

BUREAU OF GOVERNMENTAL RESEARCH, INC.

Audits of Financial Statements

December 31, 2019 and 2018



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Independent Auditor's Report

To the Board of Directors
Bureau of Governmental Research, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Bureau of Governmental Research, Inc. (BGR) which comprise the statements of financial position as of December 31, 2019 and 2018, the related statements of activities, 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 Bureau of Governmental Research, Inc. 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.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
June 10, 2020

BUREAU OF GOVERNMENTAL RESEARCH, INC.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and Cash Equivalents	\$ 398,693	\$ 731,536
Contributions Receivable	16,560	86,175
Promises to Give, Net	32,850	2,047,020
Prepaid Expenses	37,310	20,769
Property and Equipment, Net	23,823	35,241
Cash and Short-Term Investments Held for Investment	57,156	115,547
Long-Term Investments	8,109,293	4,671,857
	<hr/>	<hr/>
Total Assets	\$ 8,675,685	\$ 7,708,145
Liabilities and Net Assets		
Liabilities		
Accounts Payable	\$ 6,008	\$ 38,181
Accrued Salaries and Withholding	22,356	17,306
Capital Lease Obligation	-	2,007
Deferred Revenues	250	250
	<hr/>	<hr/>
Total Liabilities	28,614	57,744
Net Assets		
Without Donor Restrictions	867,054	851,303
With Donor Restrictions	7,780,017	6,799,098
	<hr/>	<hr/>
Total Net Assets	8,647,071	7,650,401
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 8,675,685	\$ 7,708,145

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

BUREAU OF GOVERNMENTAL RESEARCH, INC.
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	2019	2018
Change in Net Assets Without Donor Restrictions		
Memberships / Core Funding	\$ 820,158	\$ 906,244
Annual Luncheon	170,691	134,010
Breakfast Briefings	27,000	35,000
Excellence in Government	-	23,100
Investment Return, Net	3,630	2,984
Other Revenues	8,788	10,004
Net Assets Released from Restrictions		
Presidents Paper Expense	-	1,641
BGR Endowment Fund Appropriation	125,000	-
	<u>1,155,267</u>	<u>1,112,983</u>
Total Revenues Without Donor Restrictions	1,155,267	1,112,983
Expenses		
Program Services	799,403	777,114
Supporting Service		
General and Administrative	164,396	157,003
Fundraising	175,717	178,942
	<u>1,139,516</u>	<u>1,113,059</u>
Total Expenses	1,139,516	1,113,059
Change in Net Assets Without Donor Restrictions	15,751	(76)
Change in Net Assets With Donor Restrictions		
Contributions	28,380	2,001,000
Distribution to BGR	(125,000)	-
Investment Return (Loss), Net	1,077,539	(309,601)
Net Assets Released from Restrictions	-	(1,641)
	<u>980,919</u>	<u>1,689,758</u>
Change in Net Assets With Donor Restrictions	980,919	1,689,758
Change in Net Assets	996,670	1,689,682
Net Assets, Beginning of Year	7,650,401	5,960,719
Net Assets, End of Year	\$ 8,647,071	\$ 7,650,401

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

BUREAU OF GOVERNMENTAL RESEARCH, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2019

	<u>Program Services</u>		<u>Supporting Services</u>		Total Expenses
	Public Policy Research and Reporting		General and Administrative	Fundraising	
Salaries, Benefits, and Taxes	\$ 601,104	\$	118,351	\$ 122,899	\$ 842,354
Event Expenses	54,279		-	46,097	100,376
Office Rent	52,052		1,661	1,661	55,374
Consultants / Contracted Personnel	13,815		40,568	553	54,936
Telephone / Information Technology	19,035		608	608	20,251
Depreciation	11,340		362	362	12,064
Dues and Subscriptions	11,769		-	-	11,769
Office Expense	10,208		326	326	10,860
Parking / Transit	9,489		-	-	9,489
Insurance	4,162		133	133	4,428
Miscellaneous	2,417		84	1,687	4,188
Staff Development	2,374		468	486	3,328
Annual Report	2,230		-	743	2,973
Printing and Reproduction	2,602		83	83	2,768
Bank Fees	-		1,673	-	1,673
Postage	1,393		44	44	1,481
Equipment Rental and Maintenance	871		28	28	927
Advertising / Public Relations	232		7	7	246
Strategic Planning	31		-	-	31
Total	\$ 799,403	\$	164,396	\$ 175,717	\$ 1,139,516

