

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Contents
December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors of
National Consumer Law Center, Inc. and Consumer Law Building Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Consumer Law Center, Inc. and its Affiliate, Consumer Law Building Corporation (Massachusetts corporations, not for profit) (collectively, the Agency), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Consumer Law Center, Inc. and Consumer Law Building Corporation as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During 2016, the Agency adopted Accounting Standard Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which modifies the classification of debt issuance costs on the consolidated statements of financial position. Our opinion is not modified with respect to this matter.

Alexander, Brown, Fenning & Co., P.C.

Westborough, Massachusetts
April 10, 2017

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Consolidated Statements of Financial Position
December 31, 2016 and 2015

| Assets | 2016 | | | 2015 | | |
|--|----------------------|-------------------------------|----------------------|----------------------|-------------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 323,461 | \$ 1,261,693 | \$ 1,585,154 | \$ 1,892,835 | \$ 1,070,896 | \$ 2,963,731 |
| Short-term investments | 13,159,525 | - | 13,159,525 | 9,098,148 | 619,678 | 9,717,826 |
| Current portion of receivables: | | | | | | |
| Professional service contracts and grants | 468,940 | 516,545 | 985,485 | 230,824 | 355,000 | 585,824 |
| Publications and other, net of allowance for doubtful accounts of \$25,000 at December 31, 2016 and 2015, respectively | 17,183 | - | 17,183 | 26,494 | - | 26,494 |
| Pledges | - | 15,000 | 15,000 | - | 15,000 | 15,000 |
| Prepaid expenses and deposits | 82,164 | - | 82,164 | 79,973 | - | 79,973 |
| Total current assets | <u>14,051,273</u> | <u>1,793,238</u> | <u>15,844,511</u> | <u>11,328,274</u> | <u>2,060,574</u> | <u>13,388,848</u> |
| Investments | 12,846,765 | - | 12,846,765 | 11,462,600 | - | 11,462,600 |
| Restricted cash | 331,768 | - | 331,768 | 330,454 | - | 330,454 |
| Pledges Receivable, net of current portion | - | 11,440 | 11,440 | - | 26,440 | 26,440 |
| Fixed Assets, net | <u>9,449,906</u> | <u>-</u> | <u>9,449,906</u> | <u>8,567,874</u> | <u>-</u> | <u>8,567,874</u> |
| Total assets | <u>\$ 36,679,712</u> | <u>\$ 1,804,678</u> | <u>\$ 38,484,390</u> | <u>\$ 31,689,202</u> | <u>\$ 2,087,014</u> | <u>\$ 33,776,216</u> |
| Liabilities and Net Assets | | | | | | |
| Current Liabilities: | | | | | | |
| Current portion of notes payable | \$ 173,997 | \$ - | \$ 173,997 | \$ 173,997 | \$ - | \$ 173,997 |
| Accounts payable | 437,609 | - | 437,609 | 343,761 | - | 343,761 |
| Accrued expenses | 326,104 | - | 326,104 | 388,165 | - | 388,165 |
| Deferred revenue | 691,486 | - | 691,486 | 683,160 | - | 683,160 |
| Total current liabilities | <u>1,629,196</u> | <u>-</u> | <u>1,629,196</u> | <u>1,589,083</u> | <u>-</u> | <u>1,589,083</u> |
| Notes Payable and unamortized debt issuance costs, net of current portion | <u>4,575,607</u> | <u>-</u> | <u>4,575,607</u> | <u>4,739,326</u> | <u>-</u> | <u>4,739,326</u> |
| Total liabilities | <u>6,204,803</u> | <u>-</u> | <u>6,204,803</u> | <u>6,328,409</u> | <u>-</u> | <u>6,328,409</u> |
| Net Assets: | | | | | | |
| Operating | 1,344,789 | - | 1,344,789 | 861,166 | - | 861,166 |
| Budgetary designated net assets: | | | | | | |
| Program reserves | 9,991,582 | - | 9,991,582 | 6,926,991 | - | 6,926,991 |
| Attorney fee awards | 1,171,798 | - | 1,171,798 | 1,170,227 | - | 1,170,227 |
| Special projects supported by court awards | 899,500 | 360,402 | 1,259,902 | 953,966 | 269,937 | 1,223,903 |
| Retirement plan | 157,816 | - | 157,816 | 161,482 | - | 161,482 |
| Long-term designated net assets: | | | | | | |
| Building fund | 5,056,276 | - | 5,056,276 | 5,204,790 | 619,678 | 5,824,468 |
| Stability fund | 1,413,831 | - | 1,413,831 | 1,380,129 | - | 1,380,129 |
| Willard P. Ogburn Board-Designated Endowment | 5,739,015 | 26,440 | 5,765,455 | 5,047,491 | 41,440 | 5,088,931 |
| Fixed assets | 4,700,302 | - | 4,700,302 | 3,654,551 | - | 3,654,551 |
| Program restricted | - | 1,417,836 | 1,417,836 | - | 1,155,959 | 1,155,959 |
| Total net assets | <u>30,474,909</u> | <u>1,804,678</u> | <u>32,279,587</u> | <u>25,360,793</u> | <u>2,087,014</u> | <u>27,447,807</u> |
| Total liabilities and net assets | <u>\$ 36,679,712</u> | <u>\$ 1,804,678</u> | <u>\$ 38,484,390</u> | <u>\$ 31,689,202</u> | <u>\$ 2,087,014</u> | <u>\$ 33,776,216</u> |

