts are not available for general use.

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.

To further supplement liquidity, the Institute also has a \$7 million line-of-credit with a bank, which it can draw upon if conditions dictate.

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

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**3. Contract Receivables and Contract Liabilities**

Contract receivables and contract liabilities recognized consist of the following at December 31:

	2019	2018
Billed receivables, net	\$ 5,653,995	\$ 5,703,610
Contract assets	10,194,827	9,010,519
<b>Total contract receivables</b>	<b>\$ 15,848,822</b>	<b>\$ 14,714,129</b>
Contract liabilities	\$ 10,484,501	\$ 13,344,402

The Institute's performance obligations are satisfied either over time as work progresses or at a point in time. Fixed-price contracts are typically billed to the client using milestone payments or ratably over the contract period of performance, while cost-reimbursable and time and material contracts are typically billed to the client on a monthly basis as indicated by the negotiated billing terms and conditions of the contract. As a result, for each of the Institute's contracts, the timing of revenue recognition, client billings and cash collections results in a net contract asset or liability at the end of each reporting period.

***Billed receivables, net***

Billed receivables consist of receivables for which the Institute has prepared an invoice and sent to the customer. The components of billed receivables are as follows:

	December 31, 2019	December 31, 2018
Billed receivables	\$ 5,768,995	\$ 5,818,610
Allowance for doubtful accounts	(115,000)	(115,000)
<b>Billed receivables, net</b>	<b>\$ 5,653,995</b>	<b>\$ 5,703,610</b>

The Institute does not believe that they have significant exposure to credit risk as billed and unbilled receivables are primarily due from the U.S. government. The allowance for doubtful accounts represents the Institute's estimate for exposure to compliance, contractual issues and bad debts related to prime contractors.

***Contract assets***

Contract assets include unbilled receivables, which is the amount of revenue recognized that exceeds the amount billed to the client, where right to payment is not just subject to the passage of time.

Contract assets are as follows:

	December 31, 2019	December 31, 2018
Contract assets	\$ 10,194,827	\$ 9,010,519

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

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There were no significant impairment losses related to contract assets during 2019 and 2018. Contract assets are comprised primarily from revenue recognized on contracts for which billings had not been issued as of the statement of financial position sheet date.

***Contract liabilities***

Contract liabilities consist primarily of revenue recognized in excess of payments received on performance obligations under the clients' contracts.

Contract liabilities are as follows:

	December 31, 2019	December 31, 2018
Contract liabilities	\$ 10,484,501	\$ 13,344,402

Contract liabilities recognized at December 31, 2019 and 2018 consist primarily of timing differences between billings (which are based upon contractually set milestones) and amounts recognized as revenue (which are based upon costs incurred and contract performance).

Other receivables consists of the following at December 31:

	2019	2018
Other receivables		
Pending investment sales	12,674,779	5,736
Other billed receivables	445,362	316,745
Travel and other advances to employees	2,020	32,959
	\$ 13,122,161	\$ 355,440

**4. Contributions Receivable**

Contributions receivable consist of amounts due in:

	2019	2018
Less than one year	\$ 18,012,174	\$ 9,119,987
One year to five years	17,182,639	2,125,119
	35,194,813	11,245,106
Less: contributions receivable discount	(978,438)	(138,953)
	\$ 34,216,375	\$ 11,106,153

Contributions due in more than one year have been recorded at their present value using a discount rate of 2.76% and 3.52% in 2019 and 2018, respectively.



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**Notes to the Financial Statements**

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**5. Property and Equipment**

Property and equipment consists of the following at December 31:

	2019	2018
Software	\$ 4,790,352	\$ 4,646,621
Leasehold improvements	2,593,977	9,257,951
Computer equipment	4,523,177	4,031,414
Furniture and equipment	6,549,865	2,133,408
	18,457,371	20,069,394
Less: accumulated depreciation and amortization	(15,028,732)	(13,350,217)
	\$ 3,428,639	\$ 6,719,177

Depreciation and amortization expense on property and equipment aggregated \$1,678,517 and \$1,448,353 for the years ended December 31, 2019 and 2018, respectively.