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

BUREAU OF GOVERNMENTAL RESEARCH, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>		<u>Supporting Services</u>		Total Expenses
	Public Policy Research and Reporting		General and Administrative	Fundraising	
Salaries, Benefits, and Taxes	\$ 587,108		\$ 115,025	\$ 96,653	\$ 798,786
Event Expenses	48,663		-	73,992	122,655
Office Rent	52,052		1,661	1,661	55,374
Consultants / Contracted Personnel	11,626		36,695	908	49,229
Telephone / Information Technology	18,091		577	577	19,245
Dues and Subscriptions	11,609		-	-	11,609
Depreciation	10,589		338	338	11,265
Office Expense	9,703		310	310	10,323
Parking / Transit	7,642		-	-	7,642
Annual Report	5,635		-	1,878	7,513
Miscellaneous	3,220		103	2,057	5,380
Staff Development	3,310		649	545	4,504
Printing and Reproduction	2,324		74	74	2,472
Insurance	2,803		(193)	(139)	2,471
Postage	1,585		51	51	1,687
Bank Fees	-		1,676	-	1,676
Equipment Rental and Maintenance	1,154		37	37	1,228
Total	\$ 777,114		\$ 157,003	\$ 178,942	\$ 1,113,059

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

BUREAU OF GOVERNMENTAL RESEARCH, INC.
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in Net Assets	\$ 996,670	\$ 1,689,682
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation	12,064	11,265
Net Unrealized and Realized (Gains) Losses on Investments	(1,021,244)	377,234
Proceeds from the Sale of Donated Investment Securities	5,078	52,194
(Increase) Decrease in Assets		
Contributions Receivable	69,615	(78,675)
Promises to Give	2,014,170	(2,017,020)
Prepaid Expenses	(16,541)	(4,223)
Cash and Short-Term Investments Held for Investment	58,391	(63,696)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Salaries and Withholding	(27,123)	2,014
Deferred Revenues - Membership Dues	-	(151,741)
Net Cash Provided by (Used in) Operating Activities	2,091,080	(182,966)
Cash Flows from Investing Activities		
Purchase of Investments	(2,710,606)	(232,891)
Proceeds from Sale of Investments	289,336	1,593
Purchases of Property and Equipment	(646)	(2,798)
Net Cash Used in Investing Activities	(2,421,916)	(234,096)
Cash Flows from Financing Activities		
Payments on Capital Lease	(2,007)	(4,603)
Net Proceeds from Contributions Restricted for:		
BGR Endowment Fund	-	5,000
Howard Chair	-	169,166
Net Cash (Used in) Provided by Financing Activities	(2,007)	169,563
Net Change in Cash and Cash Equivalents	(332,843)	(247,499)
Cash and Cash Equivalents, Beginning of Year	731,536	979,035
Cash and Cash Equivalents, End of Year	\$ 398,693	\$ 731,536
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	\$ 32	\$ 290

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

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization

The Bureau of Governmental Research, Inc. (BGR) is a private non-profit independent research organization incorporated under the laws of the State of Louisiana and Internal Revenue Code Section 501(c)(3). Accordingly, income taxes are not presented in these financial statements. BGR is dedicated to informed public policymaking and the effective use of public resources for the improvement of government in the New Orleans metropolitan area. BGR fulfills its mission through its program of public policy research and reporting.

Basis of Accounting

BGR prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, BGR reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction:

Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, BGR considers all short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents, unless restricted by donor-imposed stipulations.

Promises to Give and Contributions Receivable

Unconditional promises to give cash and contributions receivable are reported at net realizable value at the date the promise is received if expected to be collected within one year. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. BGR considers promises to give and contributions receivable as of year-end to be fully collectible. Accordingly, no allowance for uncollectible contributions is required. If amounts become uncollectible, they will be written off when that determination is made.

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Investments

Investment purchases are recorded at cost, or if donated, at fair market value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return (loss) is reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law, and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

Property and Equipment

BGR capitalizes purchases of property of \$500 or more. Property is recorded at cost and is depreciated over the estimated useful lives of the related assets which approximate five years. Depreciation is computed using the straight-line method for financial statement purposes.

