

NATIONAL URBAN LEAGUE, INC.

**Financial Statements
For the Years Ended December 31, 2011 and 2010
With Report of Independent Auditors**

NATIONAL URBAN LEAGUE, INC.
December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
National Urban League, Inc.

We have audited the accompanying statements of financial position of the National Urban League, Inc. (the League, or NUL) as of December 31, 2011 and 2010, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of NUL's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of NUL's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NUL's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Urban League, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Mitchell & Titus, LLP

June 28, 2012

NATIONAL URBAN LEAGUE, INC.

Statements of Financial Position

As of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 12,954,400	\$ 7,876,876
Investments	18,833,273	19,201,709
Grants and pledges receivable	7,905,969	12,761,683
Franchise fees receivable, net	592,819	663,909
Other receivables	3,519,353	4,671,079
Prepaid expenses and other assets	344,739	321,581
Property and equipment—net of accumulated depreciation/amortization	1,275,125	1,568,443
Total assets	<u>\$ 45,425,678</u>	<u>\$ 47,065,280</u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 4,280,304	\$ 3,849,718
Accrued payroll and vacation benefits	1,013,534	1,002,027
Accrued pension benefit costs	7,162,741	5,629,966
Accrued defined contribution costs	588,779	559,370
Deferred rent credit	323,141	383,259
Contract advances and other deposits	3,497,024	2,669,064
Total liabilities	<u>16,865,523</u>	<u>14,093,404</u>
<i>Net assets</i>		
Unrestricted—		
Undesignated	4,393,848	4,977,942
Pension related	(9,099,156)	(7,657,883)
Total unrestricted net assets	<u>(4,705,308)</u>	<u>(2,679,941)</u>
Temporarily restricted	13,243,398	15,629,752
Permanently restricted	20,022,065	20,022,065
Total net assets	<u>28,560,155</u>	<u>32,971,876</u>
Total liabilities and net assets	<u>\$ 45,425,678</u>	<u>\$ 47,065,280</u>

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

NATIONAL URBAN LEAGUE, INC.
Statement of Activities
For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
<i>Revenue, gains, and other support</i>				
Government grants and contracts	\$ 18,126,575	\$ -	\$ -	\$ 18,126,575
Donated materials and services	15,615,230	-	-	15,615,230
Contributions	4,756,565	12,490,964	-	17,247,529
Legacies and bequests	34,622	-	-	34,622
Special events	1,946,100	-	-	1,946,100
Federated fundraising agencies	-	-	-	-
Program service fees	6,196,753	-	-	6,196,753
Franchise fees	996,000	-	-	996,000
Investment return designated for current operations	758,097	-	-	758,097
Sale of publications	49,443	-	-	49,443
Other	965,853	-	-	965,853
<i>Net assets released from restrictions</i>				
Satisfaction of restrictions	14,877,318	(14,877,318)	-	-
Total revenue, gains, and other support	<u>64,322,556</u>	<u>(2,386,354)</u>	<u>-</u>	<u>61,936,202</u>
<i>Operating expenses</i>				
<i>Program services</i>				
Economic empowerment	24,096,003	-	-	24,096,003
Education and youth empowerment	5,458,256	-	-	5,458,256
Civic engagement and leadership empowerment	20,514,774	-	-	20,514,774
Centennial Celebration	57,750	-	-	57,750
Technical assistance to affiliates	1,798,057	-	-	1,798,057
Health and quality of life empowerment	2,495,530	-	-	2,495,530
Civil rights and racial justice empowerment	250,639	-	-	250,639
Total program services	54,671,009	-	-	54,671,009
<i>Supporting services</i>				
Management and general	5,975,127	-	-	5,975,127
Fundraising	3,330,631	-	-	3,330,631
Total expenses	<u>63,976,767</u>	<u>-</u>	<u>-</u>	<u>63,976,767</u>
Changes in net assets from operations	<u>345,789</u>	<u>(2,386,354)</u>	<u>-</u>	<u>(2,040,565)</u>
NON-OPERATING ACTIVITIES				
Investment return net of amount designated for current operations	(929,883)	-	-	(929,883)
Pension-related changes other than net periodic pension costs	(1,441,273)	-	-	(1,441,273)
Total non-operating activities	<u>(2,371,156)</u>	<u>-</u>	<u>-</u>	<u>(2,371,156)</u>
Changes in net assets	(2,025,367)	(2,386,354)	-	(4,411,721)
Net assets, beginning of year	<u>(2,679,941)</u>	<u>15,629,752</u>	<u>20,022,065</u>	<u>32,971,876</u>
Net assets, end of year	<u>\$ (4,705,308)</u>	<u>\$ 13,243,398</u>	<u>\$ 20,022,065</u>	<u>\$ 28,560,155</u>

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

NATIONAL URBAN LEAGUE, INC.

