The Urban Institute

Audited Financial Statements
Years Ended December 31, 2013 and 2012

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

Audited Financial Statements

Years Ended December 31, 2013 and 2012

The Urban Institute

Contents

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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, 2013 and 2012, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Urban Institute as of December 31, 2013 and 2012, and the change 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
May 15, 2014

Financial Statements

The Urban Institute

Statements of Financial Position

December 31,	2013	2012
Assets		
Cash and cash equivalents	$ 6,321,833	$ 5,787,304
Endowment-related cash and cash equivalents	8,992,143	6,515,535
Accounts receivable, net	17,973,943	16,300,929
Contributions receivable, net	8,616,262	7,939,634
Prepaid expenses	492,581	406,149
Property and equipment, net	2,810,512	2,342,466
Other assets	113,652	531,591
Long-term investments	114,889,642	103,969,818
Total assets	$160,210,568	$143,793,426
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 5,333,464	$ 3,365,306
Accrued payroll	654,983	577,819
Accrued paid time off	1,989,439	1,758,610
Other accrued expenses	132,484	112,449
Deferred revenue	13,997,949	13,585,166
Deferred rent	4,292,736	4,523,542
Total liabilities	26,401,055	23,922,892
Commitments and contingencies		
Net assets		
Unrestricted	121,129,698	108,068,019
Temporarily restricted	11,679,815	10,802,515
Permanently restricted	1,000,000	1,000,000
Total net assets	133,809,513	119,870,534
Total liabilities and net assets	$160,210,568	$143,793,426

The accompanying notes are an integral part of these financial statements.

The Urban Institute

Statement of Activities and Change in Net Assets

December 31,	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Operating activities				
Operating revenues				
Contract amounts earned	$ 42,639,798	-	-	$ 42,639,798
Program and project grants	26,123,332	5,748,346	-	31,871,678
General support grants and contributions	689,007	-	-	689,007
Publication income	74,588	-	-	74,588
Investment return designated for operations	2,145,632	-	-	2,145,632
Other income	491,854	-	-	491,854
	72,164,211	5,748,346	-	77,912,557
Net assets released from restrictions	5,253,746	(5,253,746)	-	-
Total operating revenues	77,417,957	494,600	-	77,912,557
Operating expenses				
Research expenses				
Incurred under contracts	40,586,847	-	-	40,586,847
Incurred under grants	26,421,559	-	-	26,421,559
Incurred for other research	7,076,546	-	-	7,076,546
Total program costs	74,084,952	-	-	74,084,952
		-	-	
Development	390,620	-	-	390,620
Publication and public affairs		-	-	
costs	1,186,450	-	-	1,186,450
Other costs	1,706,265	-	-	1,706,265
Total operating expenses	77,368,287	-	-	77,368,287
Change in net assets from operations	49,670	494,600	-	544,270
Non-operating activities				
Interest and dividends, net	1,872,391	47,302	-	1,919,693
Gain on long-term investments, net	13,276,336	335,398	-	13,611,734
Investment income allocation	(2,145,632)	-	-	(2,145,632)
Contributions received	8,914	-	-	8,914
Total non-operating activities	13,012,009	382,700	-	13,394,709
Change in net assets	13,061,679	877,300	-	13,938,979
Net assets at the beginning of the year	108,068,019	10,802,515	1,000,000	119,870,534
Net assets at the end of the year	$121,129,698	$11,679,815	$ 1,000,000	$133,809,513

The accompanying notes are an integral part of these financial statements.