Revenues

Revenue is recognized when earned. Membership dues, which are nonrefundable, are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total dues paid and the exchange element. The Organization recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. Annual luncheon payments are deferred to the year in which revenues represent funds which have been received for programs occurring in a future fiscal year.

Contributions

Contributions received are reported as increases in net assets without donor restrictions or net asset with donor restrictions depending on the existence and/or nature of any donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. BGR has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Functional Expenses

The costs of providing the program services and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on a reasonable basis that is consistently applied. When possible, expenses are first allocated by direct identification and then allocation if an expenditure benefits more than one program or function. The expenses that are allocated include salaries, benefits and taxes, staff development, insurance (workers compensation), and annual report which are allocated on the basis of estimates of time and effort, as well as office rent, telephone/information technology, office expense, depreciation, insurance (general), printing and reproduction, postage, equipment rental and maintenance, and other miscellaneous expenses, which are allocated on a square footage basis.

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, \$246 and \$-0- advertising expense was incurred, respectively.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncements - Adopted

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaced most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Analysis of various provisions of this standard resulted in no significant changes in the way BGR recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize the lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earlier comparative period presented; or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The new standard also provides a number of practical expedients. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2019.

In June 2020, the FASB issued ASU 2020-05 which defers the effective date of ASU-2016-02 one year making it effective for annual report periods beginning after December 15, 2021.

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 2. Promises to Give

BGR had unconditional promises to give representing the following at December 31, 2019 and 2018:

	2019	2018
Zemurray Chair Promises to Give	\$ -	\$ 2,000,000
Other Promises to Give	32,850	47,020
Unconditional Promises to Give, Gross	\$ 32,850	\$ 2,047,020
	2019	2018
Receivable in Less than One Year	\$ 18,660	\$ 2,043,510
Receivable in One to Five Years	14,190	3,510
Total Unconditional Promises to Give, Gross	32,850	2,047,020
Less: Discount to Net Present Value	-	-
Unconditional Promises to Give, Net	\$ 32,850	\$ 2,047,020

Unconditional promises to give that are expected to be collected in more than one year are reported at present value using a discount rate based on the respective treasury yield rates. The discounts for unconditional promises to give that are expected to be collected in more than one year as of December 31, 2019 and 2018 were deemed to be to be at net realizable value and, thus, no discount was recorded.

Note 3. Investments

Investments consist of the following as of December 31, 2019:

December 31, 2019	Fair Market Value	Cost or Assigned Amount
GNOF Investment Pool Fund	\$ 44,008	\$ 30,305
Money Market Funds	426,498	426,498
Mutual Funds		
Intermediate-Term Bond Funds	2,622,212	2,611,033
Equity Funds	380,777	454,507
Exchange Traded Funds		
Large Value	1,157,282	728,734
Foreign Large Blend	767,093	645,353
Large Growth	1,176,616	618,393
Diversified Emerging Markets	771,520	664,319
Real Estate	380,300	278,143
Small Blend	382,987	217,019
Total	\$ 8,109,293	\$ 6,674,304

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 3. Investments (Continued)

Investments consist of the following as of December 31, 2018:

December 31, 2018	Fair Market Value	Assigned Amount
GNOF Investment Pool Fund	\$ 39,320	\$ 30,305
Mutual Funds		
Intermediate-Term Bond Funds	1,627,083	1,695,976
Equity Funds	164,280	243,385
Exchange Traded Funds		
Large Value	670,409	415,537
Foreign Large Blend	474,119	445,822
Large Growth	802,086	384,089
Diversified Emerging Markets	460,368	441,544
Real Estate	200,966	154,283
Small Blend	233,226	122,464
Total	\$ 4,671,857	\$ 3,933,405

Note 4. Property and Equipment

Property and equipment consisted of the following at December 31, 2019 and 2018:

	2019	2018
Office Equipment	\$ 65,908	\$ 65,262
Software Development	11,550	11,550
Furniture and Fixtures	20,163	20,163
Total Property and Equipment, at Cost	97,621	96,975
Less: Accumulated Depreciation	(73,798)	(61,734)
Total Property and Equipment, Net	\$ 23,823	\$ 35,241

Depreciation expense totaled \$12,064 and \$11,265 for the years ended December 31, 2019 and 2018, respectively.

