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

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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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, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, 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
May 8, 2019

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

Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018			2017		
Assets	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Current Assets:						
Cash and cash equivalents	$ 327,236	$ 1,819,935	$ 2,147,171	$ 490,445	$ 1,886,752	$ 2,377,197
Short-term investments	18,971,024	-	18,971,024	16,336,668	-	16,336,668
Accounts receivable	238,232	-	238,232	319,361	-	319,361
Current portion of grants and pledges receivable	-	836,278	836,278	-	396,265	396,265
Prepaid expenses and deposits	157,779	-	157,779	103,165	-	103,165
Total current assets	19,694,271	2,656,213	22,350,484	17,249,639	2,283,017	19,532,656
Investments	13,341,464	-	13,341,464	13,023,486	-	13,023,486
Restricted Cash	334,807	-	334,807	332,996	-	332,996
Grants and Pledges Receivable, net of current portion and discount of $200,128 and $231,385 at December 31, 2018 and 2017, respectively	-	1,329,872	1,329,872	-	1,425,515	1,425,515
Property, Plant and Equipment, net	8,725,154	-	8,725,154	9,094,698	-	9,094,698
Total assets	$ 42,095,696	$ 3,986,085	$ 46,081,781	$ 39,700,819	$ 3,708,532	$ 43,409,351
Liabilities and Net Assets						
Current Liabilities:						
Current portion of note payable	$ 173,997	$ -	$ 173,997	$ 173,997	$ -	$ 173,997
Accounts payable	374,853	-	374,853	314,019	-	314,019
Accrued expenses	357,929	-	357,929	345,695	-	345,695
Deferred revenue	797,925	-	797,925	767,316	-	767,316
Total current liabilities	1,704,704	-	1,704,704	1,601,027	-	1,601,027
Note Payable and Unamortized Debt Issuance Costs, net of current portion	4,248,171	-	4,248,171	4,411,888	-	4,411,888
Total liabilities	5,952,875	-	5,952,875	6,012,915	-	6,012,915
Net Assets:						
Operating fund	3,240,020	-	3,240,020	3,140,452	-	3,140,452
Program reserves	14,574,458	-	14,574,458	12,326,437	-	12,326,437
Building fund	5,768,710	-	5,768,710	5,411,053	-	5,411,053
Willard P. Ogburn Board-Designated Endowment	7,572,754	1,099,872	8,672,626	7,612,433	1,180,055	8,792,488
Property, plant and equipment	4,302,986	-	4,302,986	4,508,813	-	4,508,813
50th Anniversary Campaign	1,216	383,529	384,745	-	-	-
Program designated	682,677	2,502,684	3,185,361	688,716	2,528,477	3,217,193
Total net assets	36,142,821	3,986,085	40,128,906	33,687,904	3,708,532	37,396,436
Total liabilities and net assets	$ 42,095,696	$ 3,986,085	$ 46,081,781	$ 39,700,819	$ 3,708,532	$ 43,409,351

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, 2018 and 2017

	2018			2017		
	Without Donor Restictions	**With Donor Restrictions**	**Total**	**Without Donor Restictions**	**With Donor Restrictions**	**Total**
Support and Revenue:						
Grants, contracts and contributions	$ 6,033,984	$ 2,752,185	$ 8,786,169	$ 2,698,590	$ 3,761,200	$ 6,459,790
Publications and program revenue	3,022,527	-	3,022,527	4,583,860	-	4,583,860
Interest and dividends	1,093,554	-	1,093,554	737,261	-	737,261
Rental income	241,432	-	241,432	266,663	-	266,663
Net assets released from restrictions	2,474,632	(2,474,632)	-	1,857,346	(1,857,346)	-
Total support and revenue	12,866,129	277,553	13,143,682	10,143,720	1,903,854	12,047,574
Expenses:						
Program services	7,234,990	-	7,234,990	6,814,378	-	6,814,378
General and administrative	1,021,716	-	1,021,716	937,509	-	937,509
Fundraising	586,204	-	586,204	530,730	-	530,730
Total expenses	8,842,910	-	8,842,910	8,282,617	-	8,282,617
Changes in net assets from operations	4,023,219	277,553	4,300,772	1,861,103	1,903,854	3,764,957
Non-Operating Revenue (Losses):						
Net gains (losses) on investments	(2,026,150)	-	(2,026,150)	928,170	-	928,170
Interest and dividends - Building fund	311,814	-	311,814	291,787	-	291,787
Interest and dividends - Designated endowment, net	146,034	-	146,034	131,935	-	131,935
Total non-operating revenue (losses)	(1,568,302)	-	(1,568,302)	1,351,892	-	1,351,892
Changes in net assets	2,454,917	277,553	2,732,470	3,212,995	1,903,854	5,116,849
Net Assets:						
Beginning of year	33,687,904	3,708,532	37,396,436	30,474,909	1,804,678	32,279,587
End of year	$ 36,142,821	$ 3,986,085	$ 40,128,906	$ 33,687,904	$ 3,708,532	$ 37,396,436