**6. Investments**

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

	2019	2018
Interest and dividend income	\$ 2,383,720	\$ 1,529,869
Net realized gain on investments	3,107,583	2,700,581
Net unrealized gain (loss) on investments	16,450,933	(9,065,041)
	21,942,236	(4,834,591)
Less:		
Management fees and investment expenses	(1,160,946)	(945,375)
Investment return allocation	(4,393,762)	(5,207,522)
	\$ 16,387,528	\$ (10,987,488)

**7. 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 London Inter-bank Offered Rate (LIBOR) plus one percent (2.76% as of December 31, 2019). There were no outstanding balances due under the bank line-of-credit as of December 31, 2019 or 2018. The line-of-credit expires, if not renewed, on August 27, 2020.

**8. Net Assets with Donor Restrictions**

The Institute receives contributions for several programmatic research areas, which are classified as contributions with donor restrictions. The accumulated balance of unexpended contributions is consolidated below by the Institute Research Center.

# The Urban Institute

## Notes to the Financial Statements

Accumulated unappropriated earnings on the Institute's donor-restricted endowment fund are classified as net assets with donor restrictions (see Note 9).

Net assets with donor restrictions consist of the following as of December 31:

	2019	2018
Purpose restrictions:		
Policy Advisory Group	\$ 18,058,750	\$ 5,399,535
Tax Policy Center	10,999,524	6,400,907
Justice Policy Center	10,676,196	3,356,316
Health Policy Center	5,127,821	2,718,911
Metropolitan Housing and Communities Policy Center	2,730,953	477,986
Center on Education Data and Policy	1,993,410	-
Income and Benefits Policy Center	1,009,611	1,073,236
Center on Nonprofits and Philanthropy	919,591	2,706,072
Center on Labor, Human Services, and Population	895,344	33,140
Housing Finance Policy Center	609,278	180,806
Executive Office Research	428,355	2,181,693
Technology and Data Science	6,209	136,914
Time restrictions:		
General support grants and contributions	1,695,915	312,500
Endowments:		
Subject to appropriation and expenditure when a specified event occurs		
Tax Policy Center	382,939	118,676
Social Policy Analysis	2,851,523	2,289,915
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation		
Tax Policy Center	2,477,015	2,486,611
Social Policy Analysis	1,000,000	1,000,000
	<b>\$ 61,862,434</b>	<b>\$ 30,873,218</b>

### 9. Endowment and Quasi-Endowments

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 retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in

# The Urban Institute

## Notes to the Financial Statements

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perpetuity are subject to appropriation for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider 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 (see Note 12).

Endowment net assets consist of the following at December 31:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment fund	\$ 116,245,566	\$ -	\$ 116,245,566
Donor-restricted endowment fund:			
Original donor-restricted gift amounts required to be maintained in perpetuity by the donor	-	3,477,015	3,477,015
Accumulated investment gain	-	3,234,462	3,234,462
<b>Total endowment funds</b>	<b>\$ 116,245,566</b>	<b>\$ 6,711,477</b>	<b>\$ 122,957,043</b>

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	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated quasi-endowment fund	\$ 113,338,631	\$ -	\$ 113,338,631
Donor-restricted endowment fund:			
Original donor-restricted gift amounts required to be maintained in perpetuity by the donor	-	3,486,611	3,486,611
Accumulated investment gain	-	2,408,591	2,408,591
<b>Total endowment funds</b>	<b>\$ 113,338,631</b>	<b>\$ 5,895,202</b>	<b>\$ 119,233,833</b>

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended December 31, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions
Endowment net assets, December 31, 2017	\$ 119,998,446	\$ 6,125,778
Net investment return	(5,531,280)	(248,712)
Contributions	15,272	33,411
Appropriations	(5,232,509)	(15,275)
Transfer investments from accounts receivable	4,088,702	-
<b>Endowment net assets, December 31, 2018</b>	<b>113,338,631</b>	<b>5,895,202</b>
Net investment return	19,867,588	913,702
Contributions	4,258	(9,596)
Appropriations	(4,295,868)	(87,831)
Transfer investments to accounts receivable	(12,669,043)	-
<b>Endowment net assets, December 31, 2019</b>	<b>\$ 116,245,566</b>	<b>\$ 6,711,477</b>

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 U.S. GAAP, deficiencies of this nature are classified as net assets with donor restrictions. There were no such deficiencies as of December 31, 2019 and 2018.