Statement of Activities

For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES				
<i>Revenue, gains, and other support</i>				
Government grants and contracts	\$ 19,886,746	\$ -	\$ -	\$ 19,886,746
Donated materials and services	6,662,193	-	-	6,662,193
Contributions	4,074,797	15,837,329	-	19,912,126
Legacies and bequests	47,987	-	-	47,987
Special events	2,162,707	-	-	2,162,707
Federated fundraising agencies	3,321	-	-	3,321
Program service fees	8,231,523	-	-	8,231,523
Franchise fees	981,000	-	-	981,000
Investment return designated for current operations	593,479	-	-	593,479
Sale of publications	72,202	-	-	72,202
Other	732,470	-	-	732,470
<i>Net assets released from restrictions</i>				
Satisfaction of restrictions	<u>16,942,606</u>	<u>(16,942,606)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	<u>60,391,031</u>	<u>(1,105,277)</u>	<u>-</u>	<u>59,285,754</u>
<i>Operating expenses</i>				
<i>Program services</i>				
Economic empowerment	26,798,054	-	-	26,798,054
Education and youth empowerment	4,993,847	-	-	4,993,847
Civic engagement and leadership empowermen	7,327,048	-	-	7,327,048
Centennial Celebration	8,875,883	-	-	8,875,883
Technical assistance to affiliates	1,855,053	-	-	1,855,053
Health and quality of life empowerment	2,375,181	-	-	2,375,181
Civil rights and racial justice empowerment	<u>287,666</u>	<u>-</u>	<u>-</u>	<u>287,666</u>
Total program services	52,512,732	-	-	52,512,732
<i>Supporting services</i>				
Management and general	4,484,735	-	-	4,484,735
Fundraising	<u>3,258,168</u>	<u>-</u>	<u>-</u>	<u>3,258,168</u>
Total expenses	<u>60,255,635</u>	<u>-</u>	<u>-</u>	<u>60,255,635</u>
Change in net assets from operations	<u>135,396</u>	<u>(1,105,277)</u>	<u>-</u>	<u>(969,881)</u>
NON-OPERATING ACTIVITIES				
Investment return net of amount designated for current operations	1,699,961	-	-	1,699,961
Pension-related changes other than net periodic pension cost:	<u>(338,561)</u>	<u>-</u>	<u>-</u>	<u>(338,561)</u>
Total non-operating activities	<u>1,361,400</u>	<u>-</u>	<u>-</u>	<u>1,361,400</u>
Change in net assets	1,496,796	(1,105,277)	-	391,519
Net assets, beginning of year	<u>(4,176,737)</u>	<u>16,735,029</u>	<u>20,022,065</u>	<u>32,580,357</u>
Net assets, end of year	<u>\$ (2,679,941)</u>	<u>\$ 15,629,752</u>	<u>\$ 20,022,065</u>	<u>\$ 32,971,876</u>

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

NATIONAL URBAN LEAGUE, INC.
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING ACTIVITIES		
Change in net assets	\$ (4,411,721)	\$ 391,519
<i>Adjustments to reconcile change in net assets to net cash used in operating activities</i>		
Pension-related changes other than net periodic pension costs	1,441,273	338,561
Depreciation and amortization	433,309	396,575
Amortization of deferred rent credit	(60,118)	(60,118)
Gain on sale of automobile	-	(10,700)
Loss on sale of other fixed assets	-	9,210
Realized loss/(gain) on sale of investments	32,942	(764,385)
Bad debt written off	41,401	47,063
Provision for doubtful receivables	210,121	4,500
Unrealized depreciation/(appreciation) of investments	686,359	(1,147,156)
<i>Changes in operating assets and liabilities</i>		
Decrease/(increase) in grants and pledges receivable	4,855,714	(2,424,615)
Decrease/(increase) in franchise fees receivable	71,090	(16,161)
Decrease/(increase) in other receivables	900,203	(1,663,869)
(Increase)/decrease in prepaid expenses and other assets	(23,158)	248,420
Increase in accounts payable and accrued expenses	430,586	743,899
Increase in accrued payroll and vacation benefits	11,507	370,115
Increase in accrued pension benefit cost	91,502	1,957
Increase in accrued defined contribution costs	29,409	163,646
Increase in contract advances and other deposits	827,960	1,146,706
Net cash provided by (used in) operating activities	5,568,379	(2,224,833)
INVESTING ACTIVITIES		
Purchases of fixed assets	(139,990)	(222,558)
Disposal of automobile	-	20,000
Purchases of investments	(965,948)	(761,101)
Proceeds from sale of investment	615,083	1,075,590
Net cash (used in) provided by investing activities	(490,855)	111,931
Net increase (decrease) in cash and cash equivalents	5,077,524	(2,112,902)
Cash and cash equivalents, beginning of year	7,876,876	9,989,778
Cash and cash equivalents, end of year	\$ 12,954,400	\$ 7,876,876

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

NATIONAL URBAN LEAGUE, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2011

	Program Services							Supporting Services			
	Economic Empowerment	Education and Youth Empowerment	Civic Engagement and Leadership Empowerment	Centennial Celebration	Technical Assistance to Affiliates	Health and Quality of Life Empowerment	Civil Rights and Racial Justice Empowerment	Total	Management and General	Fundraising	Total
Salaries	\$ 1,677,521	\$ 1,082,738	\$ 2,098,663	\$ 48,209	\$ 738,259	\$ 266,811	\$ 103,615	\$ 6,015,816	\$ 2,645,375	\$ 1,138,223	\$ 9,799,414
Payroll taxes and related benefits	605,002	385,422	756,317	3,887	254,649	84,869	26,618	2,116,764	886,165	410,974	3,413,903
Subcontract payments	17,129,460	1,758,825	36,500	-	-	417,999	-	19,342,784	-	-	19,342,784
Donated materials and services	1,904,680	81,336	12,329,214	-	-	1,300,000	-	15,615,230	-	51,400	15,666,630
Professional contract services	1,352,570	749,931	2,666,019	-	175,933	266,977	39,160	5,250,590	705,809	889,399	6,845,798
Supplies	37,470	101,167	106,320	594	24,495	6,207	2,883	279,136	62,450	23,812	365,398
Telephone and telegraph	34,621	23,388	44,509	760	21,118	6,077	3,719	134,192	76,215	25,185	235,592
Occupancy	332,695	211,946	415,903	2,138	140,033	46,670	14,638	1,164,023	507,200	226,006	1,897,229
Commercial insurance	20,865	13,292	26,083	134	8,782	2,927	918	73,001	31,821	14,166	118,988
Postage and shipping	27,167	22,003	56,646	25	8,944	3,150	1,578	119,513	21,143	45,329	185,985
Printing, duplication, and artwork	123,766	84,122	211,604	24	23,625	1,145	786	445,072	20,275	26,725	492,072
Travel, conferences, and conventions	611,389	682,185	1,415,798	878	297,390	51,325	33,168	3,092,133	338,819	290,034	3,720,986
Subscription and publication	5,218	9,750	65,222	2	4,257	2,714	2,687	89,850	23,345	25,450	138,645
Furniture and equipment	86,956	56,185	117,794	544	37,028	13,275	5,126	316,908	143,666	55,667	516,241
Awards and grants	300	119,275	2,141	-	300	300	300	122,616	4,650	4,665	131,931
Bad debt	-	-	-	-	-	-	-	-	251,522	-	251,522
Miscellaneous	70,339	28,285	71,053	67	31,262	14,425	12,100	227,531	140,829	51,980	420,340
Depreciation and amortization	75,984	48,406	94,988	488	31,982	10,659	3,343	265,850	115,843	51,616	433,309
Total expenses	\$ 24,096,003	\$ 5,458,256	\$ 20,514,774	\$ 57,750	\$ 1,798,057	\$ 2,495,530	\$ 250,639	\$ 54,671,009	\$ 5,975,127	\$ 3,330,631	\$ 63,976,767

