

NATIONAL URBAN LEAGUE, INC.

**Financial Statements
For the Years Ended December 31, 2012 and 2011
With Report of Independent Auditors**

NATIONAL URBAN LEAGUE, INC.
December 31, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
National Urban League, Inc.

Report on the financial statements

We have audited the accompanying financial statements of National Urban League, Inc. (the League or NUL), which comprise the statements of financial position as of December 31, 2012 and 2011, and related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

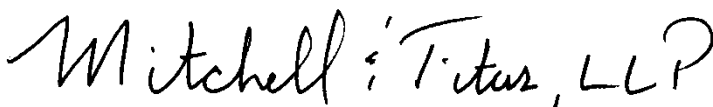
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of National Urban League, Inc. at December 31, 2012 and 2011, and the changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads "Mitchell & Titus, LLP".

July 1, 2013

NATIONAL URBAN LEAGUE, INC.

Statements of Financial Position

As of December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 13,233,779	\$ 12,639,946
Investments	20,368,924	19,147,727
Grants and pledges receivable	5,018,726	7,905,969
Franchise fees receivable, net	698,155	592,819
Other receivables	4,839,725	3,519,353
Prepaid expenses and other assets	650,353	344,739
Property and equipment—net of accumulated depreciation/amortization	<u>1,835,281</u>	<u>1,275,125</u>
Total assets	<u><u>\$ 46,644,943</u></u>	<u><u>\$ 45,425,678</u></u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 4,794,817	\$ 4,280,304
Accrued payroll and vacation benefits	794,323	1,013,534
Accrued pension benefit costs	7,728,819	7,162,741
Accrued defined contribution costs	568,605	588,779
Deferred rent credit	263,020	323,141
Contract advances and other deposits	<u>2,247,769</u>	<u>3,497,024</u>
Total liabilities	<u>16,397,353</u>	<u>16,865,523</u>
<i>Net assets</i>		
Unrestricted—		
Undesignated	5,752,457	4,393,848
Pension related	<u>(10,147,466)</u>	<u>(9,099,156)</u>
Total unrestricted net assets	(4,395,009)	(4,705,308)
Temporarily restricted	14,620,534	13,243,398
Permanently restricted	<u>20,022,065</u>	<u>20,022,065</u>
Total net assets	<u>30,247,590</u>	<u>28,560,155</u>
Total liabilities and net assets	<u><u>\$ 46,644,943</u></u>	<u><u>\$ 45,425,678</u></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, 2012

