

NATIONAL URBAN LEAGUE, INC.

**Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

NATIONAL URBAN LEAGUE, INC.
Years Ended December 31, 2016 and 2015

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities (2016)	4
Consolidated Statement of Activities (2015)	5
Consolidated Statements of Cash Flows	6
Consolidated Statement of Functional Expenses (2016)	7
Consolidated Statement of Functional Expenses (2015)	8
Notes to Consolidated Financial Statements	9-39



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
National Urban League, Inc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of National Urban League, Inc. (the League or NUL), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

One Battery Park Plaza
New York, NY 10004

T +1 212 709 4500

F +1 212 709 4680

mitchelltitus.com



MITCHELL TITUS

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Urban League, Inc. at December 31, 2016 and 2015, 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 of America.

Mitchell Titus, LLP

August 4, 2017

NATIONAL URBAN LEAGUE, INC.
Consolidated Statements of Financial Position
As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 15,917,882	\$ 16,954,320
Grants and pledges receivable, net	15,691,983	9,835,752
Franchise fees receivable, net	698,542	910,080
Prepaid expenses and other assets	850,496	427,099
Investments	20,316,332	19,374,071
Property and equipment, net	<u>5,740,415</u>	<u>5,409,321</u>
Total assets	<u>\$ 59,215,650</u>	<u>\$ 52,910,643</u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 5,600,111	\$ 4,785,696
Accrued payroll and vacation benefits	431,689	345,769
Accrued pension benefit costs	6,090,439	5,978,165
Accrued defined contribution costs	575,983	533,932
Deferred rent credit	97,808	169,656
Contract advances and other deposits	<u>215,714</u>	<u>557,115</u>
Total liabilities	<u>13,011,744</u>	<u>12,370,333</u>
<i>Net assets (deficit)</i>		
Unrestricted–		
Undesignated	6,084,993	5,773,116
Pension related	<u>(9,756,368)</u>	<u>(9,450,549)</u>
Total unrestricted	<u>(3,671,375)</u>	<u>(3,677,433)</u>
Temporarily restricted	29,877,216	24,194,678
Permanently restricted	<u>19,998,065</u>	<u>20,023,065</u>
Total net assets	<u>46,203,906</u>	<u>40,540,310</u>
Total liabilities and net assets	<u>\$ 59,215,650</u>	<u>\$ 52,910,643</u>

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

NATIONAL URBAN LEAGUE, INC.
Consolidated Statements of Activities
For the Year Ended December 31, 2016

	<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	\$ 17,260,965	\$ -	\$ -	\$ 17,260,965
Donated materials and services	7,060,978	-	-	7,060,978
Contributions	6,758,029	20,123,854	-	26,881,883
Legacies and bequests	33,073	-	-	33,073
Special events	1,520,660	-	-	1,520,660
Program service fees	6,269,824	-	-	6,269,824
Franchise fees	924,000	-	-	924,000
Net investment return designated for current operations	1,002,778	-	-	1,002,778
Sale of publications	13,810	-	-	13,810
Other	328,937	-	-	328,937
<i>Net assets released from restrictions</i>				
Satisfaction of restrictions	14,417,518	(14,392,518)	(25,000)	-
Total revenue, gains, and other support	<u>55,590,572</u>	<u>5,731,336</u>	<u>(25,000)</u>	<u>61,296,908</u>
<i>Operating expenses</i>				
<i>Program services</i>				
Economic empowerment	23,728,061	-	-	23,728,061
Education and youth empowerment	4,183,766	-	-	4,183,766
Civic engagement and leadership empowerment	12,669,171	-	-	12,669,171
Technical assistance to affiliates	2,406,655	-	-	2,406,655
Health and quality of life empowerment	1,096,431	-	-	1,096,431
Civil rights and racial justice empowerment	259,414	-	-	259,414
Urban empowerment	345,537	-	-	345,537
Total program services	44,689,035	-	-	44,689,035
<i>Supporting services</i>				
Management and general	6,911,479	-	-	6,911,479
Fundraising	3,678,181	-	-	3,678,181
Total expenses	<u>55,278,695</u>	<u>-</u>	<u>-</u>	<u>55,278,695</u>
Changes in net assets from operations	<u>311,877</u>	<u>5,731,336</u>	<u>(25,000)</u>	<u>6,018,213</u>
NON-OPERATING ACTIVITIES				
Net investment return net of amount designated for current operations	-	(48,798)	-	(48,798)
Pension-related changes other than net periodic pension costs	(305,819)	-	-	(305,819)
Total non-operating activities	<u>(305,819)</u>	<u>(48,798)</u>	<u>-</u>	<u>(354,617)</u>
Changes in net assets	6,058	5,682,538	(25,000)	5,663,596
Net assets (deficit), beginning of year	<u>(3,677,433)</u>	<u>24,194,678</u>	<u>20,023,065</u>	<u>40,540,310</u>
Net assets (deficit), end of year	<u>\$ (3,671,375)</u>	<u>\$ 29,877,216</u>	<u>\$ 19,998,065</u>	<u>\$ 46,203,906</u>

