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

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

AAFCPAs
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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, 2017 and 2016, 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, 2017 and 2016, 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.

Alexander, Aronson, Finning & Co., P.C.

Westborough, Massachusetts
April 11, 2018

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

Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017			2016		
Assets	**Unrestricted**	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Total**
Current Assets:						
Cash and cash equivalents	$ 490,445	$ 1,886,752	$ 2,377,197	$ 323,461	$ 1,261,693	$ 1,585,154
Short-term investments	15,629,876	-	15,629,876	13,159,525	-	13,159,525
Accounts receivable net of $25,000 allowance for doubtful accounts at December 31, 2016	319,361	-	319,361	486,123	-	486,123
Current portion of grants and pledges receivable	-	396,265	396,265	-	324,645	324,645
Prepaid expenses and deposits	103,165	-	103,165	82,164	-	82,164
Total current assets	16,542,847	2,283,017	18,825,864	14,051,273	1,586,338	15,637,611
Investments	13,730,278	-	13,730,278	12,846,765	-	12,846,765
Restricted cash	332,996	-	332,996	331,768	-	331,768
Grants and pledges receivable, net of current portion and discount of $231,385 at December 31, 2017	-	1,425,515	1,425,515	-	218,340	218,340
Property, plant and equipment, net	9,094,698	-	9,094,698	9,449,906	-	9,449,906
Total assets	$ 39,700,819	$ 3,708,532	$ 43,409,351	$ 36,679,712	$ 1,804,678	$ 38,484,390
Liabilities and Net Assets						
Current Liabilities:						
Current portion of note payable	$ 173,997	$ -	$ 173,997	$ 173,997	$ -	$ 173,997
Accounts payable	314,019	-	314,019	437,609	-	437,609
Accrued expenses	345,695	-	345,695	326,104	-	326,104
Deferred revenue	767,316	-	767,316	691,486	-	691,486
Total current liabilities	1,601,027	-	1,601,027	1,629,196	-	1,629,196
Note Payable and unamortized debt issuance costs, net of current portion	4,411,888	-	4,411,888	4,575,607	-	4,575,607
Total liabilities	6,012,915	-	6,012,915	6,204,803	-	6,204,803
Net Assets:						
Operating Fund	3,140,452	-	3,140,452	1,502,605	-	1,502,605
Program reserves	12,326,437	-	12,326,437	11,163,380	-	11,163,380
Building fund	5,411,053	-	5,411,053	5,056,276	-	5,056,276
Stability fund	-	-	-	1,413,831	-	1,413,831
Willard P. Ogburn Board-Designated Endowment	7,612,433	1,180,055	8,792,488	5,739,015	26,440	5,765,455
Property, plant and equipment	4,508,813	-	4,508,813	4,700,302	-	4,700,302
Program designated	688,716	2,528,477	3,217,193	899,500	1,778,238	2,677,738
Total net assets	33,687,904	3,708,532	37,396,436	30,474,909	1,804,678	32,279,587
Total liabilities and net assets	$ 39,700,819	$ 3,708,532	$ 43,409,351	$ 36,679,712	$ 1,804,678	$ 38,484,390