	<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	\$ 15,687,663	\$ -	\$ -	\$ 15,687,663
Donated materials and services	17,107,348	-	-	17,107,348
Contributions	6,081,097	16,838,757	-	22,919,854
Legacies and bequests	15,229	-	-	15,229
Special events	1,800,850	-	-	1,800,850
Federated fundraising agencies	9,671	-	-	9,671
Program service fees	6,280,562	-	-	6,280,562
Franchise fees	981,500	-	-	981,500
Investment return designated for current operations	768,884	-	-	768,884
Sale of publications	38,157	-	-	38,157
Other	477,822	-	-	477,822
<i>Net assets released from restrictions</i>				
Satisfaction of restrictions	15,461,621	(15,461,621)	-	-
Total revenue, gains, and other support	<u>64,710,404</u>	<u>1,377,136</u>	<u>-</u>	<u>66,087,540</u>
<i>Operating expenses</i>				
<i>Program services</i>				
Economic empowerment	22,017,889	-	-	22,017,889
Education and youth empowerment	6,134,827	-	-	6,134,827
Civic engagement and leadership empowerment	23,232,291	-	-	23,232,291
Technical assistance to affiliates	1,808,170	-	-	1,808,170
Health and quality of life empowerment	2,299,744	-	-	2,299,744
Civil rights and racial justice empowerment	273,205	-	-	273,205
Total program services	55,766,126	-	-	55,766,126
<i>Supporting services</i>				
Management and general	5,442,660	-	-	5,442,660
Fundraising	3,379,172	-	-	3,379,172
Total expenses	<u>64,587,958</u>	<u>-</u>	<u>-</u>	<u>64,587,958</u>
Changes in net assets from operations	<u>122,446</u>	<u>1,377,136</u>	<u>-</u>	<u>1,499,582</u>
NON-OPERATING ACTIVITIES				
Investment return net of amount designated for current operations	1,236,163	-	-	1,236,163
Pension-related changes other than net periodic pension costs	(1,048,310)	-	-	(1,048,310)
Total non-operating activities	<u>187,853</u>	<u>-</u>	<u>-</u>	<u>187,853</u>
Changes in net assets	310,299	1,377,136	-	1,687,435
Net assets, beginning of year	<u>(4,705,308)</u>	<u>13,243,398</u>	<u>20,022,065</u>	<u>28,560,155</u>
Net assets, end of year	<u>\$ (4,395,009)</u>	<u>\$ 14,620,534</u>	<u>\$ 20,022,065</u>	<u>\$ 30,247,590</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>
Change 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>
Change 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.
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	\$ 1,687,435	\$ (4,411,721)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Pension-related changes other than net periodic pension costs	1,048,310	1,441,273
Depreciation and amortization	393,576	433,309
Amortization of deferred rent credit	(60,121)	(60,118)
Loss on retirement of other fixed assets	411	-
Realized loss on sale of investments	281,478	32,942
Write-offs against allowance	(301,036)	-
Bad debt written off	236,587	41,401
Provision for doubtful receivables	116,000	210,121
Unrealized (appreciation)/depreciation of investments	(1,831,579)	686,359
<i>Changes in operating assets and liabilities</i>		
Decrease in grants and pledges receivable	2,887,243	4,855,714
Decrease in franchise fees receivable	72,950	71,090
(Increase)/decrease in other receivables	(1,550,209)	900,203
Increase in prepaid expenses and other assets	(305,614)	(23,158)
Increase in accounts payable and accrued expenses	514,513	430,586
(Decrease)/increase in accrued payroll and vacation benefits	(219,211)	11,507
(Decrease)/increase in accrued pension benefit cost	(482,232)	91,502
(Decrease)/increase in accrued defined contribution costs	(20,174)	29,409
(Decrease)/increase in contract advances and other deposits	(1,249,255)	827,960
Net cash provided by operating activities	1,219,072	5,568,379
INVESTING ACTIVITIES		
Purchases of fixed assets	(954,143)	(139,990)
Purchases of investments	(434,989)	(1,280,402)
Proceeds from sale of investment	763,893	615,083
Net cash provided by (used in) investing activities	(625,239)	(805,309)
Net increase in cash and cash equivalents	593,833	4,763,070
Cash and cash equivalents, beginning of year	12,639,946	7,876,876
Cash and cash equivalents, end of year	\$ 13,233,779	\$ 12,639,946

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, 2012

	<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>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	\$ 1,771,927	\$ 1,455,914	\$ 2,229,147	\$ 738,550	\$ 270,988	\$ 102,074	\$ 6,568,600	\$ 2,212,490	\$ 1,121,217	\$ 9,902,307
Payroll taxes and related benefits	576,467	477,251	729,262	238,822	83,420	27,279	2,132,501	759,372	372,655	3,264,528
Subcontract payments	15,911,321	1,947,305	250,000	-	340,000	-	18,448,626	-	-	18,448,626
Donated materials and services	1,412,725	31,335	14,280,788	-	1,300,000	-	17,024,848	82,500	25,000	17,132,348
Professional contract services	1,239,877	711,849	3,074,256	247,708	113,930	57,910	5,445,530	765,236	980,746	7,191,512
Supplies	42,321	94,226	86,061	24,763	6,339	2,296	256,006	77,258	27,650	360,914
Telephone and telegraph	40,243	32,117	58,247	23,125	7,245	4,532	165,509	79,394	23,887	268,790
Occupancy	360,866	298,757	456,516	149,502	52,221	17,076	1,334,938	460,631	233,282	2,028,851
Commercial insurance	27,116	22,449	34,303	11,234	3,924	1,283	100,309	33,338	17,528	151,175
Postage and shipping	10,182	26,554	39,438	8,732	2,589	1,426	88,921	21,734	20,503	131,158
Printing, duplication, and artwork	10,795	90,011	184,122	11,229	8,087	1,501	305,745	19,872	19,483	345,100
Travel, conferences, and conventions	417,686	674,247	1,398,309	275,668	80,207	41,221	2,887,338	500,043	355,282	3,742,663
Subscription and publication	12,621	8,165	89,689	4,814	4,030	3,966	123,285	31,137	27,567	181,989
Furniture and equipment	34,285	28,613	43,019	14,985	6,102	2,893	129,897	50,228	23,524	203,649
Awards and grants	1,170	126,055	10,765	793	360	60	139,203	3,309	3,705	146,217
Bad debt	2,725	-	100,517	-	-	-	103,242	123,345	10,000	236,587
Miscellaneous	70,623	47,938	73,050	27,199	9,458	6,142	234,410	154,860	68,698	457,968
Depreciation and amortization	74,939	62,041	94,802	31,046	10,844	3,546	277,218	67,913	48,445	393,576
Total expenses	<u>\$ 22,017,889</u>	<u>\$ 6,134,827</u>	<u>\$ 23,232,291</u>	<u>\$ 1,808,170</u>	<u>\$ 2,299,744</u>	<u>\$ 273,205</u>	<u>\$ 55,766,126</u>	<u>\$ 5,442,660</u>	<u>\$ 3,379,172</u>	<u>\$ 64,587,958</u>

