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

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Contents
December 31, 2019 and 2018

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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, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, 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 on page one 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, 2019 and 2018, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
April 16, 2020

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

Consolidated Statements of Financial Position
December 31, 2019 and 2018

	2019			2018		
Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Current Assets:						
Cash and cash equivalents	$ 1,969,555	$ 2,617,158	$ 4,586,713	$ 327,236	$ 1,819,935	$ 2,147,171
Short-term investments	20,462,355	-	20,462,355	18,971,024	-	18,971,024
Accounts receivable	324,053	-	324,053	259,594	-	259,594
Current portion of grants and pledges receivable	-	675,749	675,749	-	836,278	836,278
Prepaid expenses and deposits	146,909	-	146,909	157,779	-	157,779
Total current assets	22,902,872	3,292,907	26,195,779	19,715,633	2,656,213	22,371,846
Investments	14,975,292	-	14,975,292	13,341,464	-	13,341,464
Restricted Cash	340,381	-	340,381	334,807	-	334,807
Grants and Pledges Receivable, net of current portion	-	931,129	931,129	-	1,329,872	1,329,872
Property, Plant and Equipment, net	8,372,517	-	8,372,517	8,725,154	-	8,725,154
Total assets	$ 46,591,062	$ 4,224,036	$ 50,815,098	$ 42,117,058	$ 3,986,085	$ 46,103,143
Liabilities and Net Assets						
Current Liabilities:						
Current portion of note payable	$ 173,997	$ -	$ 173,997	$ 173,997	$ -	$ 173,997
Accounts payable	806,253	-	806,253	396,215	-	396,215
Accrued expenses	412,945	-	412,945	357,929	-	357,929
Deferred revenue	907,059	-	907,059	797,925	-	797,925
Total current liabilities	2,300,254	-	2,300,254	1,726,066	-	1,726,066
Note Payable and Unamortized Debt Issuance Costs, net of current portion	4,084,452	-	4,084,452	4,248,171	-	4,248,171
Total liabilities	6,384,706	-	6,384,706	5,974,237	-	5,974,237
Net Assets:						
Operating fund	4,792,206	-	4,792,206	3,240,020	-	3,240,020
Program reserves	14,289,884	-	14,289,884	14,574,458	-	14,574,458
Building fund	6,090,651	-	6,090,651	5,768,710	-	5,768,710
Willard P. Ogburn Board-Designated Endowment	8,884,641	1,031,129	9,915,770	7,572,754	1,099,872	8,672,626
Property, plant and equipment	4,114,068	-	4,114,068	4,302,986	-	4,302,986
Campaign for the Future	1,381,378	802,929	2,184,307	1,216	383,529	384,745
Program designated	653,528	2,389,978	3,043,506	682,677	2,502,684	3,185,361
Total net assets	40,206,356	4,224,036	44,430,392	36,142,821	3,986,085	40,128,906
Total liabilities and net assets	$ 46,591,062	$ 4,224,036	$ 50,815,098	$ 42,117,058	$ 3,986,085	$ 46,103,143

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, 2019 and 2018

	2019			2018		
	Without Donor Restictions	With Donor Restrictions	Total	Without Donor Restictions	With Donor Restrictions	Total
Support and Revenue:						
Grants, contracts and contributions	$ 3,244,302	$ 2,507,823	$ 5,752,125	$ 6,033,984	$ 2,752,185	$ 8,786,169
Publications and program revenue	4,067,333	-	4,067,333	3,022,527	-	3,022,527
Interest and dividends	1,090,015	-	1,090,015	1,093,554	-	1,093,554
Rental income	192,900	-	192,900	241,432	-	241,432
Net assets released from restrictions	2,269,872	(2,269,872)	-	2,474,632	(2,474,632)	-
Total support and revenue	10,864,422	237,951	11,102,373	12,866,129	277,553	13,143,682
Expenses:						
Program services	7,784,866	-	7,784,866	7,234,990	-	7,234,990
General and administrative	1,279,935	-	1,279,935	1,021,716	-	1,021,716
Fundraising	773,197	-	773,197	586,204	-	586,204
Total expenses	9,837,998	-	9,837,998	8,842,910	-	8,842,910
Changes in net assets from operations	1,026,424	237,951	1,264,375	4,023,219	277,553	4,300,772
Non-Operating Revenue (Losses):						
Net gains (losses) on investments	2,471,098	-	2,471,098	(2,026,150)	-	(2,026,150)
Interest and dividends - Building fund	286,897	-	286,897	311,814	-	311,814
Interest and dividends - Designated endowment, net	279,116	-	279,116	146,034	-	146,034
Total non-operating revenue (losses)	3,037,111	-	3,037,111	(1,568,302)	-	(1,568,302)
Changes in net assets	4,063,535	237,951	4,301,486	2,454,917	277,553	2,732,470
Net Assets:						
Beginning of year	36,142,821	3,986,085	40,128,906	33,687,904	3,708,532	37,396,436
End of year	$ 40,206,356	$ 4,224,036	$ 44,430,392	$ 36,142,821	$ 3,986,085	$ 40,128,906