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

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

| | 2016 | | | 2015 | | |
|--|----------------------|------------------------|----------------------|----------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Support and Revenue: | | | | | | |
| Grants, contracts and contributions | \$ 5,424,292 | \$ 2,521,118 | \$ 7,945,410 | \$ 4,552,603 | \$ 1,281,730 | \$ 5,834,333 |
| Publications and program revenue | 3,488,912 | - | 3,488,912 | 2,970,794 | - | 2,970,794 |
| Interest and dividends | 473,430 | - | 473,430 | 502,638 | - | 502,638 |
| Rental income | 583,295 | - | 583,295 | 266,663 | - | 266,663 |
| Net assets released from purpose restrictions | 2,183,776 | (2,183,776) | - | 1,971,084 | (1,971,084) | - |
| Total support and revenue | <u>12,153,705</u> | <u>337,342</u> | <u>12,491,047</u> | <u>10,263,782</u> | <u>(689,354)</u> | <u>9,574,428</u> |
| Expenses: | | | | | | |
| Personnel and related costs: | | | | | | |
| Advocates | 2,542,472 | - | 2,542,472 | 2,491,937 | - | 2,491,937 |
| Support staff | 1,468,670 | - | 1,468,670 | 1,457,812 | - | 1,457,812 |
| Payroll taxes and fringe benefits | 1,113,529 | - | 1,113,529 | 1,067,896 | - | 1,067,896 |
| Consultants - advocates | 477,885 | - | 477,885 | 565,848 | - | 565,848 |
| Total personnel and related costs | <u>5,602,556</u> | <u>-</u> | <u>5,602,556</u> | <u>5,583,493</u> | <u>-</u> | <u>5,583,493</u> |
| Publications and other direct expenses | 1,085,075 | - | 1,085,075 | 1,164,101 | - | 1,164,101 |
| Depreciation | 354,824 | - | 354,824 | 332,998 | - | 332,998 |
| Interest | 202,345 | - | 202,345 | 243,719 | - | 243,719 |
| Contract services | 149,647 | - | 149,647 | 144,469 | - | 144,469 |
| Occupancy | 149,510 | - | 149,510 | 174,461 | - | 174,461 |
| Consultants | 127,352 | - | 127,352 | 234,182 | - | 234,182 |
| Travel | 118,428 | - | 118,428 | 166,109 | - | 166,109 |
| Consumable supplies | 50,250 | - | 50,250 | 57,229 | - | 57,229 |
| Total expenses | <u>7,839,987</u> | <u>-</u> | <u>7,839,987</u> | <u>8,100,761</u> | <u>-</u> | <u>8,100,761</u> |
| Changes in net assets from operations | <u>4,313,718</u> | <u>337,342</u> | <u>4,651,060</u> | <u>2,163,021</u> | <u>(689,354)</u> | <u>1,473,667</u> |
| Non-Operating Revenue (Expense): | | | | | | |
| Interest and dividends - long-term designated net assets | 473,325 | - | 473,325 | 308,867 | - | 308,867 |
| Net losses on investments | (292,605) | - | (292,605) | (1,140,002) | - | (1,140,002) |
| Gain on acquisition of note receivable, net | - | - | - | 2,029,934 | - | 2,029,934 |
| Write off of financing fees | - | - | - | (88,800) | - | (88,800) |
| Net assets released from capital restrictions | 619,678 | (619,678) | - | 1,432,258 | (1,432,258) | - |
| Total non-operating revenue (expense) | <u>800,398</u> | <u>(619,678)</u> | <u>180,720</u> | <u>2,542,257</u> | <u>(1,432,258)</u> | <u>1,109,999</u> |
| Changes in net assets | <u>5,114,116</u> | <u>(282,336)</u> | <u>4,831,780</u> | <u>4,705,278</u> | <u>(2,121,612)</u> | <u>2,583,666</u> |
| Net Assets: | | | | | | |
| Beginning of year | <u>25,360,793</u> | <u>2,087,014</u> | <u>27,447,807</u> | <u>20,655,515</u> | <u>4,208,626</u> | <u>24,864,141</u> |
| End of year | <u>\$ 30,474,909</u> | <u>\$ 1,804,678</u> | <u>\$ 32,279,587</u> | <u>\$ 25,360,793</u> | <u>\$ 2,087,014</u> | <u>\$ 27,447,807</u> |