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

NATIONAL URBAN LEAGUE, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2010

	<u>Program Services</u>							<u>Supporting Services</u>			
	<u>Economic Empowerment</u>	<u>Education and Youth Empowerment</u>	<u>Civic Engagement and Leadership Empowerment</u>	<u>Centennial Celebration</u>	<u>Technical Assistance to Affiliates</u>	<u>Health and Quality of Life Empowerment</u>	<u>Civil Rights and Racial Justice Empowerment</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,638,805	\$ 1,156,788	\$ 1,715,616	\$ 897,182	\$ 743,315	\$ 269,221	\$ 100,839	\$ 6,521,766	\$ 2,049,732	\$ 1,013,761	\$ 9,585,259
Payroll taxes and related benefits	586,710	416,008	609,388	331,666	266,019	96,092	36,216	2,342,099	725,918	358,313	3,426,330
Subcontract payments	20,122,765	1,254,875	30,000	-	-	391,307	-	21,798,947	-	-	21,798,947
Donated materials and services	1,958,884	184,429	-	3,218,880	-	1,300,000	-	6,662,193	-	50,000	6,712,193
Professional contract services	1,205,564	763,712	2,436,882	3,781,036	184,725	155,714	59,228	8,586,861	395,934	1,067,496	10,050,291
Supplies	43,719	68,660	227,116	55,435	19,615	7,565	2,608	424,718	47,276	21,355	493,349
Telephone and telegraph	33,367	23,653	41,876	15,759	21,626	6,929	4,465	147,675	66,832	19,746	234,253
Occupancy	309,881	219,722	321,859	175,175	140,581	50,753	19,128	1,237,099	387,718	189,256	1,814,073
Commercial insurance	19,693	13,963	20,455	11,132	8,929	3,225	1,216	78,613	24,640	12,019	115,272
Postage and shipping	31,330	24,690	55,864	19,225	13,725	2,721	1,424	148,979	22,587	30,583	202,149
Printing, duplication, and artwork	15,153	28,446	277,886	13,736	16,132	894	433	352,680	16,342	55,495	424,517
Travel, conferences, and conventions	453,391	641,220	1,234,492	185,525	332,739	51,429	39,826	2,938,622	276,709	268,054	3,483,385
Subscription and publication	9,635	5,277	69,847	5,565	2,695	1,861	1,593	96,473	16,501	41,355	154,329
Furniture and equipment	85,052	59,942	97,910	47,229	39,346	14,386	5,859	349,724	115,817	51,023	516,564
Awards and grants	12	24,774	6,854	-	6,012	12	12	37,676	2,632	3,621	43,929
Bad debt	-	-	-	-	-	-	-	-	47,063	-	47,063
Miscellaneous	216,347	59,652	110,638	80,041	28,877	11,976	10,637	518,168	203,328	35,661	757,157
Depreciation and amortization	67,746	48,036	70,365	38,297	30,717	11,096	4,182	270,439	85,706	40,430	396,575
Total expenses	<u>\$26,798,054</u>	<u>\$ 4,993,847</u>	<u>\$ 7,327,048</u>	<u>\$ 8,875,883</u>	<u>\$ 1,855,053</u>	<u>\$ 2,375,181</u>	<u>\$ 287,666</u>	<u>\$52,512,732</u>	<u>\$ 4,484,735</u>	<u>\$ 3,258,168</u>	<u>\$60,255,635</u>

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

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 1 ORGANIZATION

The National Urban League, Inc. (the League, or NUL) is a non-profit organization incorporated in the State of New York in 1910. The League is substantially funded through grants and contracts awarded by government agencies, foundations, and corporations.

The League is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a publicly supported organization as described in code Sections 509(a)(1) and 170(b)(A)(VI).

The Urban League is a non-partisan, civil rights, and community-based movement that serves over two million people each year, providing direct services, research, and policy advocacy to assist individuals and communities attain their fullest potential. The League's network of nearly 100 professionally staffed affiliates in 36 states and the District of Columbia, working principally with African-Americans and other emerging ethnic communities, work diligently to close equality gaps for people at all economic levels and stages of life, thereby giving citizens an opportunity to give back as volunteers. In pursuit of its mission—helping African Americans to secure economic self-reliance, parity, empowerment, and civil rights—the League's five-point approach to empowerment consists of:

Economic Empowerment invests in the financial literacy and employability of adults through job training, homeownership counseling, and entrepreneurship support.

Education and Youth Development ensures the education of all children by providing access to early childhood literacy, after-school programs, and college preparation.

Civic Engagement and Leadership Empowerment encourages all people to take an active role to improve their quality of life through participation in community service projects and public policy initiatives.

Health and Quality of Life Empowerment promotes community wellness through a focus on prevention, including fitness, healthy eating, and access to affordable healthcare.

Civil Rights and Racial Justice Empowerment guarantees equal participation in all facets of American society through proactive public policies and community-based programs.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 1 ORGANIZATION *(continued)*

National Urban League Affiliates offers services in 36 states and the District of Columbia to over 350 communities across the country. These professionally staffed offices are where NUL's services are fulfilled: where people and their neighborhoods grow, change, and are strengthened. The League's Affiliate Services Department goal is to provide information and training to affiliate CEOs, boards of directors, staff, and volunteers to increase their understanding of the League's mission, and to enhance their professional skills and effectiveness.