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

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018 (As Adjusted)
Cash Flows from Operating Activities:		
Changes in net assets	$ 4,301,486	$ 2,732,470
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	431,206	420,417
Amortization of debt issuance costs charged as interest expense	10,276	10,280
Bad debts	11,542	1,060
Interest and dividends - long-term designated net assets	(566,013)	(457,848)
Net (gains) losses on investments	(2,471,098)	2,026,150
Change in discount on grants and pledges receivable	(31,257)	(31,257)
Changes in operating assets and liabilities:		
Accounts receivable	(76,001)	80,069
Grants and pledges receivable	590,529	(313,113)
Prepaid expenses and deposits	10,870	(54,614)
Accounts payable	410,038	60,834
Accrued expenses	55,016	12,234
Deferred revenue	109,134	30,609
Net cash provided by operating activities	2,785,728	4,517,291
Cash Flows from Investing Activities:		
Acquisition of property, plant and equipment	(78,569)	(50,873)
Interest and dividends - long-term designated net assets	566,013	457,848
Purchase of investments	(14,252,437)	(28,993,574)
Proceeds from sale of investments	13,598,376	24,015,090
Net cash used in investing activities	(166,617)	(4,571,509)
Cash Flows from Financing Activities:		
Principal payments on note payable	(173,995)	(173,997)
Net Change in Cash and Cash Equivalents and Restricted Cash	2,445,116	(228,215)
Cash and Cash Equivalents and Restricted Cash:		
Beginning of year	2,481,978	2,710,193
End of year	$ 4,927,094	$ 2,481,978
Reconciliation of Cash and Cash Equivalents and Restricted Cash Within the Consolidated Statements of Financial Position:		
Cash and cash equivalents	$ 4,586,713	$ 2,147,171
Restricted cash	340,381	334,807
Total cash and cash equivalents and restricted cash	$ 4,927,094	$ 2,481,978
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 172,016	$ 178,697

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

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

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Summarized Comparative Totals for the Year Ended December 31, 2018)

	2019								2018
	Program Services					Supporting Services			
	Advocacy	Publishing	Expert Work	Conferences and Trainings	Total Program Services	General and Adminis-trative	Fundraising	Total	Total
Personnel and Related Costs:									
Advocates	$ 2,544,898	$ 456,728	$ 147,115	$ 140,085	$ 3,288,826	$ 163,608	$ 19,530	$ 3,471,964	$ 3,147,809
Support staff	146,136	573,089	10,020	16,024	745,269	426,260	460,368	1,631,897	1,562,853
Payroll taxes and fringe benefits	780,063	298,518	45,549	45,252	1,169,382	170,988	139,110	1,479,480	1,342,823
Consultants - advocates	212,155	58,292	13,162	17,960	301,569	13,078	14,082	328,729	266,049
Total personnel and related costs	3,683,252	1,386,627	215,846	219,321	5,505,046	773,934	633,090	6,912,070	6,319,534
Other:									
Publications and other direct expenses	326,476	380,562	20,596	531,842	1,259,477	72,625	30,521	1,362,623	1,126,720
Depreciation	263,480	80,377	11,606	39,656	395,119	20,299	15,788	431,206	420,417
Consultants	39,475	86,301	-	3,160	128,936	161,420	15,078	305,434	158,256
Occupancy	154,083	10,737	3,056	915	168,792	10,296	5,704	184,792	181,597
Interest	118,491	36,459	5,469	21,875	182,294	-	-	182,294	188,977
Contract services	6,906	2,046	256	256	9,464	155,349	1,790	166,603	140,561
Travel	64,173	1,286	1,867	19,850	87,176	52,963	12,027	152,166	207,154
Consumable supplies	29,448	5,678	944	12,492	48,562	33,049	59,199	140,810	99,694
Total other	1,002,533	603,446	43,794	630,047	2,279,820	506,001	140,107	2,925,928	2,523,376
Total expenses	$ 4,685,785	$ 1,990,073	$ 259,640	$ 849,368	$ 7,784,866	$ 1,279,935	$ 773,197	$ 9,837,998	$ 8,842,910