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

NATIONAL URBAN LEAGUE, INC.
Consolidated Statements of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
<i>Revenue, gains, and other support</i>				
Government grants and contracts	\$ 17,082,433	\$ -	\$ -	\$ 17,082,433
Donated materials and services	17,196,926	-	-	17,196,926
Contributions	6,274,492	17,788,972	-	24,063,464
Legacies and bequests	29,451	-	-	29,451
Special events	1,532,530	-	-	1,532,530
Program service fees	5,497,355	-	-	5,497,355
Franchise fees	953,000	-	-	953,000
Net investment return designated for current operations	1,050,440	-	-	1,050,440
Sale of publications	11,478	-	-	11,478
Other	802,517	-	-	802,517
<i>Net assets released from restrictions</i>				
Satisfaction of restrictions	12,915,973	(12,915,973)	-	-
Total revenue, gains, and other support	<u>63,346,595</u>	<u>4,872,999</u>	<u>-</u>	<u>68,219,594</u>
<i>Operating expenses</i>				
<i>Program services</i>				
Economic empowerment	23,024,603	-	-	23,024,603
Education and youth empowerment	9,919,736	-	-	9,919,736
Civic engagement and leadership empowerment	15,640,486	-	-	15,640,486
Technical assistance to affiliates	2,207,717	-	-	2,207,717
Health and quality of life empowerment	2,772,348	-	-	2,772,348
Civil rights and racial justice empowerment	235,496	-	-	235,496
Urban empowerment	301,526	-	-	301,526
Total program services	54,101,912	-	-	54,101,912
<i>Supporting services</i>				
Management and general	5,887,452	-	-	5,887,452
Fundraising	3,241,319	-	-	3,241,319
Total expenses	<u>63,230,683</u>	<u>-</u>	<u>-</u>	<u>63,230,683</u>
Changes in net assets from operations	<u>115,912</u>	<u>4,872,999</u>	<u>-</u>	<u>4,988,911</u>
NON-OPERATING ACTIVITIES				
Net investment return net of amount designated for current operations	-	(1,230,629)	-	(1,230,629)
Pension-related changes other than net periodic pension costs	(454,020)	-	-	(454,020)
Total non-operating activities	<u>(454,020)</u>	<u>(1,230,629)</u>	<u>-</u>	<u>(1,684,649)</u>
Changes in net assets	(338,108)	3,642,370	-	3,304,262
Net assets (deficit), beginning of year	(3,339,325)	20,552,308	20,023,065	37,236,048
Net assets (deficit), end of year	<u>\$ (3,677,433)</u>	<u>\$ 24,194,678</u>	<u>\$ 20,023,065</u>	<u>\$ 40,540,310</u>