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31, 2019 and 2018:

	2019	2018
Net Assets With Donor Restrictions		
Subject to Expenditure for Specified Purpose		
Presidents Paper Sponsorship	\$ 40,074	\$ 11,694
Endowment Funds (See Note 6)		
Original Gifts and Accumulated Earnings		
BGR Endowment Fund	4,886,908	4,191,799
Janet Howard Chair in Governmental Research Fund	659,351	556,284
Zemurray Chair	2,149,676	2,000,000
GNOF Investment Pool Fund	44,008	39,321
Net Assets With Donor Restrictions	\$ 7,780,017	\$ 6,799,098

Note 6. Endowment Funds

As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. BGR accounts for donor-restricted funds consistent with the provisions of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the state of Louisiana. BGR's Board of Directors seek to preserve 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. Accordingly, BGR retains in perpetuity (a) the original value of initial and subsequent gifts donated to the Endowment, and (b) any accumulations to the Endowments 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 perpetuity are subject to appropriation for expenditure by BGR in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, BGR considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of BGR and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of BGR
- The investment policies of BGR

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 6. Endowment Funds (Continued)

BGR's endowments consisted of the following:

GNOF Investment Pool Fund

GNOF Investment Pool Fund is maintained and managed by the GNOF within their investment pool. The fund is invested by GNOF with an attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. Annual distributions of income from the GNOF Investment Pool Fund, as determined by the Board of Trustees of GNOF are provided to BGR. BGR then decides to either use the funds for operations of BGR or to invest in one of its endowment funds. For the years ended December 31, 2019 and 2018, the investment return (loss) of the GNOF Investment Pool Fund totaled \$4,688 and \$(3,464), respectively.

BGR Endowment Fund

The BGR Endowment Fund was created in 2007 and includes the pooling of donor funds to support BGR operations. The investment objectives of the BGR Endowment Fund are to emphasize total return. Specifically, the primary objective is to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of comparable capital market benchmarks. The secondary objective is to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of the fund's assets. Risk control is an important element in the investment of the fund assets.

In accordance with the spending policy, at the request of the Board of Directors of BGR, the Endowment Committee shall cause to be disbursed a sum of money not to exceed in any fiscal year an amount equal to 5% of the BGR Endowment Fund, calculated using a 12-quarter average of market values determined as of December 31st of the previous year, less any previous remittances by the Endowment Committee since the beginning of the current fiscal year. The Endowment Committee shall comply with any such request by the Board of Directors, unless, in its judgment, the integrity of the Endowment Fund would be seriously inconvenienced by such a disbursement at that time; in such an event, the Endowment Committee shall deliver to the Board of Directors a written statement of its reasons for declining to make the disbursement. This provision can be modified only by a vote of not less than eighty percent of the Board of Directors or by a vote of two-thirds of the membership of BGR. During the years ended December 31, 2019 and 2018, the Board of Directors appropriated \$125,000 and \$-0- for operations, respectively. For the years ended December 31, 2019 and 2018, investment return (loss) of the BGR Endowment Fund was \$820,107 and \$(268,715), respectively.

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 6. Endowment Funds (Continued)

Howard Chair

In 2015, a donor created the Howard Chair with an initial gift of \$500,000 to be held in perpetuity. The investment objectives of the Howard Chair Fund are to emphasize total return. Specifically, the primary objective is to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of comparable capital market benchmarks. The secondary objective is to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of the fund's assets. Risk control is an important element in the investment of the fund assets.

The spending policy states that, at the request of the Board of Directors, the Endowment Committee shall cause to be disbursed a sum of money not to exceed in any fiscal year an amount equal to 5% of the Howard Chair, calculated as follows:

- In 2017, using the year end market value of the fund determined as of December 31st of 2016;
- In 2018, using a 2-year average of market values of the fund determined as of December 31st of 2017; and
- Thereafter, using the fund's 12-quarter average of market values determined as of December 31st of the previous year.