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

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

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services					Supporting Services		
	Advocacy	Publishing	Expert Work	Conferences and Trainings	Total Program Services	General and Adminis-trative	Fundraising	Total
Personnel and Related Costs:								
Advocates	$ 2,230,960	$ 441,363	$ 181,761	$ 120,010	$ 2,974,094	$ 149,815	$ 23,900	$ 3,147,809
Support staff	128,114	581,179	12,624	76,500	798,417	408,601	355,835	1,562,853
Payroll taxes and fringe benefits	697,002	290,103	55,627	55,183	1,097,915	150,038	94,870	1,342,823
Consultants - advocates	204,437	42,545	10,186	2,356	259,524	-	6,525	266,049
Total personnel and related costs	3,260,513	1,355,190	260,198	254,049	5,129,950	708,454	481,130	6,319,534
Other:								
Publications and other direct expenses	254,620	344,664	18,809	424,637	1,042,730	49,594	34,396	1,126,720
Depreciation	205,684	161,119	13,737	31,576	412,116	4,843	3,458	420,417
Consultants	33,713	-	45,684	4,740	84,137	65,374	8,745	158,256
Occupancy	152,194	10,597	3,016	903	166,710	10,161	4,726	181,597
Interest	115,276	47,244	7,559	18,898	188,977	-	-	188,977
Contract services	5,750	2,300	460	230	8,740	130,671	1,150	140,561
Travel	109,144	-	6,934	30,054	146,132	46,661	14,361	207,154
Consumable supplies	25,526	9,669	1,887	18,416	55,498	5,958	38,238	99,694
Total other	901,907	575,593	98,087	529,454	2,105,040	313,262	105,074	2,523,376
Total expenses	$ 4,162,420	$ 1,930,783	$ 358,285	$ 783,503	$ 7,234,990	$ 1,021,716	$ 586,204	$ 8,842,910

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).

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the Agency's contracts with customers. This standard was effective for the calendar year ended December 31, 2019.

The adoption of ASU 2014-09 did not have a significant impact on the Agency's consolidated financial position, results of operations, or cash flows. The Agency's publications and program revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Agency's evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption. This ASU has been applied retrospectively for all periods presented.

In 2019, the Agency adopted FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. Based on the Agency's evaluation of its grants and contributions, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (Continued)

In 2019, the Agency adopted FASB's ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* This ASU amends the presentation of restricted cash within the consolidated statement of cash flows. The new guidance requires that restricted cash and cash equivalents be added to cash and cash equivalents for purposes of the consolidated statement of cash flows. This ASU has been applied retrospectively to all periods presented.

The adoption of ASU 2016-18 resulted in the following changes to the Agency's cash flow classification for the year ended December 31, 2018:

Consolidated Statement of Cash Flows	2018 As Previously Reported	Effect of Adoption	2018 As Adjusted
Operating activities	$ 4,517,291	$ -	$ 4,517,291
Investing activities	(4,573,320)	1,811	(4,571,509)
Financing activities	(173,997)	-	(173,997)
Net change in cash and restricted cash	$ (230,026)	$ 1,811	$ (228,215)

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 the note 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

Net assets without donor restrictions represent amounts which bear no external restrictions. The Board of Directors and management have segregated portions of the net assets without donor restrictions 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 amounts without donor restrictions designated by management to be used for the growth of programmatic activities.