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

NATIONAL URBAN LEAGUE, INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,663,596	\$ 3,304,262
<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	305,819	454,020
Depreciation and amortization	482,582	510,117
Realized loss on write-off of fixed assets	-	3,841
Realized loss on sale of fixed assets	-	296
(Amortization) provision of deferred rent credit	(71,848)	(71,849)
Realized loss/(gain) on sales of investments	8,493	(1,209,356)
Bad debt expense	481,963	116,375
Unrealized (appreciation)/depreciation of investments	(435,506)	1,658,974
<i>Changes in operating assets and liabilities</i>		
Change in grants and pledges receivable	(5,966,671)	411,901
Change in franchise fees receivable	(159,985)	(243,270)
Change in prepaid expenses and other assets	(423,397)	(44,334)
Change in accounts payable and accrued expenses	814,415	815,541
Change in accrued payroll and vacation benefits	85,920	36,142
Change in accrued pension benefit cost	(193,545)	(334,926)
Change in accrued defined contribution costs	42,051	82,301
Change in contract advances and other deposits	(341,401)	30,458
Net cash provided by operating activities	<u>292,486</u>	<u>5,520,493</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(813,676)	(1,043,255)
Purchases of investments	(515,248)	(261,304)
Proceeds from sale of investments	-	1,043,780
Net cash used in investing activities	<u>(1,328,924)</u>	<u>(260,779)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayments on loan payable	-	(47,437)
Net cash used in financing activities	<u>-</u>	<u>(47,437)</u>
Net (decrease) increase in cash and cash equivalents	(1,036,438)	5,212,277
Cash and cash equivalents, beginning of year	<u>16,954,320</u>	<u>11,742,043</u>
Cash and cash equivalents, end of year	<u>\$ 15,917,882</u>	<u>\$ 16,954,320</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ -</u>	<u>\$ 716</u>

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

NATIONAL URBAN LEAGUE, INC.
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services							Total	Supporting Services		
	Economic Empowerment	Education and Youth Empowerment	Civic Engagement and Leadership Empowerment	Technical Assistance to Affiliates	Health and Quality of Life Empowerment	Civil Rights and Racial Justice Empowerment	Urban Empowerment Fund		Management and General	Fundraising	Total
Salaries	\$ 2,187,088	\$ 875,122	\$ 1,583,405	\$ 820,089	\$ 338,031	\$ 104,520	\$ 225,865	\$ 6,134,120	\$ 2,917,563	\$ 1,419,624	\$ 10,471,307
Payroll taxes and related benefits	764,523	301,072	551,175	281,639	111,418	28,962	39,297	2,078,086	997,086	501,288	3,576,460
Subcontract payments	16,863,225	1,437,928	-	22,000	315,715	-	15,000	18,653,868	4,630	-	18,658,498
Donated materials and services	1,032,262	-	6,028,716	-	-	-	-	7,060,978	-	25,000	7,085,978
Professional contract services	1,020,003	653,055	2,187,675	412,928	96,058	43,724	42,949	4,456,392	650,995	703,017	5,810,404
Supplies	60,942	43,561	59,015	21,250	7,182	1,843	-	193,793	69,534	34,121	297,448
Telephone	48,645	22,134	53,884	22,450	9,226	4,497	570	161,406	79,550	29,953	270,909
Occupancy	523,220	206,094	406,846	192,792	76,270	19,826	-	1,425,048	687,076	343,149	2,455,273
Commercial insurance	122,396	15,523	41,011	13,559	5,084	1,322	-	198,895	45,561	29,275	273,731
Postage and shipping	7,234	8,603	42,156	6,439	2,103	1,203	-	67,738	14,239	22,877	104,854
Printing, duplication, and artwork	13,262	117,131	78,394	19,236	4,353	364	-	232,740	18,055	13,187	263,982
Travel, conferences, and conventions	676,086	345,836	1,355,403	453,796	72,345	38,896	12,463	2,954,825	412,078	397,664	3,764,567
Subscription and publication	11,609	18,648	85,650	4,819	1,470	991	15	123,202	23,326	26,707	173,235
Furniture and equipment	70,260	30,840	52,835	26,651	11,336	3,917	-	195,839	99,965	46,450	342,254
Awards and grants	934	1,110	37,590	583	94	-	-	40,311	5,574	7,010	52,895
Bad debt	-	-	-	-	-	-	-	-	481,963	-	481,963
Interest expense	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	193,248	69,776	37,070	73,501	31,930	5,758	9,378	420,661	274,995	16,699	712,355
Depreciation and amortization	133,124	37,333	68,346	34,923	13,816	3,591	-	291,133	129,289	62,160	482,582
Total expenses	\$ 23,728,061	\$ 4,183,766	\$ 12,669,171	\$ 2,406,655	\$ 1,096,431	\$ 259,414	\$ 345,537	\$ 44,689,035	\$ 6,911,479	\$ 3,678,181	\$ 55,278,695