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Changes in net assets	$ 2,732,470	$ 5,116,849
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	420,417	415,727
Amortization of debt issuance costs charged as interest expense	10,280	10,278
Bad debts	1,060	13,180
Interest and dividends - long-term designated net assets	(457,848)	(423,722)
Net (gains) losses on investments	2,026,150	(928,170)
Change in discount on grants and pledges receivable	(31,257)	231,385
Changes in operating assets and liabilities:		
Accounts receivable	80,069	153,582
Grants and pledges receivable	(313,113)	(1,510,180)
Prepaid expenses and deposits	(54,614)	(21,001)
Accounts payable	60,834	(28,074)
Accrued expenses	12,234	19,591
Deferred revenue	30,609	75,830
Net cash provided by operating activities	4,517,291	3,125,275
Cash Flows from Investing Activities:		
Acquisition of property, plant and equipment	(50,873)	(156,035)
Interest and dividends - long-term designated net assets	457,848	423,722
Purchase of investments	(28,993,574)	(9,841,208)
Proceeds from sale of investments	24,015,090	7,415,514
Deposits to restricted cash	(1,811)	(1,228)
Net cash used in investing activities	(4,573,320)	(2,159,235)
Cash Flows from Financing Activities:		
Principal payments on note payable	(173,997)	(173,997)
Net Change in Cash and Cash Equivalents	(230,026)	792,043
Cash and Cash Equivalents:		
Beginning of year	2,377,197	1,585,154
End of year	$ 2,147,171	$ 2,377,197
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 178,697	$ 185,390

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

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Summarized Compartative Totals for the Year Ended December 31, 2017)

	2018								2017
	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	$ 2,230,960	$ 441,363	$ 181,761	$ 120,010	$ 2,974,094	$ 149,815	$ 23,900	$ 3,147,809	$ 2,549,552
Support staff	128,114	581,179	12,624	76,500	798,417	408,601	355,835	1,562,853	1,640,609
Payroll taxes and fringe benefits	697,002	290,103	55,627	55,183	1,097,915	150,038	94,870	1,342,823	1,201,727
Consultants - advocates	204,437	42,545	10,186	2,356	259,524	-	6,525	266,049	420,035
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	5,811,923
Other:									
Publications and other direct expenses	254,620	344,664	18,809	424,637	1,042,730	49,594	34,396	1,126,720	1,112,021
Depreciation	205,684	161,119	13,737	31,576	412,116	4,843	3,458	420,417	415,727
Travel	109,144	-	6,934	30,054	146,132	46,661	14,361	207,154	121,720
Interest	115,276	47,244	7,559	18,898	188,977	-	-	188,977	195,668
Occupancy	152,194	10,597	3,016	903	166,710	10,161	4,726	181,597	182,801
Consultants	33,713	-	45,684	4,740	84,137	65,374	8,745	158,256	267,702
Contract services	5,750	2,300	460	230	8,740	130,671	1,150	140,561	127,330
Consumable supplies	25,526	9,669	1,887	18,416	55,498	5,958	38,238	99,694	47,725
Total other	901,907	575,593	98,087	529,454	2,105,040	313,262	105,074	2,523,376	2,470,694
Total expenses	$ 4,162,420	$ 1,930,783	$ 358,285	$ 783,503	$ 7,234,990	$ 1,021,716	$ 586,204	$ 8,842,910	$ 8,282,617

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).

Recently Adopted Accounting Pronouncement

In fiscal year 2018, the Agency adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Agency has adjusted the presentation of these statements accordingly. The adoption of this ASU did not impact the Agency's net asset classes, results of operations, or cash flows for the year ended December 31, 2018. This ASU has been applied retrospectively to all periods presented. As allowed by this ASU, the Agency has elected to omit the analysis of expense by functional and natural classification and disclosures about liquidity and availability of resources for the December 31, 2017 consolidated financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

50TH Anniversary Campaign is a reserve established to segregate funds raised in conjunction with the celebration of the Agency's 50th anniversary. The Campaign has a budget and spending will be submitted by management for Board approval on an annual basis.

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:

	2018	**2017**
Program designated	$ 2,502,684	$ 2,528,477
Board-designated endowment - time restricted	1,099,872	1,180,055
50th Anniversary Campaign restricted	383,529	-
Total	$ 3,986,085	$ 3,708,532

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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:

	2018	2017
Program restricted releases	$ 2,394,449	$ 1,332,889
Time restricted releases	80,183	524,457
Total	$ 2,474,632	$ 1,857,346

Revenue Recognition

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 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 2018 and 2017, the Center expended $261,792 and $244,485, 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, 2018 and 2017, there were no net assets without donor restrictions applicable to MLAC funding.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017.

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. Therefore, these expenses require allocation 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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, 2018 and 2017, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation expense for 2018 and 2017 was $420,417 and $415,727, 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 $21,220 and $137,968 for the years ended December 31, 2018 and 2017, 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 statement of functional expenses.

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 May 8, 2019, which is the date the consolidated financial statements were available to be 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, 2018 and 2017.