Centennial Celebration—See Note 15.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Statement Presentation

The financial statement presentation conforms to accounting principles generally accepted in the U.S. for non-profit organizations, which requires NUL to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted, as defined below.

Unrestricted net assets—Not subject to donor-imposed restrictions. Unrestricted net assets include general operations and Board-designated amounts. The latter has been designated for specific purposes by actions on behalf of the Board of Trustees.

Temporarily restricted net assets—Subject to donor-imposed stipulations that may be fulfilled by an action of the League to satisfy the stipulations or become unrestricted at the date specified by the donor.

Permanently restricted net assets—Subject to donor-imposed stipulations that require the assets to be maintained by the League in perpetuity. The donors of the assets generally permit the League to use all or part of the investment returns from these assets.

Cash and Cash Equivalents

For purposes of financial statement presentation, the League considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. Cash equivalents at December 31, 2011 and 2010, were \$5,030,035 and \$7,176,200, respectively, and consisted of money market funds.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Cash and Cash Equivalents *(continued)*

The League maintains its cash and cash equivalent balances in financial institutions, which occasionally exceed the Federal Depository Insurance Corporation limit and subject the League to a concentration of credit risk. However, the League monitors this risk on a regular basis.

Investments

Investments are stated at the fair value of the securities. The League records investments at fair value based on the quoted market price of the underlying securities. Realized gains and losses and unrealized depreciation and appreciation are included in the statement of activities as increases or decreases in the unrestricted class of net assets, unless donor or relevant laws place temporary or permanent restrictions on these gains and losses. For purposes of determining the gain or loss on sale, the cost of securities sold is based on the average costs of all shares of those securities sold.

The investments noted as mutual funds (see Note 3) are valued at net asset value (NAV), and are calculated as (Assets-Liabilities)/Outstanding Units.

The Board of Trustees has adopted a “spending formula,” whereby a specified percentage of the rolling average balance of its long-term reserves is used to support current operations. All investment income over this amount is retained to support operations of future years and to offset potential market declines.

The League targets the portfolio for its endowment (long-term investment) to be a 60/40 ratio between equities and fixed income.

Interest and dividend income is recognized when earned and is reported as operating revenue in the statements of activities based on NUL’s spending formula. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets unless the use of the investment or income is limited by donor-imposed restriction or law.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Investments *(continued)*

Companies are required to classify and disclose the fair value of financial instruments according to a fair value hierarchy, which ranks the quality and reliability of the information used to determine fair values. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

A review of fair value hierarchy classifications is conducted annually and changes in the observability of valuation inputs may necessitate a reclassification for certain financial assets or liabilities. Reclassifications affecting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur.

For those investments valued at NAV, they are classified at Level 2 or Level 3 depending on the investee's ability to redeem those investments at NAV as of the given year end.

The League has the ability to redeem those investments at NAV as of the respective year end.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Pledges Receivable

Pledges receivable generally consists of unconditional promises received from donors. Contributions to be collected or paid after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management determines the allowance for uncollectible accounts based on its estimate of realization of the underlying contributions receivable. Individual pledges are written off when deemed uncollectible. Fair values are measured based on the present value of future cash flows, with consideration of expectations about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. The fair value measurements also include consideration of donors' credit risk.

Property and Equipment

Furniture and fixtures, equipment, and leasehold improvements are stated at cost less accumulated depreciation or amortization computed by the straight-line method over the lease term or the following useful lives:

	<u>Years</u>
Leasehold improvements	10–20
Furniture and fixtures	10
Equipment	3–7
Computer software	5–7

The League capitalizes all expenditures for property and equipment in excess of \$1,000. Donated property and equipment are recorded at their estimated fair value on the date of donation in accordance with the League's capitalization policies.

Operating Lease

NUL occupies its space facilities under an operating lease agreement. Rent waivers are accounted for as deferred rent credits that are amortized against lease payments on a straight-line basis over the life of the lease.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pension Costs

The League is required to disclose the over-funded or under-funded status of its defined benefits plan as an asset or liability in its statement of financial position, and also to recognize changes in unrestricted net assets as non-operating activity in the year that the changes occur. As of December 31, 2011 and 2010, the under-funded status of the plan is a deficit of the fair value of plan assets over the projected benefit obligation, amounting to \$7,162,741 and \$5,629,966, respectively.

Revenue Recognition

Contributions

Unconditional contributions are recognized as revenue when received and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Government Grants

Federal, state, and other grant awards received for specific purposes are recognized as support to the extent of the related expenses incurred in compliance with the specific grant terms. The unexpended funds are reported as contract advances.

Program Service Fees

Program service fees are recorded as earned income that is generated from different conference activities that occur during the year.

Franchise Fees

Franchise fees are recorded as earned annual fees when billed and are based on the budget size of each affiliate.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Credit and Financial Risk

Substantially all the pledges receivable are derived from individual, corporate, or foundation donors. All of these receivables are made on an unsecured basis.

The League maintains its cash and cash equivalents in bank deposit and money market accounts, which at times exceed federally insured limits. The League believes it is not exposed to any significant credit risk on cash.

The League's investments are exposed to numerous risks such as interest rate, market and credit. Due to this level of risk and the level of uncertainty related to changes in the value of such investments, it is at reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the financial statements.

Donated Materials and Services

Donated materials and services are reflected as contributions in the accompanying financial statements at their fair value on the date of receipt.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited and are determined by management in accordance with grant provisions or other equitable bases.