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, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Grants, contracts and contributions	$ 2,698,590	$ 3,761,200	$ 6,459,790	$ 5,424,292	$ 2,521,118	$ 7,945,410
Publications and program revenue	4,583,860	-	4,583,860	3,488,912	-	3,488,912
Interest and dividends	424,609	-	424,609	473,430	-	473,430
Rental income	266,663	-	266,663	583,295	-	583,295
Net assets released from purpose restrictions	1,857,346	(1,857,346)	-	2,183,776	(2,183,776)	-
Total support and revenue	9,831,068	1,903,854	11,734,922	12,153,705	337,342	12,491,047
Expenses:						
Personnel and related costs:						
Advocates	2,549,552	-	2,549,552	2,542,472	-	2,542,472
Support staff	1,640,609	-	1,640,609	1,468,670	-	1,468,670
Payroll taxes and fringe benefits	1,201,727	-	1,201,727	1,113,529	-	1,113,529
Consultants - advocates	420,035	-	420,035	477,885	-	477,885
Total personnel and related costs	5,811,923	-	5,811,923	5,602,556	-	5,602,556
Publications and other direct expenses	1,112,021	-	1,112,021	1,085,075	-	1,085,075
Depreciation	415,727	-	415,727	354,824	-	354,824
Consultants	267,702	-	267,702	127,352	-	127,352
Interest	195,668	-	195,668	202,345	-	202,345
Occupancy	182,801	-	182,801	149,510	-	149,510
Contract services	127,330	-	127,330	149,647	-	149,647
Travel	121,720	-	121,720	118,428	-	118,428
Consumable supplies	47,725	-	47,725	50,250	-	50,250
Total expenses	8,282,617	-	8,282,617	7,839,987	-	7,839,987
Changes in net assets from operations	1,548,451	1,903,854	3,452,305	4,313,718	337,342	4,651,060
Non-Operating Revenue (Losses):						
Net gains (losses) on investments	928,170	-	928,170	(292,605)	-	(292,605)
Interest and dividends - long-term designated net assets	736,374	-	736,374	473,325	-	473,325
Net assets released from capital restrictions	-	-	-	619,678	(619,678)	-
Total non-operating revenue (losses)	1,664,544	-	1,664,544	800,398	(619,678)	180,720
Changes in net assets	3,212,995	1,903,854	5,116,849	5,114,116	(282,336)	4,831,780
Net Assets:						
Beginning of year	30,474,909	1,804,678	32,279,587	25,360,793	2,087,014	27,447,807
End of year	$ 33,687,904	$ 3,708,532	$ 37,396,436	$ 30,474,909	$ 1,804,678	$ 32,279,587

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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Changes in net assets	$ 5,116,849	$ 4,831,780
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	415,727	354,824
Amortization of debt issuance costs charged as interest expense	10,278	10,278
Bad debts	13,180	-
Donated stock	-	15,225
Interest and dividends - long-term designated net assets	(736,374)	(473,325)
Net (gains) losses on investments	(928,170)	292,605
Discount on grants and pledges receivable	231,385	-
Changes in operating assets and liabilities:		
Accounts receivable	153,582	(228,805)
Grants and pledges receivable	(1,510,180)	(146,545)
Prepaid expenses and deposits	(21,001)	(2,191)
Accounts payable	(28,074)	(1,668)
Accrued expenses	19,591	(62,061)
Deferred revenue	75,830	8,326
Net cash provided by operating activities	2,812,623	4,598,443
Cash Flows from Investing Activities:		
Acquisition of property, plant and equipment	(156,035)	(1,141,340)
Interest and dividends - long-term designated net assets	736,374	473,325
Purchase of investments	(9,841,208)	(11,898,834)
Proceeds from sale of investments	7,415,514	6,765,140
Deposits to restricted cash	(1,228)	(1,314)
Net cash used in investing activities	(1,846,583)	(5,803,023)
Cash Flows from Financing Activities:		
Principal payments on notes payable	(173,997)	(173,997)
Net Change in Cash and Cash Equivalents	792,043	(1,378,577)
Cash and Cash Equivalents:		
Beginning of year	1,585,154	2,963,731
End of year	$ 2,377,197	$ 1,585,154
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 185,390	$ 192,067
Non-cash transactions:		
Cost basis of disposed property, plant and equipment	$ -	$ 86,416
Property, plant and equipment financed through accounts payable	$ -	$ 95,516

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

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).

Unamortized Debt Issuance Costs

Unamortized debt issuance costs have been netted with notes payable (see Note 9) 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 fund** represents amounts set aside by management to fund the highest priority work in the upcoming fiscal year.
>
> **Program reserves** are unrestricted amounts designated by management to be used for the growth of programmatic activities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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 had no donor-designated funds restricted for the building fund at December 31, 2017 and 2016. Investment income on this fund is retained in the fund.

Willard P. Ogburn Board-Designated Endowment represents funds set aside by the Board of Directors with a long-term time horizon. These funds may be used to stabilize the operations in remote and unusual circumstances (see Note 8). These amounts may only be used with the approval of the Board of Directors.

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

Program designated include funds awarded by foundations, courts, and donors, to the Center, which the Center set aside for specific special programs and projects, often of multi-year duration.

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. The Stability fund was moved to the Board-Designated Endowment as of December 31, 2017.

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, excluding the Willard P. Ogburn Board-Designated Endowment.

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:

	2017	2016
Program restricted	$ 1,598,590	$ 1,417,836
Board-designated endowment - time restricted	1,180,055	26,440
Special projects supported by court awards	929,887	360,402
Total	$ 3,708,532	$ 1,804,678

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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.