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

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets | \$ 4,831,780 | \$ 2,583,666 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 354,824 | 332,998 |
| Amortization of debt issuance costs charged as interest expense | 10,278 | 10,278 |
| Bad debts | - | 16,999 |
| Donated stock | 15,225 | - |
| Write off of financing fees | - | 88,800 |
| Interest and dividends - long-term designated net assets | (473,325) | (218,217) |
| Gain on acquisition of note receivable, net | - | (2,029,934) |
| Net losses on investments | 292,605 | 1,140,002 |
| Changes in operating assets and liabilities: | | |
| Receivables: | | |
| Professional service contracts and grants | (399,661) | 337,893 |
| Publications and other | 9,311 | 6,416 |
| Pledges | 15,000 | 18,560 |
| Prepaid expenses and deposits | (2,191) | 17,858 |
| Accounts payable | (1,668) | 35,368 |
| Accrued expenses | (62,061) | 10,844 |
| Deferred revenue | 8,326 | 638,031 |
| | <u>4,598,443</u> | <u>2,989,562</u> |
| Net cash provided by operating activities | | |
| Cash Flows from Investing Activities: | | |
| Acquisition of fixed assets | (1,141,340) | (181,593) |
| Fees paid to acquire note receivable | - | (302,300) |
| Interest and dividends - long-term designated net assets | 473,325 | 218,217 |
| Purchase of investments | (11,898,834) | (9,649,906) |
| Proceeds from sale of investments | 6,765,140 | 7,312,259 |
| Withdrawals from (deposits to) restricted cash | (1,314) | 1,146,465 |
| | <u>(5,803,023)</u> | <u>(1,456,858)</u> |
| Net cash used in investing activities | | |
| Cash Flows from Financing Activities: | | |
| Principal payments on notes payable | (173,997) | (1,318,678) |
| | <u>(1,378,577)</u> | 214,026 |
| Net Change in Cash and Cash Equivalents | | |
| Cash and Cash Equivalents: | | |
| Beginning of year | 2,963,731 | 2,749,705 |
| End of year | <u>\$ 1,585,154</u> | <u>\$ 2,963,731</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | <u>\$ 192,067</u> | <u>\$ 233,441</u> |
| Non-cash transactions: | | |
| Cost basis of disposed fixed assets | <u>\$ 86,416</u> | <u>\$ 22,419</u> |
| Fixed assets financed through accounts payable | <u>\$ 95,516</u> | <u>\$ -</u> |

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

1. OPERATIONS AND NONPROFIT STATUS

National Consumer Law Center, Inc. (the Center) is a nonprofit corporation organized in October 1971. The Center principally promotes the well-being of consumers, especially those who are low-income or disadvantaged. The Center represents consumers on a national level in litigation and other forums. Through its publications and activities, the Center provides active support and assistance to lawyers and others representing the interests of consumers, as well as to legislators, community groups, law enforcement offices, and government agencies. The Center also undertakes legal research, policy studies, and non-partisan analyses on matters relating to consumer law and public policy.

The Center is the sole member of Consumer Law Building Corporation (CLBC), a nonprofit corporation. The Center and CLBC are collectively referred to as the Agency throughout these notes. The Center occupies an office condominium (the top four floors of a five story building) in Boston's financial district (hereinafter referred to as "the Building"), which is owned by CLBC.

The Center and CLBC are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Center and CLBC are also exempt from state income taxes. Donors may deduct contributions made to the Center and CLBC within the IRC regulations.

2. SIGNIFICANT ACCOUNTING POLICIES

The Agency prepares its consolidated financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

The consolidated financial statements include the Center and CLBC. All significant intercompany balances and transactions have been eliminated (see Note 3).

Accounting Principle Adoption

During 2016, the Agency adopted the FASB's Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be reported in the consolidated statements of financial position as a direct reduction from the face amount of the related notes payable. Previously, the Agency reflected unamortized debt issuance costs as financing fees, net in the accompanying 2015 consolidated statement of financial position, and has retroactively reclassified 2015 amounts in accordance with this ASU. The reclassification reduced total assets and notes payable at December 31, 2015, by \$167,999.

In addition, amortization of debt issuance costs is required to be included with interest expense in the accompanying consolidated statements of activities and changes in net assets. Accordingly, amortization expense totaling \$10,278 for the year ended December 31, 2015, has been reclassified to be included with interest expense. As a result, interest expense originally stated at \$233,441 in the 2015 consolidated statement of activities and changes in net assets has been adjusted to \$243,719.

The adoption of this ASU did not impact the Agency's consolidated net assets, changes in net assets or cash flows for the years ended December 31, 2016 and 2015.