Building fund represents funds without donor restrictions 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). 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. Investment income on this fund is retained in the fund.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net assets without donor restrictions (Continued)

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

Campaign for the Future is a reserve established to segregate funds raised in conjunction with the Campaign. The Campaign has a budget and spending will be submitted by management for Board approval on an annual basis.

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.

Interest on these net assets is recorded as support and revenue without donor restrictions and is available for operations without a separate vote of the Board of Directors, excluding the Willard P. Ogburn Board-Designated Endowment and Building Fund.

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

	2019	2018
Program designated	$ 1,997,240	$ 1,847,574
Board-designated endowment - time restricted	1,031,129	1,099,872
Campaign for the Future restricted	802,929	383,529
Cy Pres	392,738	655,110
Total	$ 4,224,036	$ 3,986,085

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31:

	2019	2018
Program restricted releases	$ 1,915,874	$ 2,394,449
Time restricted releases	353,998	80,183
Total	$ 2,269,872	$ 2,474,632

Revenue Recognition

In accordance with Topic 958, the Agency must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of the assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Topic 958 prescribes that the Agency should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

The Agency reports gifts of cash and other assets as donor 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Support without donor restrictions 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 exchange transactions and are recorded when services are performed in accordance with the relevant agreements. 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 amounts to be received, if any, cannot be determined and are therefore not reflected in the accompanying consolidated financial statements until received.

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. All other revenue is recorded when earned.

Revenue from exchange transactions is recorded when services are performed in accordance with the relevant agreements. Revenue generated from financial instruments, such as interest income, is not considered exchange transactions.

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 2019 and 2018, the Center expended $195,099 and $261,792, 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, 2019 and 2018, there were no net assets without donor restrictions 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. There was no allowance for doubtful accounts considered necessary for the years ended December 31, 2019 and 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The consolidated financial statements contain certain categories of expenses that are attributable to program and supporting functions and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include advocates and support staff, fringe benefits, payroll taxes, occupancy, and depreciation, which are allocated based on a tracking of time spent, head count and level of effort spent on the Agency's program and supporting functions.

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 consists of 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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, 2019 and 2018, is included in Note 7.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities, including note 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 assets as follows:

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

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 $39,474 and $21,220 for the years ended December 31, 2019 and 2018, respectively, as determined by the Agency and are included in grants, contracts and contributions in the accompanying consolidated statements of activities and changes in net assets and consultants expense in the accompanying consolidated statements of functional expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 16, 2020, which is the date the consolidated financial statements were available to be issued. See Note 17 for a subsequent event that meets 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, 2019 and 2018.

3. RELATED PARTY TRANSACTIONS

The Center leases its building from CLBC. Rent expense for the Center under this agreement totaled approximately $780,000 during 2019 and 2018 (see Note 10). From time-to-time, certain transactions are paid or collected on behalf of one another. At December 31, 2019 and 2018, the Center owed $195,000 for rent to CLBC. At December 31, 2019 and 2018, CLBC owed the Center $33,647 and $53,077, respectively, for operating expenses paid on their behalf. At December 31, 2018, the Center owed CLBC $21,362 related to repair expenses of the building. 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:

	2019	2018
Building and improvements	$ 11,165,504	$ 11,117,905
Equipment	284,342	269,653
Electronic subscription platform	456,450	456,450
Leasehold improvements	220,765	215,285
	12,127,061	12,059,293
Less - accumulated depreciation	3,754,544	3,334,139
	$ 8,372,517	$ 8,725,154

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, 2019 and 2018.

6. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable at December 31, 2019 and 2018, are recorded at their net present value using a 3% discount rate against the long-term portion of the grants and pledges.