The Urban Institute

Statement of Activities and Change in Net Assets

December 31,	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Operating activities				
Operating revenues				
Contract amounts earned	$ 47,230,702	-	-	$ 47,230,702
Program and project grants	23,090,315	10,605,379	-	33,695,694
General support grants and contributions	560,094	-	-	560,094
Publication income	99,759	-	-	99,759
Investment return designated for operations	367,055	-	-	367,055
Other income	497,940	-	-	497,940
	71,845,865	10,605,379	-	82,451,244
Net assets released from restrictions	3,755,989	(3,755,989)	-	-
Total operating revenues	75,601,854	6,849,390	-	82,451,244
Operating expenses				
Research expenses				
Incurred under contracts	44,366,835	-	-	44,366,835
Incurred under grants	23,107,767	-	-	23,107,767
Incurred for other research	5,924,955	-	-	5,924,955
Total program costs	73,399,557	-	-	73,399,557
Development	455,658	-	-	455,658
Publication and public affairs costs	680,481	-	-	680,481
Other costs	774,240	-	-	774,240
Total operating expenses	75,309,936	-	-	75,309,936
Change in net assets from operations	291,918	6,849,390	-	7,141,308
Non-operating activities				
Interest and dividends, net	1,796,148	46,602	-	1,842,750
Gain on long-term investments, net	8,782,291	227,860	-	9,010,151
Investment income allocation	(367,055)	-	-	(367,055)
Contributions received	8,914	-	-	8,914
Total non-operating activities	10,220,298	274,462	-	10,494,760
Change in net assets	10,512,216	7,123,852	-	17,636,068
Net assets at the beginning of the year	97,555,803	3,678,663	1,000,000	102,234,466
Net assets at the end of the year	$108,068,019	$10,802,515	$1,000,000	$119,870,534

The accompanying notes are an integral part of these financial statements.

The Urban Institute

Statements of Cash Flows

December 31,	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 13,938,979	$ 17,636,068
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Change in allowance for doubtful accounts	21,000	18,000
Change in contributions receivable discount	55,201	(163,559)
Realized/unrealized gain on long-term investments	(13,821,272)	(9,010,151)
Depreciation and amortization	759,402	603,340
Change in deferred rent	(230,806)	(184)
Changes in operating assets and liabilities:		
Accounts receivable	(1,694,014)	3,654,243
Contributions receivable	(731,829)	(7,730,975)
Prepaid expenses	(86,432)	243,639
Other assets	417,939	88,401
Accounts payable	1,968,158	(903,177)
Accrued payroll	77,164	12,111
Accrued paid time off	230,829	67,896
Other accrued expenses	20,035	(85,439)
Deferred revenue	412,783	(1,634,697)
Total adjustments	(12,601,842)	(14,840,552)
Net cash and cash equivalents provided by operating activities	1,337,137	2,795,516
Cash flows from investing activities:		
Purchases of property and equipment	(1,227,448)	(659,164)
Purchases of investments	(2,730,081)	(17,560,368)
Sales of investments	5,631,529	13,101,894
Net cash and cash equivalents provided by (used in) investing activities	1,674,000	(5,117,638)
Net increase (decrease) in cash and cash equivalents	3,011,137	(2,322,122)
Cash and cash equivalents, beginning of the year	12,302,839	14,624,961
Cash and cash equivalents, end of the year	$ 15,313,976	$ 12,302,839
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents	$ 6,321,833	$ 5,787,304
Endowment-related cash and cash equivalents	8,992,143	6,515,535
	$ 15,313,976	$ 12,302,839

The accompanying notes are an integral part of these financial statements.

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 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.

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.

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 - 7 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, 2013 and 2012, 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.

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 $2,579,434 and

$2,545,397 to the Plan for the years ended December 31, 2013 and 2012, 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 $1,458,376 and $1,501,719 for the years ended December 31, 2013 and 2012, 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.

Income Taxes

Under provisions of the Internal Revenue Code (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 unrelated business income tax expense of $2,448 and $6,589 for the years ending December 31, 2013 and 2012, respectively. 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, 2009 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, 2013 and 2012.

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, 2013 approximate $15.4 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 and individual donors. Historically, the Institute has not experienced significant losses related to accounts and contributions receivable and, therefore, believes that the credit risk related to accounts receivable is minimal.

Subsequent Events

The Institute has evaluated its December 31, 2013 financial statements for subsequent events through May 15, 2014, 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.

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation. These reclassifications have no effect on the previously reported financial statements.