Such distribution shall be used to cover the expenses of a speaker at BGR's annual luncheon, henceforth to be recognized as the Janet Howard Speaker Series in Government Research. If in any year a speaker appears on a pro bono basis, at the request of the Board of Directors, the Endowment Committee shall direct the distribution from the Howard Chair, net of any expenses required by the speaker, if any, to be capitalized to the Howard Chair or alternatively, to a specific BGR research project acknowledged appropriately in the final research output. Either decision must be approved by the Endowment Committee. If for any reason BGR discontinues its annual luncheon or its practice of presenting speakers at the function, at the request of the Board of Directors, the distribution from the Howard Chair will be directed to specific BGR research projects, under the guidance and with the approval of the Endowment Committee, and acknowledged appropriately as part of the Howard Chair.

No distribution for spending will be made from the Howard Chair until the endowment threshold of \$500,000 in donations to the Howard Chair Fund has been received. Until that time, all earnings are held in the corpus of the Howard Chair. This provision can be modified only by a vote of not less than eighty percent of the Board of Directors or by a vote of two-thirds of the membership of BGR. As of December 31, 2019 and 2018, the \$500,000 threshold was met as which allows for distributions in accordance with the spending policy above.

BUREAU OF GOVERNMENTAL RESEARCH

Notes to Financial Statements

Note 6. Endowment Funds (Continued)

Howard Chair (Continued)

As of December 31, 2019 and 2018, the balance of the Howard Chair Fund totaled \$659,351 and \$556,284, respectively which were maintained in long-term investments. For the years ended December 31, 2019 and 2018, investment (loss) return of the Howard Chair Fund totaled \$103,067 and \$(37,422), respectively.

Zemurray Chair

In 2018, a donor created the Zemurray Chair Endowment Fund with an initial gift of \$2,000,000 to be held in perpetuity. The investment objectives of the Zemurray Chair Endowment Fund are to emphasize total return. Specifically, the primary objective is to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of comparable capital market benchmarks. The secondary objective is to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of the fund's assets. Risk control is an important element in the investment of the fund assets.

The spending policy states that, at the request of the Board of Directors, the Endowment Committee shall cause to be disbursed a sum of money not to exceed in any fiscal year an amount equal to 5% of the Zemurray Chair, calculated as follows:

- In 2020, using the 4-quarter average of the market values of the fund determined as of December 31st of 2019;
- In 2021, using the 8-quarter average of market values of the fund determined as of December 31st of 2020; and
- Thereafter, using the funds 12-quarter average of market values determined as of December 31st of the previous year.

Such distributable funds shall be used to support the salary for the position of BGR's President and CEO, which position shall hereafter permanently bear the title of the Samuel Zemurray Chair in Research Leadership in all and every reference to it. The Endowment Committee shall comply with any such request by the Board of Directors, unless, in its judgment, the integrity of the Zemurray Chair would be threatened by such a disbursement, or the Zemurray Chair would be seriously inconvenienced by such a disbursement at that time; in such an event, the Endowment Committee shall deliver to the Board of Directors a written statement of its reason for declining to make the disbursement. This provision can be modified only by a vote of not less than eighty percent of the Board of Directors or by a vote of two-thirds of the membership of the BGR.

As of December 31, 2019 and 2018, the balance of the Zemurray Chair Fund totaled \$2,149,676 and \$2,000,000, respectively. For the years ended December 31, 2019 and 2018, investment return of the Howard Chair Fund totaled \$149,676 and \$-0-, respectively.

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Notes to Financial Statements

Note 6. Endowment Funds (Continued)

The composition of the endowment funds above as of December 31, 2019 and 2018 is as follows:

December 31, 2019	Without Donor Restrictions	With Donor Restrictions	Total
GNOF Investment Pool Fund	\$ -	\$ 44,008	\$ 44,008
BGR Endowment Fund	-	4,886,908	4,886,908
Zemurray Chair	-	2,149,676	2,149,676
Howard Chair	-	659,351	659,351
Total	\$ -	\$ 7,739,943	\$ 7,739,943
December 31, 2018	Without Donor Restrictions	With Donor Restrictions	Total
GNOF Investment Pool Fund	\$ -	\$ 39,321	\$ 39,321
BGR Endowment Fund	-	4,191,799	4,191,799
Zemurray Chair	-	2,000,000	2,000,000
Howard Chair	-	556,284	556,284
Total	\$ -	\$ 6,787,404	\$ 6,787,404