Advertising Expense

The League recognizes advertising expense at the time of invoice and payment terms. Advertising may be for multiple future dates and used as both video and print advertising. The vendor (in most cases) will invoice the League for the cost of all runnings of a specific advertisement. That specific invoice is paid and the expense recognized at the due date of the invoice regardless of the date(s) of the advertisement. Advertising expense of \$121,049 and \$172,082 in 2011 and 2010, respectively, are reported as part of the professional contract services expense in the statement of functional expenses.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measure of Operations

The League uses a “change in net assets from operations” as the measure of net assets that are available to support services in future periods. Measure of operations excludes gains or losses on sales of fixed assets, and the results of the League’s endowment spending policy (both positive and negative).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The League is exempt from Federal income taxes under Section 509(a)(1) and classified as a Section 501(c)(3) of the IRC. Accordingly, no provision for Federal or state income taxes has been made in the accompanying financial statements.

Management believes that the League has not taken any uncertain tax positions that should be accounted for in the accompanying financial statements.

The League adopted Accounting Standards Codification (ASC) 740, *Accounting for Uncertainty in Income Taxes*. The League files annual information returns and are subject to audits by taxing jurisdictions; however, no audits for any periods are currently in place. Management believes that the League is no longer subject to such audits for years prior to 2007.

Reclassification

Certain items in the 2010 financial statements have been reclassified to conform to the 2011 financial statements presentation.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 3 INVESTMENTS

Investments held by the League at December 31 consisted of the following:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Corporate stocks	\$ 7,149,360	\$ 7,300,986	\$ 3,061,933	\$ 3,579,829
Mutual funds	-	-	497,542	880,319
Hedge funds	10,869,724	11,532,287	14,141,626	14,741,561
Total investments	<u>\$ 18,019,084</u>	<u>\$ 18,833,273</u>	<u>\$ 17,701,101</u>	<u>\$ 19,201,709</u>

Fair Value Measurement and Levels

Fair values are determined using quoted market prices and broker quotes.

The following tables set forth, by level within the fair value hierarchy, investment assets and liabilities as of December 31, 2011 and 2010:

	Fair Value—2011			
	Level 1	Level 2	Level 3	Total
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 4,715,580	\$ -	\$ -	\$ 4,715,580
Money market	314,455	-	-	314,455
	<u>\$ 5,030,035</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,030,035</u>
<i>Investments</i>				
<i>Equity securities</i>				
Consumer discretionary	\$ 794,012	\$ -	\$ -	\$ 794,012
Consumer staples	597,173	-	-	597,173
Energy	670,527	-	-	670,527
Financials	903,880	2,112	-	905,992
Health care	958,339	-	-	958,339
Industrials	673,124	-	-	673,124
Information technology	1,483,482	-	-	1,483,482
Materials	327,402	-	-	327,402
Telecommunications services	252,630	-	-	252,630
Utilities	95,556	-	-	95,556
Other	542,749	-	-	542,749
<i>Mutual funds</i>				
Fixed income	-	11,532,287	-	11,532,287
	<u>\$ 7,298,874</u>	<u>\$ 11,534,399</u>	<u>\$ -</u>	<u>\$ 18,833,273</u>

In 2011, there are no transfers between the Level 1 and Level 2 classification.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 3 INVESTMENTS *(continued)*

Fair Value Measurement and Levels *(continued)*

	Fair Value—2010			Total
	Level 1	Level 2	Level 3	
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 6,401,386	\$ -	\$ -	\$ 6,401,386
Money market	774,814	-	-	774,814
	<u>\$ 7,176,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,176,200</u>
<i>Investments</i>				
<i>Equity securities</i>				
Consumer discretionary	\$ 171,448	\$ -	\$ -	\$ 171,448
Consumer staples	327,818	-	-	327,818
Energy	271,490	-	-	271,490
Financials	502,140	-	-	502,140
Health care	428,951	-	-	428,951
Industrials	247,032	-	-	247,032
Information technology	1,173,798	-	-	1,173,798
Materials	302,587	-	-	302,587
Telecommunications services	88,140	-	-	88,140
Other	66,425	-	-	66,425
<i>Mutual funds</i>				
Small cap equity	-	631,355	-	631,355
Large cap equity	-	3,248,365	-	3,248,365
International equity	880,319	-	-	880,319
Fixed income	-	10,861,841	-	10,861,841
	<u>\$ 4,460,148</u>	<u>\$ 14,741,561</u>	<u>\$ -</u>	<u>\$ 19,201,709</u>

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 3 INVESTMENTS *(continued)*

The following schedule summarizes the investment return and its classification in the statement of activities:

	2011	2010
Dividends and interest	\$ 547,515	\$ 381,899
Net realized (losses)/gains	(32,942)	764,385
Unrealized (depreciation)/appreciation	(686,359)	1,147,156
Total investment return	\$ (171,786)	\$ 2,293,440
Current operations	\$ 758,097	\$ 593,479
Non-operations activity	(929,883)	1,699,961
Total investment return	\$ (171,786)	\$ 2,293,440

The dividends and interest above is net of fees of \$124,797 and \$125,696 in 2011 and 2010, respectively.

Under the League's endowment spending policy in 2011 and 2010, 4% and 3.5%, respectively, of the 12-month rolling average fair value of its long-term reserves was used to support current operations. The following schedule summarizes the classification of the investment return in the statement of activities in accordance with this policy:

	2011	2010
Loss on non-long-term reserves	\$ (12,297)	\$ (21,607)
Board-designated for current operations from prior-year earnings	770,394	615,086
Total designated for current operations	758,097	593,479
Investment return on long-term reserves	(159,489)	2,315,047
Board-designated for current operations from prior-year earnings	(770,394)	(615,086)
Non-operation investment return	(929,883)	1,699,961
Total investment return	\$ (171,786)	\$ 2,293,440

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 4 GRANTS AND PLEDGES RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the fair value of their estimated future cash flows. The discounts on those amounts are computed using an appropriate discount rate applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Grants and pledges receivable at December 31 are comprised of the following:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 7,905,969	\$ 10,900,108
One to five years	-	1,950,000
	7,905,969	12,850,108
<i>Less: Fair value discount</i>	-	(88,425)
Total	<u>\$ 7,905,969</u>	<u>\$ 12,761,683</u>

All pledges as of December 31, 2011 are expected to be collected in 2012. Discount rate used to determine the present value of the pledges at December 31, 2010 was 4.75%.