2. Accounts Receivable

Accounts receivable consist of the following at December 31:

	2013	2012
Receivables from U.S. Government		
Billed	$ 5,274,169	$ 4,983,483
Unbilled	6,735,186	7,342,180
	12,009,355	12,325,663
Other receivables		
Billed	1,998,004	1,254,248
Unbilled	3,923,083	2,597,807
Pending investment sales	151,274	214,562
Travel and other advances to employees	18,227	13,649
	6,090,588	4,080,266
Subtotal	18,099,943	16,405,929
Less: allowance for doubtful accounts	(126,000)	(105,000)
	$ 17,973,943	$ 16,300,929

3. Contributions Receivable

Contributions receivable consist of amounts due in:

	2013	2012
Less than one year	$ 4,391,286	$ 2,573,193
One year to five years	4,333,334	5,280,000
More than five years	-	250,000
	8,724,620	8,103,193
Less: contributions receivable discount	(108,358)	(163,559)
	$ 8,616,262	$ 7,939,634

Contributions due in more than one year have been recorded at their present value using a discount rate of 1.17% in 2013 and 1.21% in 2012.

4. Property and Equipment

Property and equipment consists of the following at December 31:

	2013	2012
Leasehold improvements	$ 4,554,799	$ 4,339,430
Software	2,834,548	2,627,501
Computer equipment	2,658,133	2,183,676
Furniture and equipment	2,043,181	1,960,098
	12,090,661	11,110,705
Less: accumulated depreciation and amortization	(9,280,149)	(8,768,239)
	$ 2,810,512	$ 2,342,466

Depreciation and amortization expense on property and equipment aggregated $759,402 and $603,340 for the years ended December 31, 2013 and 2012, respectively.

5. Investments

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

	2013	2012
Interest and dividend income, net	$ 1,919,693	$ 1,842,750
Net realized (loss) gain on investments	(93,431)	2,345,103
Net unrealized gain on investments	14,477,274	7,251,363
	16,303,536	11,439,216
Less:		
Management fees and investment expenses	(772,109)	(586,315)
Investment income allocation	(2,145,632)	(367,055)
	$ 13,385,795	$ 10,485,846

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 (1.17% and 1.21% as of December 31, 2013 and 2012, respectively). There were no outstanding balances due under the bank line-of-credit as of December 31, 2013 or 2012. The line-of-credit expires, if not renewed, on August 31, 2014.

7. Temporarily Restricted Net Assets

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:

	2013	2012
Purpose restrictions		
Tax Policy Center	$ 7,302,579	$ 9,274,761
Endowment funds	1,887,165	1,517,754
Housing Finance Policy Center	1,420,011	-
Assisted Housing Initiative	960,060	-
Other	110,000	10,000
	$ 11,679,815	$ 10,802,515

8. Endowment

The Institute's endowment consists of a donor-restricted endowment fund 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.

Five percent of the average of the endowment's market value at the end of each of the preceding nine quarters (calculated at the end of the prior year) will be available for use in the current or subsequent fiscal year, provided that any planned use of endowment funds shall be included in the operating budget submitted annually for approval by the Board of Trustees. In addition to endowment draws included in the annual budget, the President or his/her designee shall have discretion to draw additional amounts from the endowment, provided that the aggregate amounts of additional draws in any fiscal year do not exceed $250,000 without prior approval of the Executive Committee. Further, the President or his/her designee may draw additional amounts from the endowment without Executive Committee 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:

	2013		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board-designated quasi-endowment fund	$ 120,994,620	$ -	$ -
Donor-restricted endowment fund	-	1,887,165	1,000,000
Total endowment funds	$ 120,994,620	$ 1,887,165	$ 1,000,000

	2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board-designated quasi-endowment fund	$ 107,967,598	$ -	$ -
Donor-restricted endowment fund	-	1,517,754	1,000,000
Total endowment funds	$ 107,967,598	$ 1,517,754	$ 1,000,000