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Debt Issuance Costs

Unamortized debt issuance costs have been netted with notes payable (see Note 9) in accordance with ASU 2015-03, and are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

Net Assets

Unrestricted net assets represent amounts which bear no external restrictions. The Board of Directors and management have segregated portions of the unrestricted net assets into various categories for planning and budgetary purposes as follows:

Operating net assets represent funds available to carry on the operations of the Agency.

Budgetary Designated Net Assets:

Program reserves consist of unrestricted amounts designated by management to fund future program expenses, including support for priority projects over a multi-year period.

Attorney fee awards consist of certain attorney fees designated by management to be held in reserve to support future programs, including litigation services and other activities.

Special projects supported by court awards include funds awarded by various courts to the Center, which the Center set aside for specific special programs and projects, often of multi-year duration.

Retirement plan represents amounts designated by the Board of Directors to fund one of the Center's retirement plans (see Note 13).

Interest on these net assets is recorded as unrestricted support and revenue and is available for operations without a separate vote of the Board of Directors.

Long-term Designated Net Assets:

Building fund represents unrestricted funds which the Board of Directors' designated for the operations, management, upkeep, and improvements of the Agency's facility. In addition, the building fund includes the restricted cash (see Note 5). The Agency also had \$619,678 at December 31, 2015, of donor-designated funds restricted for the building fund (see page 7). These funds were used for their designated purpose during 2016. Investment income on this fund is retained in the fund.

Stability fund consists of unrestricted funds which can only be used with express vote of the Board of Directors. These net assets were created by the Board in consideration of the uncertainty of continued funding from various sources. The net assets are for future capital expenditures and other expenses, as designated by the Board from time-to-time, and are maintained to provide necessary working capital to carry on the Center's programs. Investment income on this fund is retained in the fund.

Willard P. Ogburn Board-Designated Endowment represent funds set aside by the Board of Directors for investment for support of future program operations (see Note 8). These amounts may only be used with the approval of the Board of Directors.

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

***Unrestricted net assets* (Continued)**

Fixed assets represent the net book value of the Agency's property, equipment and leasehold improvements, net of any debt.

Temporarily restricted net assets represent amounts received or unconditionally committed with donor restrictions which have not yet been expended for their designated purpose. Temporarily restricted net assets are restricted for the following as of December 31:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Program restricted | \$ 1,417,836 | \$ 1,155,959 |
| Special projects supported by court awards | 360,402 | 269,937 |
| Board-designated endowment - time restricted | 26,440 | 41,440 |
| Building fund | <u>-</u> | <u>619,678</u> |
| Total | <u>\$ 1,804,678</u> | <u>\$ 2,087,014</u> |

Revenue Recognition

The Agency reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Unrestricted support is recognized when received or unconditionally committed by the donor.

Court awards and attorney fees, which are included in grants, contracts and contributions and publications and program revenue, respectively, in the accompanying consolidated statements of activities and changes in net assets, are recognized as revenue when received. Attorney fees are amounts which are generally awarded by the courts and paid by defendants following the representation of low-income and elderly clients in litigation.

During 2015, the Center began offering subscriptions for access to its publications. Subscription revenue is recognized over the subscription period and is included in publications and program revenue in the accompanying consolidated statements of activities and changes in net assets. Subscription funds received in advance are reflected as deferred revenue in the accompanying consolidated statements of financial position.

Rental income is recognized as earned.

Grants and Contract Support

The Center receives support from foundations (grants) and from public and private nonprofit agencies under fixed-price and cost-reimbursable agreements (contracts). Grants and contracts revenue are recognized as support when services are rendered or costs are incurred.

During 2016 and 2015, the Center expended \$413,343 and \$476,811, respectively, of funds provided by Massachusetts Legal Assistance Corporation (MLAC) for various Center programs.

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contract Support (Continued)

Under the Center's grant agreement with MLAC, the Center agrees to follow MLAC's restrictions with respect to the use or disposition of net assets, records, equipment, supplies, or property purchased with MLAC funds. This will be applicable if the Center's funding is terminated before the expected expiration date of the grant, or if the Center ceases to receive funds from MLAC after the funding period. As of December 31, 2016 and 2015, there were no unrestricted net assets applicable to MLAC funding.

Pledges Receivable

Pledges receivable consist of unconditional contributions committed to the Agency for the Willard P. Ogburn Board-Designated Endowment. Pledges are recorded at their net present value when unconditionally committed (see Note 6). As of December 31, 2016 and 2015, the discount was immaterial to the consolidated financial statements and therefore not recorded.

Allowance for Doubtful Accounts

An allowance for potentially uncollectible publications and other accounts receivable was provided based upon management's judgment of expected defaults. The determination included factors such as prior collection history and types of receivables.

Allocation of Expenses

Certain expenses are incurred which support the work performed under more than one grant or contract. Such expenses are allocated among the various grants and contracts based upon management's calculation of the amount attributable to each grant or contract. Expenses incurred for specific grants or contracts are charged directly to the applicable project (see Note 11).