3. RELATED PARTY TRANSACTIONS

The Center leases its building from CLBC. Rent expense for the Center under this agreement totaled approximately $780,000 during 2018 and 2017 (see Note 10). From time-to-time, certain transactions are paid or collected on behalf of one another. At December 31, 2017, the Center owed CBLC $21,362 related to repair expenses of the building. At December 31, 2018 and 2017, the Center owed $195,000 for rent to CLBC. At December 31, 2018 and 2017, CBLC owed the Center $53,077 and $40,397, 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:

	2018	2017
Building and improvements	$ 11,117,905	$ 11,099,484
Equipment	269,653	237,201
Electronic subscription platform	456,450	456,450
Leasehold improvements	215,285	215,285
	12,059,293	12,008,420
Less - accumulated depreciation	3,334,139	2,913,722
	$ 8,725,154	$ 9,094,698

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, 2018 and 2017.

6. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable at December 31, 2018 and 2017, 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:

	2018	2017
Due within one year	$ 836,278	$ 396,265
Due within two years	430,000	456,900
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	800,000	900,000
	2,366,278	2,053,165
Less - discount	200,128	231,385
Less - current portion	836,278	396,265
Grants and pledges receivable, net	$ 1,329,872	$ 1,425,515

A total of 78% and 87%, respectively, of grants and pledges receivable were due from two donors at December 31, 2018 and 2017.

7. INVESTMENTS

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

	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
Other	-	983,430	-	983,430
Total	$ 31,329,058	$ 983,430	$ -	$ 32,312,488

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	$ 1,399,827	$ -	$ -	$ 1,399,827
Fixed income:				
Intermediate-term bond	4,268,530	-	-	4,268,530
Short-term bond	4,776,375	-	-	4,776,375
Other	1,257,517	-	-	1,257,517
Long-term bond	12,255,968	-	-	12,255,968
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

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, 2018 and 2017. 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, 2018, mature at various dates from July 2019 to August 2053.

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. 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, 2018 and 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
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 from restriction	15,000	(15,000)	-
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

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 $4,559,331 and $4,733,328 at December 31, 2018 and 2017, respectively. The financing fees of $242,467 are amortizing over the life of the note at $10,280 and $10,278 for the years ended December 31, 2018 and 2017, respectively. The accumulated depreciation of financing fees at December 31, 2018 and 2017, was $105,304 and $95,024, respectively.

9. NOTE PAYABLE (Continued)

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

	2018	2017
Note payable	$ 4,559,331	$ 4,733,328
Less - current portion	173,997	173,997
Less- unamortized financing fees	137,163	147,443
	$ 4,248,171	$ 4,411,888

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

Year	Principal Payments	Amortization of Debt Issuance Costs
2019	$ 173,997	$ 10,278
2020	$ 173,997	$ 10,278
2021	$ 173,997	$ 10,278
2022	$ 173,997	$ 10,278
2023	$ 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, 2018 and 2017.

Total interest expense under this note, excluding amortization of debt issuance costs, was $178,697 and $185,390 for the years ended December 31, 2018 and 2017, 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, 2018, at which time the rent will be adjusted to the then market rent. For the year ended December 31, 2018, there was no adjustment to market rent.

The Center also leases space for its branch office under a lease agreement with monthly payments of $8,755 and $8,752 for the years ended December 31, 2018 and 2017, 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
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
2023	780,000	-	780,000
Thereafter	7,800,000	-	7,800,000
Total	$ 11,700,000	$ 258,412	$ 11,958,412

The Center's rent expense was approximately $886,000 and $890,000 in 2018 and 2017, 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 which 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 lease was $241,432 and $266,663 for the years ended December 31, 2018 and 2017, 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 and the new sublease term under these lease agreements is as follows:

2019	$ 192,900
2020	198,687
2021	204,474
2022	210,260
2023	142,744
Total	$ 949,065

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 5.50% and 4.50% at December 31, 2018 and 2017, 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, 2018 and 2017. As of December 31, 2018 and 2017, there were no borrowings on the available line of credit. This agreement expires on June 30, 2019, 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, 2018 and 2017, the Center, with the Board of Directors' approval, contributed $172,773 and $157,816, 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 $70,000 and $90,000, respectively, in 2018 and 2017. 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, 2018 and 2017, 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 $1,207,297 and $1,042,967, respectively, which are cash accounts held with an investment company which are not insured as of December 31, 2018 and 2017.

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, 2018 and 2017.

16. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

Cash and cash equivalents	$ 2,147,171
Short-term investments	18,971,024
Accounts receivable	238,232
Current portion of grants and pledges receivable	836,278
Total financial assets	22,192,705
Contractual or donor-imposed restrictions:	
Less - donor contributions restricted to specific purposes, excluding 2017 time release	(2,556,213)
Board designations:	
Program Designated	(682,677)
Financial assets available to meet cash needs for general expenditures within one year	$ 18,953,815

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. RECLASSIFICATIONS

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 presentation in relation to the adoption of ASU 2016-14 (see Note 1).