The following table presents the endowment-related balances and activities by net asset classification as of and for the years ended December 31, 2013 and 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, December 31, 2011	$ 94,877,207	$ 1,255,228	$ 1,000,000
Investment return			
Investment income, net	1,796,148	46,602	-
Net gain	9,353,780	242,686	-
Investment management fees	(571,489)	(14,826)	-
Total investment return	10,578,439	274,462	-
Contributions	20,850	-	-
Appropriations	(327,758)	(11,936)	-
Transfer from accounts receivable	2,818,860	-	-
Endowment net assets, December 31, 2012	107,967,598	1,517,754	1,000,000
Investment return			
Investment income, net	1,872,391	47,302	-
Net gain	14,029,422	354,421	-
Investment management fees	(753,084)	(19,025)	-
Total investment return	15,148,729	382,698	-
Contributions	22,202	-	-
Appropriations	(2,207,199)	(13,287)	-
Transfer from accounts receivable	63,290	-	-
Endowment net assets, December 31, 2013	$ 120,944,620	$ 1,887,165	$ 1,000,000

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, 2013 or December 31, 2012.

9. Natural Classification of Expenses

For the years ended December 31, 2013 and 2012, the Institute incurred the following operating expenses:

	2013	2012
Salaries, wages, and benefits	$ 40,412,331	$ 38,302,027
Subcontracts	18,806,444	20,102,142
Facilities costs	6,675,475	6,443,628
Consultant fees and expenses	2,294,991	1,853,354
Other general expenses	1,923,830	2,135,895
Purchase order contracts	1,897,607	895,977
Travel	1,254,449	1,175,293
Publications/library services	804,632	343,054
Depreciation and amortization	759,402	603,340
Field office research support	452,875	775,519
Other field office expenses	409,940	648,179
Professional services	399,243	508,834
Temporary help	307,583	422,698
Seminars, workshops, and conferences	260,338	173,051
Expendable supplies	235,976	205,528
Telephone	160,874	164,583
Overseas allowances	126,586	237,174
Participant training	71,983	116,845
Field office rent	58,060	97.019
Postage and delivery	45,025	35,969
Field office taxes	8,762	6,186
Field office equipment	1,881	63,641
	$ 77,368,287	$ 75,309,936

10. Major Donors

As of December 31, 2013 and 2012, two donors accounted for 70% and 88%, respectively, of the Institute's total contributions receivable. For the years ended December 31, 2013 and 2012, four and two donors represented 66% and 74%, respectively, of the Institute's total contributions revenue balance.

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, 2013 or 2012.

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

The Institute currently leases office space and office equipment 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 terms of the leases. 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 $6,675,475 and $6,443,628 for the years ended December 31, 2013 and 2012, respectively.

As of December 31, 2013, approximate future minimum rental payments due under the operating leases for the office facilities are as follows:

Year Ending December 31,	
2014	$ 6,469,000
2015	6,680,000
2016	6,847,000
2017	7,019,000
2018	7,194,000
Thereafter	2,418,000
	$ 36,627,000

The Institute subleases office space under the terms of sublease agreements. 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 noncancelable sublease agreements that have initial or remaining terms in excess of one year as of December 31, 2013:

Year Ending December 31,	
2014	$ 207,000
2015	216,000
2016	224,000
2017	233,000
2018	243,000
Thereafter	82,000
	$ 1,205,000

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.

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. Fair value measurement standards also require the Institute to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying funds.

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 2 also includes practical expedient investments that are redeemable within 65 days of year-end.

- **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. Level 3 also includes practical expedient investments that are not redeemable within 65 days of year-end.

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, and hedge funds.

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. The Institute's Level 3 assets within investments include certain investments in hedge funds and other alternative investments.

As of December 31, 2013, $9,908,172 of the Institute's Level 2 investments and $13,165,625 of the Institute's Level 3 investments are reported at net asset value under the practical expedient rule. The remaining $14,673,085 of the Level 2 investments and $3,313,363 of the Level 3 investments are measured using various valuation models, whose inputs include quoted prices in inactive markets, interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair value of the Level 3 investments. These models have been developed and are maintained by the Institute's third-party investment managers. 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 2013 and 2012.