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

	2019	2018
Due within one year	$ 675,749	$ 836,278
Due within two years	100,000	430,000
Due within three years	100,000	100,000
Due within four years	100,000	100,000
Due within five years	100,000	100,000
Due thereafter through 2031	700,000	800,000
	1,775,749	2,366,278
Less - discount	168,871	200,128
Less - current portion	675,749	836,278
Grants and pledges receivable, net	$ 931,129	$ 1,329,872

A total of 83% and 78% of grants and pledges receivable were due from two donors at December 31, 2019 and 2018, respectively.

7. INVESTMENTS

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

	2019			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 608,151	$ -	$ -	$ 608,151
Fixed income:				
Intermediate-term bond	14,255,961	-	-	14,255,961
Short-term bond	9,642,883	-	-	9,642,883
Other	2,164,392	-	-	2,164,392
Long-term bond	327,083	-	-	327,083
Equities:				
Large cap	3,562,565	-	-	3,562,565
Other	3,874,794	-	-	3,874,794
Managed futures	-	1,001,818	-	1,001,818
Total	$ 34,435,829	$ 1,001,818	$ -	$ 35,437,647

7. INVESTMENTS (Continued)

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 235,178	$ -	$ -	$ 235,178
Fixed income:				
Intermediate-term bond	13,811,780	-	-	13,811,780
Short-term bond	9,332,666	-	-	9,332,666
Other	849,680	-	-	849,680
Long-term bond	405,051	-	-	405,051
Equities:				
Large cap	3,128,965	-	-	3,128,965
Other	3,565,738	-	-	3,565,738
Managed futures	-	983,430	-	983,430
Total	$ 31,329,058	$ 983,430	$ -	$ 32,312,488

Level 2 investments consist of managed futures. The value for these managed futures is 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, 2019 and 2018. 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.

Bonds at December 31, 2019, mature at various dates from February 2020 to December 2049.

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.

8. ENDOWMENT

During 2014, the Board of Directors set aside $5,000,000 to establish the Willard P. Ogburn Board-Designated Endowment. There has been no spending from the Endowment since its inception. It is the Center's current intention not to take a draw down of these funds. The Center is working to develop a formal strategy for the Endowment.

8. ENDOWMENT (Continued)

Changes in endowment net assets are as follows for the years ended December 31, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	$ 7,612,433	$ 1,180,055	$ 8,792,488
Investment return:			
Investment income	192,050	-	192,050
Net realized gain	180,389	-	180,389
Net unrealized loss	(454,617)	-	(454,617)
Investment management fees	(46,016)	-	(46,016)
Total investment return	(128,194)	-	(128,194)
Contributions	8,332	-	8,332
Release from restriction	80,183	(80,183)	-
Endowment net assets, December 31, 2018	7,572,754	1,099,872	8,672,626
Investment return:			
Investment income	313,843	-	313,843
Net realized loss	(181,606)	-	(181,606)
Net unrealized gain	998,696	-	998,696
Investment management fees	(34,727)	-	(34,727)
Total investment return	1,096,206	-	1,096,206
Contributions	146,938	-	146,938
Release from restriction	68,743	(68,743)	-
Endowment net assets, December 31, 2019	$ 8,884,641	$ 1,031,129	$ 9,915,770

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). Monthly payments of approximately $14,500 are due through maturity. 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. 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 $4,385,336 and $4,559,331 at December 31, 2019 and 2018, respectively. The financing fees of $242,467 are amortizing over the life of the note at $10,280 approximately per year. The accumulated depreciation of financing fees at December 31, 2019 and 2018, was $115,580 and $105,304, respectively.

9. NOTE PAYABLE (Continued)

Note payable in the accompanying consolidated statements of financial position are as follows as of December 31:

	2019	2018
Note payable	$ 4,385,336	$ 4,559,331
Less - current portion	173,997	173,997
Less - unamortized financing fees	126,887	137,163
	$ 4,084,452	$ 4,248,171

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

Year	Principal Payments	Amortization of Debt Issuance Costs
2020	$ 173,997	$ 10,278
2021	$ 173,997	$ 10,278
2022	$ 173,997	$ 10,278
2023	$ 173,997	$ 10,278
2024	$ 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, 2019 and 2018.