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## Notes to the Financial Statements

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### 10. Major Donors

As of December 31, 2019 and 2018, three and two donors accounted for 77% and 64%, respectively, of the Institute's total contributions receivable. For the years ended December 31, 2019 and 2018, two and three donors represented 48% and 50% respectively, of the Institute's total contributions revenue balance which is included in program and project grants in the statements 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 the years ended December 31, 2019 or 2018.

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.

#### *Leases*

On December 30, 2016, the Institute signed a new lease agreement for their new headquarters office, located in Washington, D.C. The lease commenced on March 1, 2019 for a term of 15 years, with a five-year option to extend at the end of the initial lease term. The office space lease contains escalation provisions requiring scheduled increases of 2.5% annually, plus operating expense escalations as estimated by property management. The lease included provisions which allowed the minimum rental payments to be adjusted annually for increases in operating expenses and real estate taxes attributed to the leased property.

During 2019, the Institute signed new lease agreements for equipment. The leases commenced in 2019 for a term of 5 years. The leases do not contain escalation provisions.

In accordance with authoritative guidance issued by the FASB, the Institute recognizes 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 was \$9,295,200 and \$7,547,691 for the years ended December 31, 2019 and 2018, respectively.

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As of December 31, 2019, approximate future minimum rental payments due under operating leases for the new headquarters office and other operating leases are as follows:

*Years Ending December 31,*

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2020	\$ 6,828,000
2021	7,021,000
2022	7,219,000
2023	7,422,000
2024	7,568,000
Thereafter	79,885,000
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	\$ 115,943,000

### ***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.

### ***Indirect cost rates***

In connection with its ongoing relationship with U.S. Department of Health and Human Services and the regulatory provisions for its Negotiated Indirect Cost Rate Agreement (NICRA), the Institute is finalizing provisional indirect cost rates. As of December 31, 2019, the Institute has finalized indirect cost rates through fiscal year 2017 and provisional indirect cost rates for fiscal years 2018 - 2019. The Institute is partnered with the U.S. Department of Health and Human Services to negotiate indirect rate agreements.

## **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.

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## Notes to the Financial Statements

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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.

### *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, 2019 and 2018, \$73,364,367 and \$71,419,085, respectively, of the Institute's investments are reported at net asset value under the practical expedient rule. The remaining \$47,411,294 and \$43,250,525 for 2019 and 2018, 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 2019 and 2018.

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

<i>Description</i>	As of December 31, 2019			
	Assets Measured at	Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
Debt securities				
Trading debt securities	\$ 15,579,940	\$ 15,579,940	\$ -	\$ -
Total debt securities	15,579,940	15,579,940	-	-
Equity securities				
Domestic equity	11,854,188	11,854,188	-	-
Global equity	8,885,575	8,885,575	-	-
International equity	7,474,742	7,474,742	-	-
Emerging markets	3,616,849	3,616,849	-	-
Total equity securities	31,831,354	31,831,354	-	-
Hedge funds and alternatives Measured at net asset value*	73,364,367	-	-	-
<b>Total</b>	<b>\$ 120,775,661</b>	<b>\$ 47,411,294</b>	<b>\$ -</b>	<b>\$ -</b>

<i>Description</i>	As of December 31, 2018			
	Assets Measured at	Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
Debt securities				
Trading debt securities	\$ 18,803,302	\$ 18,803,302	\$ -	\$ -
Total debt securities	18,803,302	18,803,302	-	-
Equity securities				
Domestic equity	9,017,611	9,017,611	-	-
Global equity	7,174,692	7,174,692	-	-
International equity	5,272,750	5,272,750	-	-
Emerging markets	2,982,170	2,982,170	-	-
Total equity securities	24,447,223	24,447,223	-	-
Hedge funds and alternatives Measured at net asset value*	71,419,085	-	-	-
<b>Total</b>	<b>\$ 114,669,610</b>	<b>\$ 43,250,525</b>	<b>\$ -</b>	<b>\$ -</b>

\* 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.