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.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 1 ORGANIZATION

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 IRC Sections 509(a)(1) and 170(b)(A)(VI).

The League, a non-partisan, civil rights, and community-based movement, 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 work principally with African-Americans and other disadvantaged urban communities to diligently close equality gaps for people at all economic levels and stages of life, thereby creating an opportunity for citizens to give back as volunteers. In pursuit of its mission—helping African Americans and other disadvantaged urban communities 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 Empowerment 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, 2012 and 2011

NOTE 1 ORGANIZATION *(continued)*

NUL's **Affiliates** offer services in 36 states and the District of Columbia to over 350 communities across the country. These professionally staffed offices fulfill NUL's services: 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Financial Statement Presentation

The presentation of the financial statements conform 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 net asset classes: unrestricted, temporarily restricted, and permanently restricted, which are defined as:

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 the 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, 2012 and 2011, were \$5,194,727 and \$4,715,580, respectively, and consisted of money market funds.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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 League's Investment Committee is responsible for determining the valuation policies and analyzing information provided by the investment custodians and issuers that is used to determine the fair value of the League's investments. The Investment Committee is a sub-committee of the League's Board of Trustees.

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 operational needs in future years and to offset potential market declines.

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

Interest and dividend income is recognized when earned and 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 restrictions or law.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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-level fair value hierarchy is 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, 2012 and 2011

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

Receivables

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 given to 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.

Franchise Fees

Franchise fees are annual fees charged to the affiliates. 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.

As December 31, 2012, the League revised its collection policy with affiliates and developed a three-year payment, beginning January 1, 2013, to recover prior fees and payment of dues for 2013 through 2015.

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.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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

Property and Equipment *(continued)*

During 2012, the League incurred and paid expenses related to the “future home” for its New York office. The League classified these expenses, which were considered pre-construction costs, as construction in progress on the statements of financial position.

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.

Pension Costs

The League is required to disclose the over- 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, 2012 and 2011, the under-funded status of the plan is a deficit of the fair value of plan assets over the projected benefit obligation, which amounted to \$7,728,819 and \$7,162,741, 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.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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

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.

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 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 statements 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.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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

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 is recognized at the due date of the invoice regardless of the date or dates of the advertisement. Advertising expense of \$324,627 and \$121,049 in 2012 and 2011, respectively, are reported as part of the professional contract services expense in the statements of functional expenses.

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 has analyzed the tax positions taken by the League and has concluded that as of December 31, 2012 and 2011, there are no uncertain tax positions taken or are to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying financial statements.

The League is subject to routine audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that the League is no longer subject to such income tax examinations for years prior to 2008.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amended ASC 820, *Fair Value Measurement*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in Accounting Standards Codification (ASC) 820. In addition, ASU 2011-04 requires additional fair value disclosures, although certain of these new disclosures are not required for nonpublic entities, as defined in ASC 820. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Adoption of ASU 2011-04 did not have an effect on the League's financial position or changes in net assets.

Reclassification

Certain items in the 2011 financial statements have been reclassified to conform to the 2012 financial statements presentation.