NOTE 5 FRANCHISE FEES RECEIVABLE

The League has agreements with several of its affiliates for the payment of fees in arrears. The agreements provide for installment payments over periods varying from one to five years.

	<u>2011</u>	<u>2010</u>
Gross franchise fees receivable	\$ 1,224,232	\$ 1,154,055
<i>Less: Allowance for doubtful amounts</i>	(631,413)	(490,146)
Net franchise fees receivable	<u>\$ 592,819</u>	<u>\$ 663,909</u>

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 6 PROPERTY AND EQUIPMENT

At December 31, 2011 and 2010, property, equipment, and leasehold improvements consisted of the following:

	2011		
	Cost	Accumulated Depreciation Amortization	Net Book Value
Leasehold improvements	\$ 2,400,193	\$ 1,636,094	\$ 764,099
Furniture and fixtures	1,128,241	951,758	176,483
Equipment	861,373	711,125	150,248
Computer software	535,651	351,356	184,295
Total	<u>\$ 4,925,458</u>	<u>\$ 3,650,333</u>	<u>\$ 1,275,125</u>

	2010		
	Cost	Accumulated Depreciation Amortization	Net Book Value
Leasehold improvements	\$ 2,383,569	\$ 1,480,351	\$ 903,218
Furniture and fixtures	1,210,097	971,391	238,706
Equipment	1,052,754	841,344	211,410
Computer software	740,919	525,810	215,109
Total	<u>\$ 5,387,339</u>	<u>\$ 3,818,896</u>	<u>\$ 1,568,443</u>

Depreciation and amortization expenses for 2011 and 2010 were \$433,309 and \$396,575, respectively.

During 2010, the League established a process to ensure the completeness of its fixed assets. For those non-automobile items that were determined to have been disposed of, they were removed with an insignificant book value of \$9,210.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 7 ACCRUED PENSION BENEFITS

The League sponsors a non-contributory defined contribution plan and a defined benefit plan covering substantially all of its employees. The defined benefit plan was frozen to new entrants in 2002.

Contributions to the defined contribution plan are based on employees' annual compensation; the expense for 2011 and 2010 was \$588,779 and \$559,370, respectively.

The defined benefit plan provides benefits based on a participants' earnings and years of service. Net periodic pension costs are determined using the projected unit credit method in accordance with the provisions of financial accounting standards.

The following tables provide a reconciliation of benefit obligations, plan assets, and funded status of the plan:

	<u>2011</u>	<u>2010</u>
<i>Change in benefit obligation</i>		
Projected benefit obligation at beginning of year	\$ 19,410,780	\$ 18,319,478
Service cost	111,793	89,398
Interest cost	936,387	1,019,846
Actuarial loss	1,394,533	1,153,886
Benefit payments and settlements	<u>(1,133,175)</u>	<u>(1,171,828)</u>
Projected benefit obligation at end of year	<u>\$ 20,720,318</u>	<u>\$ 19,410,780</u>
<i>Change in plan assets</i>		
Fair value of plan assets at beginning of year	\$ 13,780,814	\$ 13,030,030
Actual return on plan assets (net of expenses)	121,938	1,031,612
Employer contributions	788,000	891,000
Benefit payments and settlements	<u>(1,133,175)</u>	<u>(1,171,828)</u>
Fair value of plan assets at end of year	<u>\$ 13,557,577</u>	<u>\$ 13,780,814</u>
Funded status	<u>\$ (7,162,741)</u>	<u>\$ (5,629,966)</u>

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

The curtailment is due to the freezing of plan accruals for all highly compensated employees, effective December 31, 2010.

	2011	2010
Reconciliation of funded status		
Funded status	\$ 7,162,741	\$ 5,629,966
Prior service cost	(1,691)	(3,470)
Actuarial (loss)	(9,097,465)	(7,654,413)
Accrued benefit cost (gain)	\$ (1,936,415)	\$ (2,027,917)
	2011	2010
Amounts recognized in the statements of financial position as of December 31,		
Accrued benefit gain	\$ 1,936,415	\$ 2,027,917
Pension related	(7,657,883)	(7,319,322)
Pension-related changes other than net periodic pension (costs) credit	(1,441,273)	(338,561)
Accrued pension benefit costs	\$ (7,162,741)	\$ (5,629,966)

An employer is required to recognize the funded status of a benefit plan in its statement of financial position. Additionally, the gains or losses and prior service costs or credits that arise during the period, but are not recognized as components of net periodic benefit cost, must be recognized. Additional information about certain effects on net periodic benefit cost for the next fiscal year arising from the delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations must be disclosed in the notes to the financial statements.

In addition, the League's statement of financial position as of December 31, 2011, required an additional liability associated with the defined benefit plan of (\$1,441,273) (actuarial gains or losses and prior service costs or credits that arise during 2011 but are not recognized as components of net periodic benefit cost). This increase in liability was reflected as an increase in the accrued pension cost and a corresponding decrease in unrestricted net assets.

The League's statement of financial position as of December 31, 2010, required an additional credit toward its liability associated with the defined benefit plan of (\$338,561) (actuarial gains or losses and prior service costs or credits that arise during 2010 but are not recognized as components of net periodic benefit cost). This decrease in liability was reflected as a decrease in the accrued pension cost and a corresponding increase in unrestricted net assets.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

The accumulated benefit obligation for the defined benefit pension plan was \$20,036,105 and \$18,753,147 at December 31, 2011 and 2010, respectively.