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

	As of December 31, 2013			
	Assets Measured at	Fair Value Hierarchy Level		
Description	Fair Value	Level 1	Level 2	Level 3
Assets:				
Debt securities	$ 22,660,300	15,906,771	$ 6,753,529	$ -
Equity securities				
International equity	25,696,119	17,776,563	7,919,556	-
Large cap value	8,003,649	8,003,649	-	-
Large cap core	7,633,273	7,633,273	-	-
Large cap growth	6,850,025	6,850,025	-	-
Small cap growth	6,687,256	6,687,256	-	-
Small/mid cap value	6,053,728	6,053,728	-	-
All cap value	4,918,131	4,918,131	-	-
Total equity securities	65,842,181	57,922,625	7,919,556	-
Hedge funds				
Long/short equity	16,981,969	-	3,816,343	13,165,626
Multi-strategy	7,652,459	-	6,091,829	1,560,630
Private equity	1,752,733	-	-	1,752,733
Total hedge funds	26,387,161	-	9,908,172	16,478,989
Total	$ 114,889,642	$ 73,829,396	$ 24,581,257	$ 16,478,989

	As of December 31, 2012			
	Assets Measured at	Fair Value Hierarchy Level		
Description	Fair Value	Level 1	Level 2	Level 3
Assets:				
Debt securities	$ 22,124,647	$ 15,496,055	$ 6,628,592	$ -
Equity securities				
International equity	22,578,984	16,353,716	6,225,268	-
Large cap value	6,057,867	6,057,867	-	-
Large cap core	6,033,832	6,033,832	-	-
Large cap growth	5,600,144	5,600,144	-	-
Small cap growth	4,644,226	4,644,226	-	-
Small/mid cap value	4,639,650	4,639,650	-	-
All cap value	4,186,180	4,186,180	-	-
Total equity securities	53,740,883	47,515,615	6,225,268	-

Hedge funds				
Long/short equity	14,998,042	-	3,290,530	11,707,512
Multi-strategy	7,081,554	-	5,485,037	1,596,517
Commodity/inflation	4,977,414	-	4,977,414	-
Private equity	1,042,925	-	-	1,042,925
Liquidating trust	4,353	-	-	4,353
Total hedge funds	28,104,288	-	13,752,981	14,351,307
Total	$ 103,969,818	$ 63,011,670	$ 26,606,841	$ 14,351,307

The following table presents a reconciliation of instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Long/ Short Equity	Multi-Strategy	Private Equity	Liquidating Trust	Total
Balance at December 31, 2011	$ 10,856,474	$ 2,469,298	$ 371,965	$ 132,794	$ 13,830,531
Total realized and unrealized gains (losses)	851,038	82,634	(107,132)	(94,671)	731,869
Purchases	-	-	778,092	-	778,092
Sales	-	(955,415)	-	(33,770)	(989,185)
Balance at December 31, 2012	11,707,512	1,596,517	1,042,925	4,353	14,351,307
Total realized and unrealized gains	1,458,113	104,804	194,749	264	1,757,930
Purchases	-	-	820,711	-	820,711
Sales	-	(140,690)	(305,652)	(4,617)	(450,959)
Balance at December 31, 2013	$ 13,165,625	$ 1,560,631	$ 1,752,733	$ -	$ 16,478,989

The change in value of hedge funds valued using significant unobservable inputs is included in the gain from long-term investments in the accompanying statements of activities and change in net assets. The change in unrealized gain relating to Level 3 assets held as of December 31, 2013 and 2012 is $1,639,281 and $818,307, respectively.

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, 2013:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Notice Period (Days)
Long/short equity (1)	$ 16,981,968	$ -	Monthly, Annually	60, 75, 90
Multi-strategy (2)	6,091,829	-	Quarterly	45, 65
	$ 23,073,797	$ -		

(1) 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. All investments have satisfied any lock-up requirements and are available with notice during the next allowable liquidation window.

(2) 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. All investments have satisfied any lock-up requirements and are available with notice during the next allowable liquidation window.

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, 2013 and 2012:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Contributions receivable, net	$ 8,616,262	$ 8,616,262	$ 7,939,634	$ 7,939,634

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, 2013 and 2012. Contributions receivable are classified as Level 2 assets under the fair value hierarchy.