NOTE 3 **INVESTMENTS**

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

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 749,443	\$ 749,443	\$ 314,454	\$ 314,454
Corporate stocks	6,214,898	7,380,836	7,149,360	7,300,986
Fixed income	1,934,130	2,001,571	2,056,042	2,077,451
Commingled funds	8,824,685	10,237,074	8,813,682	9,454,836
Total investments	<u>\$ 17,723,156</u>	<u>\$ 20,368,924</u>	<u>\$ 18,333,538</u>	<u>\$ 19,147,727</u>

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 3 **INVESTMENTS** *(continued)*

Fair Value Measurement and Levels

Fair values are determined using quoted market prices and broker quotes, except for the mutual funds which are based on NAV.

The following table summarizes the investments measured at fair value based on NAV per share:

<u>Investments Class</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Active MBS Fund ^a	\$ 3,520,827	\$ -	Quarterly	90 days
Government/Credit Fixed Income Fund ^b	<u>6,716,247</u>	<u>-</u>	Monthly	30 days
Total	<u>\$ 10,237,074</u>	<u>\$ -</u>		

- a. This fund invests primarily in high-quality, senior, secured, mortgage-backed securities (MBS), asset-backed securities and commercial mortgage-backed securities. Management of the fund may also invest in direct obligations of the U.S or any agency or instrumentality thereof and money market instruments including commercial paper and repurchase agreements collateralized by agency and non-agency MBS. The fair value has been estimated using the NAV per share of the investments.
- b. This fund invests primarily in various government obligations and corporate bonds both U.S. and foreign. The fair value has been estimated using the NAV per share of the investments.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 3 INVESTMENTS *(continued)*

The following tables set forth, by level within the fair value hierarchy, investment assets and liabilities as of December 31, 2012 and 2011:

	Fair Value-2012			Total
	Level 1	Level 2	Level 3	
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 5,194,727	\$ -	\$ -	\$ 5,194,727
	<u>\$ 5,194,727</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,194,727</u>
<i>Investments</i>				
<i>Cash and cash equivalents</i>	\$ 749,443	\$ -	\$ -	\$ 749,443
<i>Equity securities</i>				
Consumer discretionary	912,611	-	-	912,611
Consumer staples	541,246	-	-	541,246
Energy	698,489	-	-	698,489
Financials	948,748	-	-	948,748
Health care	986,570	-	-	986,570
Industrials	612,615	-	-	612,615
Information technology	1,483,492	-	-	1,483,492
Materials	354,335	-	-	354,335
Telecommunications services	142,708	-	-	142,708
Utilities	121,138	-	-	121,138
Other	578,884	-	-	578,884
<i>Fixed income</i>	-	2,001,569	-	2,001,569
<i>Commingled funds</i>	-	10,237,076	-	10,237,076
	<u>\$ 8,130,279</u>	<u>\$ 12,238,645</u>	<u>\$ -</u>	<u>\$ 20,368,924</u>

In 2012, there were no transfers between the Level 1 and Level 2 classification.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 3 INVESTMENTS *(continued)*

	Fair Value-2011			Total
	Level 1	Level 2	Level 3	
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 4,715,580	\$ -	\$ -	\$ 4,715,580
	<u>\$ 4,715,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,715,580</u>
<i>Investments</i>				
<i>Cash and cash equivalents</i>	\$ 314,454	\$ -	\$ -	\$ 314,454
<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>Fixed income</i>	-	2,077,451	-	2,077,451
<i>Commingled funds</i>	-	9,454,836	-	9,454,836
	<u>\$ 7,613,328</u>	<u>\$ 11,534,399</u>	<u>\$ -</u>	<u>\$ 19,147,727</u>

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

	2012	2011
Dividends and interest	\$ 454,946	\$ 547,515
Net realized losses	(281,478)	(32,942)
Unrealized appreciation/(depreciation)	1,831,579	(686,359)
Total investment return	<u>\$ 2,005,047</u>	<u>\$ (171,786)</u>
Current operations	\$ 768,884	\$ 758,097
Non-operation activity	1,236,163	(929,883)
Total investment return	<u>\$ 2,005,047</u>	<u>\$ (171,786)</u>

The dividends and interest above are net of fees of \$176,808 and \$124,797 in 2012 and 2011, respectively.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 3 INVESTMENTS *(continued)*

Under the League's endowment spending policy in 2012 and 2011, 4% 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 statements of activities in accordance with this policy:

	<u>2012</u>	<u>2011</u>
Loss on non-long-term reserves	\$ (15,150)	\$ (12,297)
Board-designated for current operations from prior-year earnings	<u>784,034</u>	<u>770,394</u>
Total designated for current operations	<u>768,884</u>	<u>758,097</u>
Investment return on long-term reserves	2,020,197	(159,489)
Board-designated for current operations from prior-year earnings	<u>(784,034)</u>	<u>(770,394)</u>
Non-operation investment return	<u>1,236,163</u>	<u>(929,883)</u>
Total investment return	<u><u>\$ 2,005,047</u></u>	<u><u>\$ (171,786)</u></u>

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>2012</u>	<u>2011</u>
Less than one year	\$ 4,047,381	\$ 7,905,969
One to five years	<u>1,000,000</u>	<u>-</u>
	5,047,381	7,905,969
Less: Fair value discount	<u>(28,655)</u>	<u>-</u>
Total	<u><u>\$ 5,018,726</u></u>	<u><u>\$ 7,905,969</u></u>

Most pledges as of December 31, 2012 are expected to be collected in 2013. The discount rate used to determine the present value of the pledges at December 31, 2012 was 2.95%.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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.

	2012	2011
Gross franchise fees receivable	\$ 1,144,532	\$ 1,224,232
<i>Less:</i> Allowance for doubtful amounts	(446,377)	(631,413)
Net franchise fees receivable	\$ 698,155	\$ 592,819

NOTE 6 PROPERTY AND EQUIPMENT

At December 31, 2012 and 2011, property, equipment, and leasehold improvements consisted of the following:

	2012		
	Cost	Accumulated Depreciation Amortization	Net Book Value
Leasehold improvements	\$ 2,406,711	\$ 1,792,714	\$ 613,997
Furniture and fixtures	1,133,638	987,420	146,218
Equipment	953,638	659,644	293,994
Computer software	565,302	414,161	151,141
	5,059,289	3,853,939	1,205,350
Construction in progress	629,931	-	629,931
Total	\$ 5,689,220	\$ 3,853,939	\$ 1,835,281
	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	\$ 4,925,458	\$ 3,650,333	\$ 1,275,125

Depreciation and amortization expenses for 2012 and 2011 were \$393,576 and \$433,309, respectively.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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 2012 and 2011 was \$568,605 and \$588,779, respectively.

The defined benefit plan provides benefits based on 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>2012</u>	<u>2011</u>
<i>Change in benefit obligation</i>		
Projected benefit obligation, beginning of year	\$ 20,720,318	\$ 19,410,780
Service cost	124,946	111,793
Interest cost	880,811	936,387
Actuarial loss	1,783,212	1,394,533
Benefit payments and settlements	(1,178,511)	(1,133,175)
Projected benefit obligation, end of year	<u><u>\$ 22,330,776</u></u>	<u><u>\$ 20,720,318</u></u>
<i>Change in plan assets</i>		
Fair value of plan assets, beginning of year	\$ 13,557,577	\$ 13,780,814
Actual return on plan assets (net of expenses)	1,172,891	121,938
Employer contributions	1,050,000	788,000
Benefit payments and settlements	(1,178,511)	(1,133,175)
Fair value of plan assets, end of year	<u><u>\$ 14,601,957</u></u>	<u><u>\$ 13,557,577</u></u>
Funded status	<u><u>\$ (7,728,819)</u></u>	<u><u>\$ (7,162,741)</u></u>

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

	2012	2011
Reconciliation of funded status		
Funded status	\$ 7,728,819	\$ 7,162,741
Prior service cost	-	(1,691)
Actuarial (loss)	(10,147,466)	(9,097,465)
Accrued benefit cost (gain)	\$ (2,418,647)	\$ (1,936,415)
	2012	2011
Amounts recognized in the statements of financial position, as of December 31		
Accrued benefit gain	\$ 2,418,647	\$ 1,936,415
Pension related	(9,099,156)	(7,657,883)
Pension-related changes other than net periodic pension (costs) credit	(1,048,310)	(1,441,273)
Accrued pension benefit costs	\$ (7,728,819)	\$ (7,162,741)

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, 2012, required an additional liability associated with the defined benefit plan of \$(1,048,310) (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 resulted in a corresponding decrease in unrestricted net assets.