Consolidated Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of the related services of the Agency are reported as support and revenue and expenses in the accompanying consolidated statements of activities and changes in net assets. Non-operating revenue and expenses, consistent with industry practice, includes gain on acquisition on note receivable, capital grants for long-lived assets, write off of financing fees, and investment activity (see Note 7).

Fair Value Measurements

The Agency follows the accounting and disclosure standards pertaining to ASC Topic *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

**NATIONAL CONSUMER LAW CENTER, INC. AND
CONSUMER LAW BUILDING CORPORATION**

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Agency uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Agency. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash Equivalents

Cash equivalents include commercial paper with original maturities of three months or less, except that such instruments purchased with endowment assets are classified as investments. Cash equivalents are considered Level 1 in the fair value hierarchy.

Investments

Investments are recorded in the consolidated financial statements at fair value. If an investment is directly held by the Agency and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. A summary of inputs used in valuing the Agency's investments as of December 31, 2016 and 2015, is included in Note 7.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities, including notes payable, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

**NATIONAL CONSUMER LAW CENTER, INC. AND
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets and Depreciation

Fixed assets (see Note 4) are recorded at cost when purchased or at market value at the date of donation. The Agency capitalizes all expenditures for property and equipment and leasehold improvements of \$5,000 or greater, with a useful life in excess of one year.

Depreciation is computed using the straight-line basis over the estimated service life of the fixed assets as follows:

| | |
|----------------------------------|-------------------|
| Building and improvements | 25 - 40 years |
| Equipment | 3 - 7 years |
| Electronic subscription platform | 5 years |
| Leasehold improvements | Life of the lease |

Depreciation expense for 2016 and 2015 was \$354,824 and \$332,998, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include checking and money market accounts with an initial maturity of three months or less.

In-Kind Services

The Agency is the recipient of in-kind legal services. These services have been valued at \$22,887 and \$26,144 as of December 31, 2016 and 2015, respectively, as determined by the Agency and are included in grants, contracts and contributions and support staff expense in the accompanying consolidated statements of activities and changes in net assets.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through April 10, 2017, which is the date the consolidated financial statements were issued. There were no events that met the criteria for recognition or disclosure in the consolidated financial statements.

Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidated financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidated financial statements at December 31, 2016 and 2015.

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3. RELATED PARTY TRANSACTIONS

The Center leases its building from CLBC. Rent expense for the Center under this agreement totaled \$780,000 during 2016 and 2015 (see Note 10). From time-to-time, certain transactions are paid or collected on behalf of one another. At December 31, 2016 and 2015, the Center owes CBLC \$24,547 and \$17,886, respectively, related to repair expenses of the building. At December 31, 2016 and 2015, the Center owed \$195,000 in rent to CLBC. At December 31, 2016, CBLC owed the Center \$34,463 for operating expenses paid on their behalf. These amounts have been eliminated in the accompanying consolidated financial statements.

4. FIXED ASSETS

Fixed assets consist of the following at December 31:

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|---------------------|---------------------|
| Building and improvements | \$ 11,048,854 | \$ 9,859,670 |
| Equipment | 227,312 | 299,704 |
| Electronic subscription platform | 456,450 | 422,802 |
| Leasehold improvements | <u>215,285</u> | <u>215,285</u> |
| | 11,947,901 | 10,797,461 |
| Less - accumulated depreciation | <u>2,497,995</u> | <u>2,229,587</u> |
| | <u>\$ 9,449,906</u> | <u>\$ 8,567,874</u> |

5. RESTRICTED CASH

In accordance with CLBC's note payable agreements described in Note 9, the Center has funded an interest reserve. The Center must maintain the interest reserve equal to twelve-months of interest payments. Funds cannot be withdrawn from this reserve without written consent from the bank that is servicing the loan. This reserve was adequately funded at December 31, 2016 and 2015.

During 2015, the Center had other reserves which were required by the banks and were liquidated to pay down outstanding principal (see Note 9).

6. PLEDGES RECEIVABLE

Pledges receivable are due as follows at December 31:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|------------------|------------------|
| Due within one year | \$ 15,000 | \$ 15,000 |
| Due in two years | <u>11,440</u> | <u>26,440</u> |
| | 26,440 | 41,440 |
| Less - current portion | <u>15,000</u> | <u>15,000</u> |
| Long-term pledges receivable, net | <u>\$ 11,440</u> | <u>\$ 26,440</u> |