Total interest expense under this note, excluding amortization of debt issuance costs, was $172,016 and $178,697 for the years ended December 31, 2019 and 2018, 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 31, 2019, at which time the rent can be adjusted to the then market rent.

The Center also leases space for its branch office under a lease agreement with monthly payments of $9,050 and $8,755 for the years ended December 31, 2019 and 2018, respectively. The lease expires in April 30, 2021, as extended.

10. LEASE COMMITMENTS (Continued)

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

	CLBC	Branch Office	Total
2020	$ 780,000	$ 111,590	$ 891,590
2021	780,000	38,219	818,219
2022	780,000	-	780,000
2023	780,000	-	780,000
2024	780,000	-	780,000
Thereafter	7,020,000	-	7,020,000
Total	$ 10,920,000	$ 149,809	$ 11,069,809

The Center's rent expense was approximately $886,000 and $890,000 in 2019 and 2018, respectively. Rent expense and rental income as it relates to the building has been eliminated in the accompanying consolidated financial statements.

Sublease

Effective September 2018, a portion of the Center's space is being sublet under a five-year agreement that expires in September 2023, which required initial annual rent of $190,968, increasing annually as defined in the agreement. Prior to entering into this lease, the Center leased space to another organization under a lease that expired in September 2018. The base annual sublease income under the leases was $192,900 and $241,432 for the years ended December 31, 2019 and 2018, respectively, and is included in rental income in the accompany consolidated statements of activities and changes in net assets. The tenant is required to pay operating expenses as outlined in the lease agreement.

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

2020	$ 198,687
2021	204,474
2022	210,260
2023	142,744
Total	$ 756,165

11. 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 4.75% and 5.50% at December 31, 2019 and 2018, 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, 2019 and 2018. As of December 31, 2019 and 2018, there were no borrowings on the available line of credit. This agreement expires on June 30, 2020, and is renewable annually.

12. 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, 2019 and 2018, the Center, with the Board of Directors' approval, contributed $190,270 and $172,773, respectively, to the plan, which is included in payroll taxes and fringe benefits in the accompanying consolidated statement of functional expenses.

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.

13. 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 $92,000 and $70,000 in 2019 and 2018, 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, 2019 and 2018, or on the changes in its net assets for the years then ended.

14. 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 $2,092,472 and $1,207,297, which are cash accounts held with an investment company which are not insured as of December 31, 2019 and 2018, respectively.

15. 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, D.C. area, within fifty years of the agreement, the donor or his estate 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, 2019 and 2018. The balance outstanding on this pledge is $1,100,000 and $1,200,000 at December 31, 2019 and 2018, respectively.

16. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Agency's financial assets available within one year from the consolidated statements of financial position date for general operating expenses are as follows as of December 31:

	2019	2018
Cash and cash equivalents	$ 4,586,713	$ 2,147,171
Short-term investments	20,462,355	18,971,024
Accounts receivable	324,053	259,594
Current portion of grants and pledges receivable	675,749	836,278
Total financial assets	26,048,870	22,214,067
Contractual or donor-imposed restrictions:		
Less - donor contributions restricted to specific purposes, excluding 2019 time release	(3,008,124)	(2,556,213)
Board designations:		
Program Designated	(653,528)	(682,677)
Financial assets available to meet cash needs for general expenditures within one year	$ 22,387,218	$ 18,975,177

The Agency invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, the Agency also could draw upon $500,000 of available lines of credit (see Note 11). The Agency has two unpredictable and highly variable funding sources - attorney fee awards and cy pres. The Agency manages the uncertainty of these income streams by budgeting operating expenses very carefully and maintaining enough reserves on hand to fund priority work should one or both of these sources dwindle. Funds intended for use in the next fiscal year are set aside in the Operating Fund, while amounts in excess of that are intended for future use.

17. SUBSEQUENT EVENT

In recent weeks, the COVID-19 pandemic in the United States has caused business disruption and a reduction in economic activity. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration and the impact it will have on the Agency's operations and financial position. Any financial impact to the Agency, if any, cannot be reasonably estimated at this time.

18. RECLASSIFICATION

Certain amounts in the 2018 consolidated financial statements were reclassified to conform with the 2019 presentation.