The League's statement of financial position as of December 31, 2011, required an additional credit toward its liability associated with the defined benefit plan of \$(1,441,273) (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 resulted in a corresponding increase in unrestricted net assets.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

The accumulated benefit obligations for the defined benefit pension plan were \$21,532,389 and \$20,036,105 at December 31, 2012 and 2011, respectively.

	2012	2011
Components of net periodic benefit cost		
Service cost	\$ 124,946	\$ 111,793
Interest cost	880,811	936,387
Expected return on plan assets	(803,699)	(683,736)
Amortization of prior service cost	1,691	1,779
Amortization of net actuarial loss	364,020	513,278
Net periodic benefit cost	\$ 567,769	\$ 879,501

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

	2012	2011
<i>Additional information</i>		
Discount rate	3.69%	4.40%
Rate of compensation increase	3.00%	3.00%

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

	2012	2011
Discount rate	4.40%	5.20%
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, 2012 and 2011

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

Plan Assets

The League's pension plan weighted-average asset allocations at December 31, 2012 and 2011, by asset category, are as follows:

Asset category	<u>2012</u>	<u>2011</u>
Equity securities	45%	45%
Debt securities	41	40
Insurance contracts	12	13
Other	<u>2</u>	<u>2</u>
Total	<u>100%</u>	<u>100%</u>

Cash Flows

Pension Contributions—The League expects to contribute approximately \$643,000 to its pension plan in 2013.

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

<u>Year</u>	<u>Amount</u>
2013	\$ 1,341,995
2014	1,397,389
2014	1,432,432
2016	1,438,899
2017	1,406,370
2018–2022	7,031,370

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 7 ACCRUED PENSION BENEFITS (continued)

The following table provides the fair value hierarchy of the Plan's assets as of December 31, 2012:

	Fair Value-2012			Total
	Level 1	Level 2	Level 3	
<i>Investments</i>				
Commingled separate account funds	\$ -	\$ 12,944,411	\$ -	\$ 12,944,411
Group pension contracts- insurance contracts	-	-	1,657,546	1,657,546
	\$ -	\$ 12,944,411	\$ 1,657,546	\$ 14,601,957

The following table sets forth a summary of changes in the value of the Plan's Level 3 investment for the year ended December 31, 2012:

Group pension contracts	
Balance, at December 31, 2011	\$ 1,769,402
Investment income	42,636
Payments and settlements	(154,492)
Balance, at December 31, 2012	\$ 1,657,546

NOTE 8 DONATED SERVICES AND MATERIALS

NUL received total donated materials and services valued at \$17,107,348 and \$15,615,230 in 2012 and 2011, respectively. Included in the donated materials and services, NUL received \$13,799,003 and \$12,274,443 for its television airtime in 2012 and 2011, respectively; \$1,300,000 for the Health Tour that occurred in each of 2012 and 2011, respectively; \$1,412,725 and \$1,904,680 from affiliates for 2012 and 2011, respectively.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 9 SPECIAL EVENTS

The League sponsored two special events: 1) A Benefit Concert in July 2012, and 2) The Equal Opportunity Day Dinner in November 2012.

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

	<u>2012</u>	<u>2011</u>
Special event—revenues (gross)	\$ 1,800,850	\$ 1,946,100
Special event—expenses (gross)	<u>720,095</u>	<u>723,875</u>
Net special event revenue	<u>\$ 1,080,755</u>	<u>\$ 1,222,225</u>

Special events revenue and expenses are shown on the statements 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 \$263,020 and \$323,141 in deferred rent credits represents the unamortized balance of the rent waivers as of December 31, 2012 and 2011, respectively. The future base rentals, excluding rent escalations, under the lease are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 1,298,708
2014	1,298,708
2015	1,298,708
2016	1,298,708
2017	<u>649,354</u>
Total	<u>\$ 5,844,186</u>

The rental expense for the years ended December 31, 2012 and 2011 was \$1,426,858 and \$1,290,536, respectively. NUL also leases copiers and an automobile. The copiers lease expense for 2012 and 2011 was \$80,938 and \$399,829, respectively. In 2012, the League made only two monthly payments prior to ending its copier lease agreement and purchasing new copiers. The annual automobile lease expense is \$13,333.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 11 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Economic Empowerment	\$ 6,942,787	\$ 6,905,305
Education and Youth Empowerment	1,902,445	2,571,601
Civic Engagement/Leadership Empowerment	2,425,960	3,006,009
Health and Quality of Life Empowerment	326,061	131,035
Future periods	<u>3,023,281</u>	<u>629,448</u>
	<u>\$ 14,620,534</u>	<u>\$ 13,243,398</u>