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7. INVESTMENTS

The following table presents the Agency's investments by level within the valuation framework (see Note 2) as of December 31:

| | 2016 | | | |
|------------------------|----------------------|-------------------|----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 443,366 | \$ - | \$ - | \$ 443,366 |
| Fixed income: | | | | |
| Long-term bond | 8,041,461 | - | - | 8,041,461 |
| Short-term bond | 6,534,073 | - | - | 6,534,073 |
| Intermediate term bond | 3,913,646 | - | - | 3,913,646 |
| Other | 1,187,821 | - | - | 1,187,821 |
| Equities: | | | | |
| Large Cap | 2,655,802 | - | - | 2,655,802 |
| Other | 2,633,671 | - | - | 2,633,671 |
| Other | - | 596,450 | - | 596,450 |
| Total | \$ 25,409,840 | \$ 596,450 | \$ - | \$ 26,006,290 |
| | | | | |
| | 2015 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 5,470,218 | \$ - | \$ - | \$ 5,470,218 |
| Certificate of deposit | 155,419 | - | - | 155,419 |
| Fixed income: | | | | |
| Long-term bond | 3,914,596 | - | - | 3,914,596 |
| Short-term bond | 4,710,883 | - | - | 4,710,883 |
| Intermediate term bond | 1,877,533 | - | - | 1,877,533 |
| Other | 553,486 | - | - | 553,486 |
| Equities: | | | | |
| Large Cap | 1,654,491 | - | - | 1,654,491 |
| Other | 2,423,348 | - | - | 2,423,348 |
| Other | - | 420,452 | - | 420,452 |
| Total | \$ 20,759,974 | \$ 420,452 | \$ - | \$ 21,180,426 |

Level 2 investments consist of managed futures. The value for these managed futures are determined using other observable inputs such as pricing models, quoted prices of securities with similar characteristics, or a pricing matrix.

The Agency believes that the reported amount of its investments is a reasonable estimate of fair value as of December 31, 2016 and 2015. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed.

Investments in bonds at December 31, 2016, mature at various dates from February 2017 to December 2049. The certificate of deposit at December 31, 2015, matured in August 2016.

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7. INVESTMENTS (Continued)

Net losses on investments consist of the following at December 31:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|-----------------------|
| Net realized loss on sale of investments | \$ (432,327) | \$ (206,924) |
| Net unrealized gains (loss) on investments | 230,305 | (888,429) |
| Investment management fees | <u>(90,583)</u> | <u>(44,649)</u> |
| | <u>\$ (292,605)</u> | <u>\$ (1,140,002)</u> |

Investments are not insured and are subject to ongoing market fluctuations.

8. ENDOWMENT

During 2014, the Board of Directors set aside \$5,000,000 to establish the Willard P. Ogburn Board - Designated endowment. Investment income from the endowment will support the Center's advocacy for a fair and just marketplace for low-income consumers. The Center is in the process of developing an endowment spending policy and strategy to satisfy its long-term rate-of-return objectives. The Center will not spend endowed funds until the policy has been formalized.

Changes in endowment net assets are as follows for the years ended December 31, 2016 and 2015:

| | <u>Board Designated</u> | | <u>Total</u> |
|---|-------------------------|------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Time Restricted</u> | |
| Endowment net assets, December 31, 2014 | <u>\$ 5,015,000</u> | <u>\$ 60,000</u> | <u>\$ 5,075,000</u> |
| Investment return: | | | |
| Investment income | 90,650 | - | 90,650 |
| Net realized loss | (42,893) | - | (42,893) |
| Net unrealized loss | (274,350) | - | (274,350) |
| Investment management fees | <u>(10,476)</u> | - | <u>(10,476)</u> |
| Total investment return | <u>(237,069)</u> | <u>-</u> | <u>(237,069)</u> |
| Designation of net assets | 250,000 | - | 250,000 |
| Contributions | 1,000 | - | 1,000 |
| Release of restriction | <u>18,560</u> | <u>(18,560)</u> | <u>-</u> |
| Endowment net assets, December 31, 2015 | <u>5,047,491</u> | <u>41,440</u> | <u>5,088,931</u> |
| Investment return: | | | |
| Investment income | 149,104 | - | 149,104 |
| Net realized loss | (38,963) | - | (38,963) |
| Net unrealized gain | 119,871 | - | 119,871 |
| Investment management fees | <u>(53,488)</u> | - | <u>(53,488)</u> |
| Total investment return | <u>176,524</u> | <u>-</u> | <u>176,524</u> |
| Designation of net assets | 500,000 | - | 500,000 |
| Release of restriction | <u>15,000</u> | <u>(15,000)</u> | <u>-</u> |
| Endowment net assets, December 31, 2016 | <u>\$ 5,739,015</u> | <u>\$ 26,440</u> | <u>\$ 5,765,455</u> |