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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.

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:

2019	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Notice Period (Days)
Multi-strategy <sup>(1)</sup>	\$ 19,683,610	\$ -	Quarterly, Biennially, Annually	60, 65, 90, 105
Global equity <sup>(2)</sup>	14,262,303	-	Quarterly, Annually	30, 90
Emerging markets equity <sup>(3)</sup>	10,993,496	-	Monthly, Annually	30, 90
Private equity <sup>(4)</sup>	10,348,394	11,975,653	N/A	N/A
Domestic equity <sup>(5)</sup>	6,006,940	-	Monthly	30
International equity <sup>(6)</sup>	5,808,361	-	Monthly	10
Long/short equity <sup>(7)</sup>	4,682,613	-	Quarterly, Annually	60, 105
Private debt <sup>(8)</sup>	1,578,650	880,600	N/A	N/A
Balance at December 31, 2019	\$ 73,364,367	\$ 12,856,253		

2018	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Notice Period (Days)
Multi-strategy <sup>(1)</sup>	\$ 21,230,354	\$ -	Quarterly, Biennially, Annually	60, 65, 90, 105
Global equity <sup>(2)</sup>	15,725,901	-	Quarterly, Annually	30, 90
Emerging markets equity <sup>(3)</sup>	9,984,931	-	Monthly, Annually	30, 90
Private equity <sup>(4)</sup>	9,503,611	7,472,017	N/A	N/A
Domestic equity <sup>(5)</sup>	4,488,603	-	Monthly	30
International equity <sup>(6)</sup>	5,146,300	-	Monthly	10
Long/short equity <sup>(7)</sup>	4,026,863	-	Quarterly, Annually	60, 105
Private debt <sup>(8)</sup>	1,312,522	860,843	N/A	N/A
Balance at December 31, 2018	\$ 71,419,085	\$ 8,332,860		

(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 values of the investments in this class have been estimated using the net asset value per share of the investments. All of the investments in the category have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window.

(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

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## Notes to the Financial Statements

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per share of the investments. All of the investments in the category have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window.

- (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. All of the investments have satisfied applicable lock-up requirements and are available with notice during the next allowable liquidation window.
- (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. It is estimated that the underlying assets of the funds will be liquidated over the next eight to 15 years.
- (5) 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.
- (6) 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. 5% are available for special redemption, but full redemption will not be available for a period of 12 months.
- (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. 20% 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. It is estimated that the underlying assets of the funds will be liquidated over the next 12 years.

### 13. Subsequent Events

The Institute has evaluated its December 31, 2019 financial statements for subsequent events through June 18, 2020, the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of a coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. On March 11, 2020, the WHO declared COVID-19 a global pandemic. As of the date of issuance, this public health emergency stands to substantially impact the global economy, including significant volatility in the financial markets. The Institute cannot reasonably estimate the length or severity of this pandemic or the impact on the economy. Management is continually monitoring the impact of the pandemic on operations and it may have a material impact on the amount of reported assets and net assets associated with the market value of investments in the near term. While the resulting disruptions are expected to be temporary, there is considerable uncertainty around its duration. Although the Institute cannot estimate the length or gravity of the impact of the COVID-19 outbreak

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at this time, if the pandemic continues, it may have an adverse effect on the Institute's results of future operations, financial position, and liquidity in fiscal year 2020.

On March 27, 2020, the "Coronavirus Aid, Relief, and Economic Security Act", (CARES Act) was signed into law in response to the coronavirus pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

It also appropriated funds for the SBA Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. There is no assurance we are eligible for these funds or will be able to obtain them.

We continue to examine the impact that the CARES Act may have on our business. Currently, we are unable to determine the impact that the CARES Act will have on our financial condition, results of operations, or liquidity.