Permanently restricted net assets were restricted for investment in perpetuity:

	<u>2012</u>	<u>2011</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 2012, the League generated an operating surplus of \$122,446. Additionally, the League recognized a gain of \$1,236,163 for its 2012 long-term investment return over the 2012 spending formula. The net results of these areas decreased the unrestricted undesignated net assets to \$5,752,457. In accordance with accounting standards, the League is also required to recognize actuarial gains or losses and prior service costs of \$1,048,310 that came from its defined benefit pension plan during 2012 but were not recognized as components of net periodic benefit cost. This result caused the pension-related costs balance to be \$(10,147,466) as of December 31, 2012.

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.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 13 ENDOWMENTS

NUL's endowment consists of funds received through separate fundraising campaigns established for several 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, 2012 and 2011

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

Endowment Net Asset Composition by Type of Fund

December 31, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 350,857	\$ -	\$ 20,022,065	\$ 20,372,922
Total funds, as of December 31, 2012	\$ 350,857	\$ -	\$ 20,022,065	\$ 20,372,922
December 31, 2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (903,551)	\$ -	\$ 20,022,065	\$ 19,118,514
Total funds, as of December 31, 2011	\$ (903,551)	\$ -	\$ 20,022,065	\$ 19,118,514

Changes in endowment net assets for the fiscal year ended December 31, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (903,551)	\$ -	\$ 20,022,065	\$19,118,514
<i>Investment return</i>				
Investment income—				
Interest and dividends	437,003	-	-	437,003
Net appreciation	1,583,194	-	-	1,583,194
<i>Board-approved appropriations</i>				
Appropriations to current operations	(765,789)	-	-	(765,789)
Endowment net assets, end of year	\$ 350,857	\$ -	\$ 20,022,065	\$20,372,922

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

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, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</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><u>\$ (903,551)</u></u>	<u><u>\$ -</u></u>	<u><u>\$20,022,065</u></u>	<u><u>\$ 19,118,514</u></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 \$350,857 and (\$903,551) as of December 31, 2012 and 2011, 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, 2012 and 2011

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 2012 and 2011, NUL recognized franchise fees of \$981,500 and \$996,000, respectively.

Subcontractual payments are made by the League to affiliates for their services in carrying out specific projects. In 2012 and 2011, subcontract payments totaled \$18,448,626 and \$19,342,784, respectively.

NATIONAL URBAN LEAGUE, INC.

Notes to Financial Statements

December 31, 2012 and 2011

NOTE 14 RELATED-PARTY TRANSACTIONS *(continued)*

The League received \$1,412,725 and \$1,904,680 in donated services and materials from affiliates in 2012 and 2011, respectively.

Certain of the League's investments are managed by Bank of America (BOA), UCM Partners, L.P. (UCM) and Osborne Partners Capital Management, LLC (Osborne). BOA also serves as the custodian of the investments managed by UCM and Osborne. The League's investment with UCM was \$10,237,076 and \$9,454,836 in 2012 and 2011, respectively. The League's investment with Osborne was \$4,424,171 and \$3,544,610 in 2012 and 2011, respectively.

NOTE 15 NEW MARKETS TAX CREDIT

On August 21, 2009, an agreement was signed between the League and Stonehenge Community Development LLC. This agreement enlists the consulting assistance of the League and its national network of affiliates in performing economic impact assessments for each Qualified Low-Income Community Investment (QLICI) under Stonehenge Community Development's New Market Tax Credits authority. For each QLICI, the League is paid an Economic Assessment Consulting Fee equal to 0.50% of the amount of each QLICI. The League received \$1,091,000 and \$1,636,000 in fees for the years ended December 31, 2012 and 2011, respectively.

NOTE 16 SUBSEQUENT EVENTS

The League evaluated events and transactions occurring between January 1, 2013 and July 1, 2013, 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. Effective March 1, 2013, the League entered into a new lease agreement for the DC office for 10 years.