**NATIONAL CONSUMER LAW CENTER, INC. AND
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9. NOTES PAYABLE

In 2008, CLBC entered into a \$6,400,000 note payable agreement with the NFF New Markets Fund I, LLC (the Fund) through the issuance of a tax-exempt revenue bond from Massachusetts Development Finance Agency (MDFA). During 2015 this note was transferred to Boston Private Bank and Trust Company. Interest-only payments were due at a rate of 3.84% through April 2015, at which time monthly payments of principal of approximately \$14,500 and interest became due. The interest rate of 3.84% remains in effect through January 2024, at which point the rate shall adjust to 65% of the sum of the *Federal Home Loan Bank*, plus 2%. The rate adjusts again under the same terms on January 1, 2029. On April 1, 2015, a payment of \$1,188,180 was due, which represented the anticipated balance of the debt service reserve balance at that time (see Note 5). Principal payments are subject to prepayment penalties ranging from zero to 3% of the principal repayment as described in the agreement. The loan maturity date is in March 2033, at which time any principal and interest outstanding must be paid. The balance of this note was \$4,907,325 and \$5,081,322 at December 31, 2016 and 2015, respectively.

In 2008, CLBC entered into another note payable with the Fund for \$2,332,234. Interest-only payments were due monthly. This note bore interest at 3.334% through the first eight years, at which point the interest rate was to be adjusted as defined in the agreement. Principal payments were subject to prepayment penalties ranging from zero to 3% of the principal repayment as described in the agreement. During April 2015, the Center purchased the note payable and forgave the balance due from CLBC (see page 15).

Notes payable in the accompanying statements of financial position are as follows for the year ended December 31:

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|---------------------|---------------------|
| Note payable | \$ 4,907,325 | \$ 5,081,322 |
| Less - current portion | 173,997 | 173,997 |
| Less- unamortized financing fees | <u>157,721</u> | <u>167,999</u> |
| | <u>\$ 4,575,607</u> | <u>\$ 4,739,326</u> |

Future minimum principal payments and amortization of debt issuance costs relating to notes payable for the next five years are as follows:

| <u>Year</u> | <u>Principal Payments</u> | <u>Amortization of Debt Issuance Costs</u> |
|-------------|-------------------------------|--|
| 2017 | \$ 173,997 | \$ 10,278 |
| 2018 | \$ 173,997 | \$ 10,278 |
| 2019 | \$ 173,997 | \$ 10,278 |
| 2020 | \$ 173,997 | \$ 10,278 |
| 2021 | \$ 173,997 | \$ 10,278 |

The note is guaranteed by the Center and is secured by a first mortgage on CLBC's building and an assignment of all leases and rents.

This note payable agreement contains various covenants with which the Agency must comply. The Agency was in compliance with these covenants at December 31, 2016.

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9. NOTES PAYABLE (Continued)

Total interest expense under these notes was \$192,067 and \$233,441 for the years ended December 31, 2016 and 2015, respectively.

The notes described on page 14 were issued as part of a New Markets Tax Credit (NMTC) transaction in 2008. US Bancorp Community Development Corporation (Bancorp), through its 100% ownership of NCLC Investment Fund LLC (Investment Fund), was the sole investor in the Fund.

In March 2015, at the end of the NMTC compliance period, the Center entered into a series of transactions with the Fund and the Investment Fund to essentially unwind the NMTC. As part of this transaction, the Fund exercised its put option requiring the Center to pay \$272,882 to the Fund to purchase the Fund's interest in the \$2,332,234 note described on page 14. The difference between the face value of the note receivable and the put option fees, less certain professional fees, totals \$2,029,934 and is reflected as gain on acquisition of note receivable, net in the accompanying 2015 consolidated statement of activities and changes in net assets. The Fund then used this payment to pay various fees and made a liquidation payment to the Investment Fund, including its interest in the \$6,400,000 note described on page 14. The Fund was then dissolved by the Investment Fund. Bancorp, as the 100% owner of the Investment Fund, exercised its put option to sell for \$1,000 its interest in the Investment Fund to the Center. The Investment Fund was dissolved by the Center. The Investment Fund, which was the intermediary for the \$6,400,000 note, transferred the note to Boston Private Bank & Trust Company. On April 1, 2015, CLBC made a required principal payment of \$1,188,180 on the \$6,400,000 note. In April 2015, the Center forgave the \$2,332,234 note due from CLBC. The forgiveness of debt expense and income has been eliminated in the accompanying 2015 consolidated statement of activities and changes in net assets.

During 2015, \$120,000 of financing fees were written off upon the forgiveness of the debt (see page 14). The net effect of \$88,800 is reflected as write-off of financing fees in the accompanying 2015 consolidated statement of activities and changes in net assets.

10. LEASE COMMITMENTS

In March 2008, the Center entered into a twenty-five year lease agreement with CLBC. The Center has the option to extend this lease for an additional five-year period. Rent of \$65,000 is payable monthly through December 21, 2018, at which time the rent will be adjusted to the then market rent.

The Center also leases space for its branch office under a lease agreement with monthly payments of \$8,293 and \$8,136 for the years ended December 31, 2016 and 2015, respectively. The lease expires in April 30, 2021, as extended.