A summary of changes in BGR's endowment net assets for the year ended December 31, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets, January 1, 2019	\$ -	\$ 6,787,404	\$ 6,787,404
Contributions	-	-	-
Investment Return, Net	-	1,077,539	1,077,539
Amount Appropriated for Expenditure	-	(125,000)	(125,000)
Net Assets, December 31, 2019	\$ -	\$ 7,739,943	\$ 7,739,943
	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets, January 1, 2018	\$ -	\$ 5,096,005	\$ 5,096,005
Contributions	-	2,001,000	2,001,000
Investment Loss, Net	-	(309,601)	(309,601)
Amount Appropriated for Expenditure	-	-	-
Net Assets, December 31, 2018	\$ -	\$ 6,787,404	\$ 6,787,404

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Notes to Financial Statements

Note 7. Leases

Operating Leases

BGR entered into an operating lease agreement for office space effective May 1, 2016 which calls for a monthly payment of \$3,821 for a five-year period. Effective June 1, 2017, the lease was amended to expand the space leased. This amendment calls for additional monthly payments of \$794 through April 30, 2021.

On October 25, 2017, BGR entered into an operating lease for postage equipment with monthly payments of \$57 for a 63 month period.

The following is BGR's obligations under these leases:

2020	\$	56,060
2021		19,144
2022		<u>686</u>
Total	\$	<u>75,891</u>

Rental expense related to these operating leases totaled \$56,122 and \$56,105 for the years ended December 31, 2019 and 2018, respectively.

Capital Lease

In June 2016, BGR acquired a copier under the provision of a long-term capital lease. This lease required 36 monthly payments of principal and interest totaling \$408, and matured in June 2019 at which point BGR opted to purchase the equipment through bargain purchase option.

Note 8. Fair Value of Financial Instruments

BGR follows the provisions of the *Fair Value Measurement* Topic of the FASB ASC. Under this FASB ASC, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

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Notes to Financial Statements

Note 8. Fair Value of Financial Instruments (Continued)

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

BGR's valuation techniques for assets recorded at fair value are as follows:

Equity Funds, Bond Funds and Exchange Traded Funds: The fair value is determined by the closing price reported on the active market on which the individual securities or funds are traded.

GNOF Investment Pool Fund: The fair value is determined by the use of calculated net asset value per ownership share.

The valuation of BGR's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 are as follows:

	Level 1	Level 2	Level 3	Fair Value
December 31, 2019				
Bond Funds	\$ 2,622,212	\$ -	\$ -	\$ 2,622,212
Equity Funds	380,777	-	-	380,777
Money Market Funds	426,498	-	-	426,498
Exchange Traded Funds	4,635,798	-	-	4,635,798
GNOF Investment Pool Fund ⁽¹⁾	-	-	-	44,008
Total	\$ 8,065,285	\$ -	\$ -	\$ 8,109,293
December 31, 2018				
Bond Funds	\$ 1,627,083	\$ -	\$ -	\$ 1,627,083
Equity Funds	164,280	-	-	164,280
Exchange Traded Funds	2,841,174	-	-	2,841,174
GNOF Investment Pool Fund ⁽¹⁾	-	-	-	39,320
Total	\$ 4,632,537	\$ -	\$ -	\$ 4,671,857

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

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Notes to Financial Statements

Note 8. Fair Value of Financial Instruments (Continued)

BGR's investments at December 31, 2019 that feature net asset value per share are as follows:

	Number of Funds	Fair Value Calculated Using NAV	Unfunded Commitments	Redemption Terms	Restrictions and Terms in Place at Year End
GNOF Investment Pool Fund	1	<u>\$ 44,008</u>	N/A	Request may be made anytime.	N/A

The investment pool includes investments in a well-diversified asset mix, which includes equity and fixed income securities as well as private equity and investments in hedge funds which primarily invest in commodities. While management may request redemption of these investments at any time, the redemption amount is first subject to GNOF's distribution policies for endowed funds. Any exception to this policy must be approved by GNOF's board which usually is conservative in releasing funds above the amount that is annually distributed.