	<u>2011</u>	<u>2010</u>
Components of net periodic benefit cost		
Service cost	\$ 111,793	\$ 89,398
Interest cost	936,387	1,019,846
Expected return on plan assets	(683,736)	(770,671)
Amortization of prior service cost	1,779	1,779
Amortization of net actuarial loss	513,278	552,604
Net periodic benefit cost	<u>\$ 879,501</u>	<u>\$ 892,956</u>

Weighted-average assumptions used to determine benefit obligations as of December 31:

	<u>2011</u>	<u>2010</u>
<i>Additional information</i>		
Discount rate	4.40%	5.20%
Rate of compensation increase	3.00%	3.00%

Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31:

	<u>2011</u>	<u>2010</u>
Discount rate	5.20%	5.75%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	3.00%	3.00%

The League based its expected return on plan assets on a building-block approach, determining risk-free asset return assumptions, and applying a weighted-average methodology to the proportion of plan assets in each applicable asset class.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

Plan Assets

The League's pension plan weighted-average asset allocations at December 31, 2011 and 2010, by asset category, are as follows:

Asset category	<u>2011</u>	<u>2010</u>
Equity securities	45%	46%
Debt securities	40	38
Insurance contracts	13	14
Other	<u>2</u>	<u>2</u>
Total	<u>100%</u>	<u>100%</u>

Cash Flows

Pension Contributions—The League expects to contribute approximately \$1,286,000 to its pension plan in 2012.

Estimated Future Pension Benefit Payments—The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2012	\$ 1,278,810
2013	1,325,821
2014	1,382,983
2015	1,433,323
2016	1,436,970
2017–2021	7,047,258

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 7 ACCRUED PENSION BENEFITS (continued)

The following table provides the fair value hierarchy of the Plan's assets as of December 31, 2011:

	Fair Value-2011			Total
	Level 1	Level 2	Level 3	
<i>Investments</i>				
Commingled separate account funds	\$ -	\$ 11,788,175	\$ -	\$ 11,788,175
Group pension contracts-insurance contracts	-	-	1,769,402	1,769,402
	<u>\$ -</u>	<u>\$ 11,788,175</u>	<u>\$ 1,769,402</u>	<u>\$ 13,557,577</u>

The following table sets forth a summary of changes in value of the Plan's Level 3 investment for the year ended December 31, 2011:

Group pension contracts

Balance, December 31, 2010	\$ 1,897,897
Investment income	41,981
Payments and settlements	<u>(170,476)</u>
Balance, December 31, 2011	<u><u>\$ 1,769,402</u></u>

NOTE 8 DONATED SERVICES AND MATERIALS

NUL received total donated materials and services valued at \$15,615,230 and \$6,662,193 in 2011 and 2010, respectively. Included in the donated material and services, NUL received \$12,274,443 in donated services and material for its television airtime; \$1,300,000 in donated services and material for the Health Tour that occurred in each of 2011 and 2010, respectively; \$3,218,880 in donated services and material for its Centennial celebration in 2010; and, \$1,904,680 and \$1,958,884 in donated services and materials provided from affiliates for 2011 and 2010, respectively.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 9 SPECIAL EVENTS

The League sponsored two special events: 1) A Benefit Concert in July 2011, and 2) The Equal Opportunity Day Dinner in November 2011.

At December 31, total revenue and expenses related to the events were as follows:

	<u>2011</u>	<u>2010</u>
Special event—revenues (gross)	\$ 1,946,100	\$ 2,162,707
Special event—expenses (gross)	<u>723,875</u>	<u>789,756</u>
Net special event revenue	<u>\$ 1,222,225</u>	<u>\$ 1,372,951</u>

Special events revenue and expenses are shown on the statement of activities as gross amounts.

NOTE 10 COMMITMENTS AND CONTINGENT ASSETS

Operating Lease

NUL leases its office space under a 20-year lease agreement expiring in 2017, which provided for waivers of rent payments from April 15, 1997 to September 30, 1998. The balance of \$323,141 and \$383,258 in deferred rent credits represents the unamortized balance of the rent waivers as of December 31, 2011 and 2010, respectively. The future base rentals, excluding rent escalations, under the lease are as follows:

	<u>Amount</u>
2012	\$1,201,572
2013	1,298,708
2014	1,298,708
2015	1,298,708
2016	1,298,708
Thereafter	<u>649,354</u>
Total	<u>\$ 7,045,760</u>

The rental expense for the years ended December 31, 2011 and 2010 was \$1,290,536 and \$1,288,091, respectively. NUL also leases copiers and an automobile. The copiers lease expense for the years 2011 and 2010 was \$406,010 and \$342,485, respectively. The annual automobile lease expense is \$13,333.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 11 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Economic Empowerment	\$ 6,905,305	\$ 5,730,071
Education and Youth Development	2,571,601	3,367,741
Civic Engagement/Leadership Empowerment	3,006,009	3,296,413
Health and Quality of Life Empowerment	131,035	606,492
Future periods	<u>629,448</u>	<u>2,629,035</u>
	<u>\$ 13,243,398</u>	<u>\$ 15,629,752</u>

Permanently restricted net assets were restricted for investment in perpetuity:

	<u>2011</u>	<u>2010</u>
Permanent Development Fund	\$ 4,980,505	\$ 4,980,505
Breakthrough Campaign	14,762,433	14,762,433
Other	<u>279,127</u>	<u>279,127</u>
	<u>\$ 20,022,065</u>	<u>\$ 20,022,065</u>

NOTE 12 UNRESTRICTED NET ASSETS

During 2011, the League generated an operating surplus of \$345,789. Additionally, the League recognized a loss of (\$929,883) for its 2011 long-term investment return over the 2011 spending formula. The net results of these areas decreased the unrestricted undesignated net assets to \$4,398,848. In accordance with accounting standards, the League is also required to recognize actuarial gains or losses and prior service costs of \$1,441,273 that came from its defined benefit pension plan during 2011 but were not recognized as components of net periodic benefit cost. This result caused the pension-related costs balance to be (\$9,099,156) as of December 31, 2011.

During 2010, the League generated an operating surplus of \$135,396. Additionally, the League recognized a surplus of \$1,699,961 for its 2010 long-term investment return over the 2010 spending formula. The net results of these areas increased the unrestricted undesignated net assets to \$4,977,942. In accordance with accounting standards, the League is also required to recognize actuarial gains or losses and prior service costs of \$338,561 that came from its defined benefit pension plan during 2010 but were not recognized as components of net periodic benefit cost. This result caused the pension-related costs balance to be (\$7,657,883) as of December 31, 2010.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 13 ENDOWMENTS

NUL's endowment consists of funds received through separate fundraising campaigns established for assorted purposes. Its endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), the net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence, if any, of donor-imposed restrictions.