The future remaining minimum rental payments of the Center under these lease agreements are as follows:

| | <u>CLBC</u> | <u>Branch Office</u> | <u>Total</u> |
|------|-------------|----------------------|--------------|
| 2017 | \$ 780,000 | \$ 102,247 | \$ 882,247 |
| 2018 | \$ 780,000 | \$ 105,058 | \$ 885,058 |
| 2019 | \$ 780,000 | \$ 107,947 | \$ 887,947 |
| 2020 | \$ 780,000 | \$ 110,916 | \$ 890,916 |
| 2021 | \$ 780,000 | \$ 37,989 | \$ 817,989 |

The Center's rent expense was approximately \$855,000 and \$878,000 in 2016 and 2015, respectively. Rent expense and rental income as it relates to the building has been eliminated in the accompanying consolidated financial statements.

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10. LEASE COMMITMENTS (Continued)

Sublease

A portion of the Center's space is being sublet under a ten-year agreement which expires in September 2018. Under limited circumstances, the sub-tenant has the option to terminate the lease after five years, which was not exercised during fiscal year 2016. The base annual sublease income is \$266,663. Rental income for the years ended December 31, 2016 and 2015, was \$266,663 and is included in rental income in the accompany consolidated statements of activities and changes in net assets. In addition during 2016, the Center billed this tenant \$316,632 for its share of capital costs, which were incurred by CLBC, in accordance with the agreement.

The future rent for the remainder of the sublease term under this lease agreement is as follows:

| | |
|------|------------|
| 2017 | \$ 266,663 |
| 2018 | \$ 177,775 |

11. EXPENSE ALLOCATION

The Agency's costs of providing various program and other activities are summarized on a functional basis as follows for the years ended December 31:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Program expenses | \$ 6,724,342 | \$ 6,905,197 |
| Management, administrative and general costs | 697,275 | 725,557 |
| Development | <u>418,370</u> | <u>470,007</u> |
| | <u>\$ 7,839,987</u> | <u>\$ 8,100,761</u> |

The Agency's management, administrative and general costs include overall direction, accounting, budgeting, general Board activities, and related items. Development activities include a portion of expenses for grant writing, grant solicitations, and responding to requests for proposals, as well as donor solicitations.

12. LINE OF CREDIT AGREEMENT

The Center has a \$500,000 line of credit agreement with a bank. Outstanding borrowings under this agreement bear interest at 3.75% and 3.5% at December 31, 2016 and 2015, respectively. Borrowings are secured by all of the Center's assets. This line of credit agreement contains various covenants with which the Center must comply. The Center was in compliance with these covenants at December 31, 2016 and 2015. As of December 31, 2016 and 2015, there were no borrowings on the available line of credit. This agreement expires on June 30, 2017 and is renewable annually.

13. RETIREMENT PLANS

The Center sponsors a defined contribution retirement plan under IRC Section 403(b). All employees who have completed one year of service are eligible to participate in the plan. The Center's Board of Directors, at its discretion, may elect to contribute to the plan annually. The plan does not allow for participant contributions. Employer contributions vest immediately and are allocated to participant's accounts, as defined in the plan.

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13. RETIREMENT PLANS (Continued)

During the years ended December 31, 2016 and 2015, the Center, with the Board of Directors' approval, contributed \$161,482 and \$161,182, respectively, to the plan, which is included in payroll taxes and fringe benefits in the accompanying consolidated statements of activities and changes in net assets. As of December 31, 2016, the Board of Directors voted to set aside net assets of \$157,816 to fund the anticipated contribution to the plan for 2016 (see Note 2).

The Center maintains an additional tax deferred annuity plan established under IRC Section 403(b). Under this plan, participants may elect to have amounts withheld from their pay on a "pre-tax" basis, up to the limits allowed by the IRC. Employees may elect to participate in this plan upon employment at the Center. The Center does not contribute to this plan.

14. GOVERNMENT FUNDING

The Center receives a portion of its funding under contracts from a government agency. This funding aggregated approximately \$46,000 and \$186,000 in 2016 and 2015, respectively. In the opinion of management, these contracts have been expended in accordance with the respective terms contained in the contract agreements. These contracts are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Center as of December 31, 2016 and 2015, or on the changes in its net assets for the years then ended.

15. CREDIT RISK

The Agency maintains its cash and cash equivalents in various financial institutions insured within limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, balances exceeded the insured amounts. The Agency has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on its cash and cash equivalents. The Agency performs periodic evaluations of the relative credit standings and limits the amount of credit exposure with these financial institutions. Included in cash and cash equivalents is \$952,295 and \$1,821,723, respectively, which are cash accounts held with an investment company which are not insured as of December 31, 2016 and 2015.

16. RECLASSIFICATIONS

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform with the 2016 presentation.