The Center offers 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 2017 and 2016, the Center expended $244,485 and $413,343, respectively, of funds provided by Massachusetts Legal Assistance Corporation (MLAC) for various Center programs.

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, 2017 and 2016, there were no unrestricted net assets applicable to MLAC funding.

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 losses includes capital grants for long-lived assets and investment activity (see Note 7).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2017 and 2016, is included in Note 7.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

Property, Plant and Equipment and Depreciation

Property, plant and equipment (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 2017 and 2016 was $415,727 and $354,824, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include checking and money market accounts with an initial maturity of three months or less, excluding cash equivalents included in the investment portfolio.

In-Kind Services

The Agency is the recipient of in-kind legal services. These services have been valued at $137,968 and $22,887, for the years ended December 31, 2017 and 2016, respectively, as determined by the Agency and are included in grants, contracts and contributions and consultants 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 11, 2018, which is the date the consolidated financial statements were available to be issued. There were no events, except as disclosed in Note 10, that met the criteria for recognition or disclosure in the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016.

3. RELATED PARTY TRANSACTIONS

The Center leases its building from CLBC. Rent expense for the Center under this agreement totaled $780,000 during 2017 and 2016 (see Note 10). From time-to-time, certain transactions are paid or collected on behalf of one another. At December 31, 2017 and 2016, the Center owes CBLC $21,362 and $24,547, respectively, related to repair expenses of the building. At December 31, 2017 and 2016, the Center owed $195,000 for rent to CLBC. At December 31, 2017 and 2016, CBLC owed the Center $40,397 and $34,463, respectively, for operating expenses paid on their behalf. These amounts have been eliminated in the accompanying consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31:

	2017	2016
Building and improvements	$ 11,099,484	$ 11,048,854
Equipment	237,201	227,312
Electronic subscription platform	456,450	456,450
Leasehold improvements	215,285	215,285
	12,008,420	11,947,901
Less - accumulated depreciation	2,913,722	2,497,995
	$ 9,094,698	$ 9,449,906

5. RESTRICTED CASH

In accordance with CLBC's note payable agreement 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, 2017 and 2016.

6. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable at December 31, 2017 are recorded at their net present value using a 3% discount rate against the long-term portion of the grants and pledges.

6. GRANTS AND PLEDGES RECEIVABLE (Continued)

Grants and pledges receivable are due as follows at December 31:

	2017	2016
Due within one year	$ 396,265	$ 324,645
Due within two years	456,900	218,340
Due within three years	100,000	-
Due within four years	100,000	-
Due within five years	100,000	-
Due thereafter through 2031	900,000	-
	2,053,165	542,985
Less - discount	231,385	-
Less - current portion	396,265	324,645
Long-term grants and pledges receivable, net	$ 1,425,515	$ 218,340

7. INVESTMENTS

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

	2017			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 1,399,827	$ -	$ -	$ 1,399,827
Fixed income:				
Long-term bond	12,255,968	-	-	12,255,968
Short-term bond	4,776,375	-	-	4,776,375
Intermediate-term bond	4,268,530	-	-	4,268,530
Other	1,257,517	-	-	1,257,517
Equities:				
Large cap	2,346,968	-	-	2,346,968
Other	2,624,838	-	-	2,624,838
Other	-	430,131	-	430,131
Total	$ 28,930,023	$ 430,131	$ -	$ 29,360,154

7. INVESTMENTS (Continued)

	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

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, 2017 and 2016. 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, 2017, mature at various dates from September 2022 to October 2076.

Investments are not insured and are subject to ongoing market fluctuations. Investments are presented as either current or long-term in the accompanying consolidated statements of financial position based on management's intent or donor restrictions.

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

	2017	**2016**
Net realized loss on sale of investments	$ (159,058)	$ (432,327)
Net unrealized gains on investments	1,195,337	230,305
Investment management fees	(108,109)	(90,583)
	$ 928,170	$ (292,605)

8. ENDOWMENT

During 2014, the Board of Directors set aside $5,000,000 to establish the Willard P. Ogburn Board - Designated endowment. 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, 2017 and 2016:

	Board Designated Unrestricted	Board Designated Time Restricted	Total
Endowment net assets, December 31, 2015	$ 5,047,491	$ 41,440	$ 5,088,931
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	(53,488)	-	(53,488)
Total investment return	176,524	-	176,524
Designation of net assets	500,000	-	500,000
Release of restriction	15,000	(15,000)	-
Endowment net assets, December 31, 2016	5,739,015	26,440	5,765,455
Investment return:			
Investment income	191,621	-	191,621
Net realized loss	(17,129)	-	(17,129)
Net unrealized gain	329,781	-	329,781
Investment management fees	(59,686)	-	(59,686)
Total investment return	444,587	-	444,587
Designation of net assets	1,413,831	-	1,413,831
Contributions, net of discount	-	1,168,615	1,168,615
Release of restriction	15,000	(15,000)	-
Endowment net assets, December 31, 2017	$ 7,612,433	$ 1,180,055	$ 8,792,488

9. NOTE PAYABLE

CLBC has a $6,400,000 note payable with Boston Private Bank and Trust Company through the issuance of a tax-exempt revenue bond from Massachusetts Development Finance Agency (MDFA). 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. 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 $4,733,328 and $4,907,325 at December 31, 2017 and 2016, respectively.

9. NOTE PAYABLE (Continued)

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

	2017	2016
Note payable	$ 4,733,328	$ 4,907,325
Less - current portion	173,997	173,997
Less- unamortized financing fees	147,443	157,721
	$ 4,411,888	$ 4,575,607

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

Year	Principal Payments	Amortization of Debt Issuance Costs
2018	$ 173,997	$ 10,278
2019	$ 173,997	$ 10,278
2020	$ 173,997	$ 10,278
2022	$ 173,997	$ 10,278
2022	$ 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, 2017.

Total interest expense under these notes was $185,390 and $192,067 for the years ended December 31, 2017 and 2016, respectively.

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 $8,752 and $8,343 for the years ended December 31, 2017 and 2016, respectively. The lease expires in April 30, 2021, as extended.

10. LEASE COMMITMENTS (Continued)

The future remaining minimum rental payments of the Center under these lease agreements, excluding any market value adjustment under the CLBS lease, are as follows:

	CLBC	Branch Office	Total
2018	$ 780,000	$ 105,697	$ 885,697
2019	$ 780,000	$ 108,603	$ 888,603
2020	$ 780,000	$ 111,590	$ 891,590
2021	$ 780,000	$ 38,219	$ 818,219
2022	$ 780,000	$ -	$ 780,000

The Center's rent expense was approximately $890,000 and $855,000 in 2017 and 2016, respectively. Rent expense and rental income as it relates to the building has been eliminated in the accompanying consolidated financial statements.

Sublease

A portion of the Center's space is being sublet under a ten-year agreement which expires in September 2018. Subsequent to year end, the subtenant has given notice that the sublease will not be renewed. The base annual sublease income is $266,663. Rental income for the years ended December 31, 2017 and 2016, 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. No additional costs were billed by the Center in 2017.

Subsequent to year end, the Center entered into a sublease agreement for a portion of the space identified above, which expires in August 2023.

The future rent for the remainder of the sublease term and the new sublease term under these lease agreements is as follows:

2018	$ 241,432
2019	$ 192,900
2020	$ 198,687
2021	$ 204,474
2022	$ 210,260
Thereafter	$ 142,744

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:

	2017	2016
Program expenses	$ 6,922,487	$ 6,724,342
Management, administrative and general costs	829,400	697,275
Development	530,730	418,370
	$ 8,282,617	$ 7,839,987

11. EXPENSE ALLOCATION (Continued)

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 4.50% and 3.75% at December 31, 2017 and 2016, 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, 2017 and 2016. As of December 31, 2017 and 2016, there were no borrowings on the available line of credit. This agreement expires on June 30, 2018 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.

During the years ended December 31, 2017 and 2016, the Center, with the Board of Directors' approval, contributed $157,816 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.

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 occasionally receives a portion of its funding under contracts either directly from a government agency or from subcontractors. This funding aggregated approximately $90,000 and $46,000, respectively, in 2017 and 2016. 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, 2017 and 2016, 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 $1,042,967 and $952,295, respectively, which are cash accounts held with an investment company which are not insured as of December 31, 2017 and 2016.

16. CONTINGENCY LIABILITY

During 2017, the Center received a $1,500,000 multi-year pledge from a donor. The agreement stated that in the extremely unlikely event the Center ceases to maintain an office in the Washington DC area, within fifty years of the agreement, the donor may be entitled a 50% refund of the initial value of the gift. Management is committed to maintaining an office in the capital region, and therefore the pledge has been recorded as a receivable at December 31, 2017.

17. RECLASSIFICATIONS

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform with the 2017 presentation.