Interpretation of Relevant Law

On September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA), a modified version of the Uniform Prudent Management of Institutional Funds Act, which superseded the Statement of New York Uniform Management of Institutional Funds Act. NUL's Board of Directors has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NUL classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by NUL. NUL considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return of income and the appreciation of investments;
- (6) Other resources of the organization; and
- (7) The investment policies of the organization.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 13 ENDOWMENTS *(continued)*

Endowment Net Asset Composition by Type of Fund

December 31, 2011	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (903,551)	\$ -	\$ 20,022,065	\$ 19,118,514
Total funds as of December 31, 2011	<u>\$ (903,551)</u>	<u>\$ -</u>	<u>\$ 20,022,065</u>	<u>\$ 19,118,514</u>

December 31, 2010	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (107,967)	\$ -	\$ 20,022,065	\$ 19,914,098
Total funds as of December 31, 2010	<u>\$ (107,967)</u>	<u>\$ -</u>	<u>\$ 20,022,065</u>	<u>\$ 19,914,098</u>

Changes in endowment net assets for the fiscal year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ (107,967)	\$ -	\$20,022,065	\$19,914,098
<i>Investment return</i>				
Investment income—				
Interest and dividends	526,525	-	-	526,525
Net depreciation	(686,014)	-	-	(686,014)
<i>Board-approved appropriations</i>				
Appropriations to current operations	<u>(636,095)</u>	<u>-</u>	<u>-</u>	<u>(636,095)</u>
Endowment net assets, end of year	<u>\$ (903,551)</u>	<u>\$ -</u>	<u>\$20,022,065</u>	<u>\$19,118,514</u>

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 13 **ENDOWMENTS** *(continued)*

Endowment Net Asset Composition by Type of Fund *(continued)*

Changes in endowment net assets for the fiscal year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ (1,364,726)	\$ -	\$20,022,065	\$ 18,657,339
<i>Investment return</i>				
Investment income—				
Interest and dividends	365,653	-	-	365,653
Net appreciation	1,949,394	-	-	1,949,394
<i>Board-approved appropriations</i>				
Appropriations to current operations	<u>(1,058,288)</u>	<u>-</u>	<u>-</u>	<u>(1,058,288)</u>
Endowment net assets, end of year	<u>\$ (107,967)</u>	<u>\$ -</u>	<u>\$20,022,065</u>	<u>\$ 19,914,098</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires NUL to retain as a fund of perpetual duration. In accordance with GAAP, returns and deficiencies of this nature that are reported in unrestricted net assets, were \$903,551 and \$107,967 as of December 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred for permanently restricted contributions.

Return Objectives and Risk Parameters

NUL has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted funds that NUL must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets shall be so diversified so as to minimize the risk of large losses, unless under particular circumstances it would prove unwise. Over the long term, the entire portfolio should increase the purchasing power of the assets and be so organized as to take into consideration the cash flow requirements and administration of NUL. Safety should be evaluated on an overall basis rather than for each individual investment.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 13 **ENDOWMENTS** *(continued)*

Return Objectives and Risk Parameters *(continued)*

A long-term investment objective has been set for a real return of at least 5% per year, net of fees, over inflation as measured by the Consumer Price Index. NUL seeks a total investment rate of return in excess of the rate of return of an investment in representative indices in the target allocation of the fund. The representative indices shall be as follows: The S&P 500 Stock Index for Large Cap Domestic Equity; the Russell 2000 for the Small Cap Domestic Equity; the MSCI All Country World Ex—U.S. Index for International Equities; and the Lehman Government/Credit Bond Index for fixed income investments.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, NUL relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). NUL targets a diversified asset allocation, placing a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

NUL has a policy of appropriating for distribution a percentage set each year of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, NUL considered the long-term expected return on its endowment. Over the long term, NUL expects the current spending policy to allow its endowment to grow at an average of 5% annually. This policy is consistent with NUL's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as providing additional real growth through market results.

NOTE 14 **RELATED-PARTY TRANSACTIONS**

Affiliates of the League are separately incorporated, non-profit organizations. Franchise fees are paid annually based on the budget size of the affiliates for an amount not to exceed \$15,000. In 2011 and 2010, NUL recognized franchise fees of \$996,000 and \$981,000, respectively.

Sub-contractual payments are made by the League to affiliates for their services in carrying out specific projects. In 2011 and 2010, subcontract payments totaled \$19,342,784 and \$21,798,947, respectively.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 14 RELATED-PARTY TRANSACTIONS *(continued)*

The League received \$1,904,680 and \$1,958,884 in donated services and materials from affiliates in 2011 and 2010, respectively.

NOTE 15 CENTENNIAL CELEBRATION

During 2010, the National Urban League celebrated its 100th anniversary. During that year, the League developed the “I am Empowered” campaign based around four Empowerment Goals, expressly equitable education, employment, housing, and healthcare. The League also created and launched an “I am Empowered” social mobilization website, and through a robust national multi-media campaign, individuals, communities, corporations, and government agencies were engaged in an ongoing campaign to improve the state of America and achieve the Empowerment Goals by 2025. Part of this campaign consisted of \$3,400,000 of in-kind donations from Comcast Corporation of its advertising inventory and the Scrips Network of production. The League also created a museum-quality exhibit of its history and held a record-setting annual conference in July 2010 in Washington, D.C. The Centennial concluded at the annual Equal Opportunity Day Dinner in November 2010.

NOTE 16 SUBSEQUENT EVENTS

The League evaluated events and transactions occurring between January 1, 2012 and June 28, 2012, which is the date that the financial statements were available to be issued, and determined that there were no subsequent events for disclosure and recognition in the financial statements.