Note 9. Contributed Services

During 2019 and 2018, BGR received contributed services recorded at market value. The contributed services, which are primarily donations of services and use of facilities related to fundraising events, are included in revenues without donor restrictions as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Annual Luncheon	\$ 29,991	\$ 35,252
Breakfast Briefings	15,000	15,000
Excellence in Government	-	600
Other Contributed Services	<u>3,788</u>	<u>7,504</u>
Total	\$ 48,779	\$ 58,356

Note 10. Concentration of Credit Risk

BGR's policy is to maintain balances below the U.S. Federal Deposit Insurance Corporation limit. BGR maintains its cash accounts in one commercial bank. The amount on deposit exceeded the insurance limits of the Federal Deposit Insurance Corporation by \$148,836 and \$484,435 as of December 31, 2019 and 2018, respectively. BGR has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

For the years ended December 31, 2019 and 2018, one organization provided 25% and 23% of total revenues without donor restrictions, respectively.

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Notes to Financial Statements

Note 11. Related Parties

BGR maintained certain cash and cash equivalents in an institution of which one Board Member was a Board Member as of December 31, 2019 and 2018.

Note 12. Uncertain Tax Positions

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. BGR believes that it has appropriate support for any tax positions taken, and management has determined that there are no uncertain tax positions that are material to the financial statements.

Penalties and interest assessed by income taxing authorities, if any, would be included in income tax expense.

Note 13. Employee Benefit Plan

BGR provides a Simple IRA Plan, which covers all employees meeting certain eligibility requirements. Eligible employees are able to make annual contributions to the plan up to the maximum amount allowed by current regulations. BGR makes a matching contribution in an amount equal to the employees' salary reduction contribution up to a limit of 3% of employees' compensation. BGR's contributions for the years ended December 31, 2019 and 2018 totaled \$21,270 and \$18,599, respectively.

Note 14. Liquidity and Availability

As of December 31, 2019, assets without donor or other restrictions and therefore available for general expenditure within one year of the balance sheet date, consist of the following:

Cash and Cash Equivalents	\$	398,693
Contributions Receivable		16,560
Promises to Give		32,850
Cash and Short-Term Investments Held for Investment		57,156
Appropriation of BGR Endowment Fund		<u>180,000</u>
Total	\$	<u>685,259</u>

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Notes to Financial Statements

Note 14. Liquidity and Availability (Continued)

BGR has received significant contributions to establish endowment accounts, which should exist in perpetuity to generate investment income for BGR's general operations or other purposes designated by the donors. The BGR Endowment Fund is an endowed account for BGR's general expenditures. The appropriation from the BGR Endowment Fund noted above represents the 2020 budgeted amount, rather than any determination of the full possibility of an appropriation for general expenditures. In addition, the Zemurray Chair is an endowed account for the purpose of supporting the salary of BGR's President and CEO. While the terms of the Zemurray Chair restrict the use of the investment income, any appropriation from the Zemurray Chair will result in a correlating reduction in the revenue required to cover BGR's general expenditures. Note 6, above, discusses in more detail BGR's endowments and the spending policies for each.

BGR manages its expenditures according to an annual Board-approved budget. In addition to the above summary of financial assets available to meet general expenditures over the next twelve months, BGR anticipates collecting sufficient revenue to cover its general expenditures, including those not covered by donor-restricted resources.

Note 15. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 10, 2020, and determined that the following matters require disclosure.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, stay home orders, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact in the economies and financial markets of many countries, including the geographical area in which BGR operates. It is unknown how long these conditions will last and what the complete financial effect will be to the BGR. As a result of the outbreak of the coronavirus, BGR has postponed some events. However, the pandemic has not significantly impacted BGR's productivity or its ability to deliver on its mission and thereby provide value to the community. For the foreseeable future, BGR's annual program of events has been converted to virtual or other technology platforms.

As of the date of this report, BGR is not able to estimate the ultimate financial impact the coronavirus may have at year's end. Additionally, it is reasonably possible that estimates made in the financial statements could be impacted in the near term as a result of these conditions.

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Notes to Financial Statements

Note 15. Subsequent Events (Continued)

In April 2020, BGR received a Paycheck Protection Program loan in the amount of \$137,900. This loan is potentially forgivable if BGR meets certain criteria. The loan has an interest rate of 1% and is due five years from the date of origination. There are no collateral or personal guarantees associated with this loan.

No other subsequent events occurring after June 10, 2020 have been evaluated for inclusion in these financial statements.