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

NATIONAL URBAN LEAGUE, INC.
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services							Total	Supporting Services		
	Economic Empowerment	Education and Youth Empowerment	Civic Engagement and Leadership Empowerment	Technical Assistance to Affiliates	Health and Quality of Life Empowerment	Civil Rights and Racial Justice Empowerment	Urban Empowerment Fund		Management and General	Fundraising	Total
Salaries	\$ 2,118,609	\$ 879,698	\$ 1,706,357	\$ 725,766	\$ 392,851	\$ 104,679	\$ 240,289	\$ 6,168,249	\$ 2,799,294	\$ 1,285,075	\$ 10,252,618
Payroll taxes and related benefits	685,986	281,793	554,466	230,662	120,946	25,674	39,675	1,939,202	896,205	424,959	3,260,366
Subcontract payments	15,908,113	1,241,476	5,000	-	596,000	-	-	17,750,589	-	-	17,750,589
Donated materials and services	1,176,301	5,790,560	8,868,115	-	1,300,000	-	-	17,134,976	61,950	10,000	17,206,926
Professional contract services	1,354,479	735,858	2,434,536	480,795	74,715	33,876	14,080	5,128,339	524,531	637,573	6,290,443
Supplies	63,641	65,921	67,859	3,462	34,173	1,614	-	236,670	56,689	27,081	320,440
Telephone	52,319	23,861	58,224	21,227	9,643	3,482	1,210	169,966	85,618	31,197	286,781
Occupancy	491,065	200,689	401,789	164,439	86,039	18,175	-	1,362,196	633,351	302,630	2,298,177
Commercial insurance	43,894	17,016	49,159	12,595	6,218	1,314	-	130,196	45,773	29,072	205,041
Postage and shipping	8,737	16,452	37,322	9,102	2,912	1,229	14	75,768	14,139	13,930	103,837
Printing, duplication, and artwork	148,683	102,568	-	11,460	9,080	360	-	272,151	6,829	15,210	294,190
Travel, conferences, and conventions	655,540	358,967	1,198,448	413,244	53,090	29,689	2,452	2,711,430	272,778	318,520	3,302,728
Subscription and publication	4,089	9,623	69,383	3,810	1,173	1,140	120	89,338	20,392	24,808	134,538
Furniture and equipment	66,512	28,795	60,213	23,585	13,200	4,210	-	196,515	93,716	40,086	330,317
Awards and grants	12,500	12,000	10,069	974	25,169	-	-	60,712	3,184	5,469	69,365
Bad debt	-	-	-	-	-	-	-	-	116,375	-	116,375
Interest expense	151	62	122	48	27	6	-	416	207	93	716
Miscellaneous	126,453	110,222	32,397	70,352	28,173	6,047	3,686	377,330	110,788	9,002	497,120
Depreciation and amortization	107,531	44,175	87,027	36,196	18,939	4,001	-	297,869	145,633	66,614	510,116
Total expenses	\$ 23,024,603	\$ 9,919,736	\$ 15,640,486	\$ 2,207,717	\$ 2,772,348	\$ 235,496	\$ 301,526	\$ 54,101,912	\$ 5,887,452	\$ 3,241,319	\$ 63,230,683

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

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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 Urban Empowerment Fund (UEF) is a tax-exempt community development financial institution that was incorporated in July 2011. The League obtained a controlling financial interest in UEF in March 2013. UEF 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). UEF received its determination letter from the Internal Revenue Service dated November 7, 2013. The net assets of UEF are not available for distribution to NUL.

The Urban League Empowerment Center, LLC (ULEC) is in business solely to (a) own a leasehold interest in the property located at 121 West 125th Street, New York, New York, (b) hold, manage, maintain, operate, improve, develop, construct, exchange, lease sublease, convey, encumber, subdivide into condominium units, finance and otherwise use the leasehold interest and its rights in the underlying property and (c) do any and all other acts that may be necessary or incidental to carry on the business of ULEC. The League is the sole managing member of ULEC.

The League is exempt from Federal income taxes under Section 501(c)(3) of the 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 underserved urban residents to secure economic self-reliance, parity, power, 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 that all children receive an education by providing access to early childhood literacy, afterschool programs, and college preparation.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1 ORGANIZATION *(continued)*

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

Health and Quality of Life Empowerment encourages all people to take an active role in improving their quality of life through participation in community service projects and public policy initiatives.

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

Technical Assistance to Affiliates - 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's 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.

UEF is a Community Development Financial Institution (CDFI) with a focus on providing financial products (loans) and services to minority business enterprises (MBEs) that are located primarily in the 10 markets in which NUL's Entrepreneurship Centers are located. The mission of UEF is to help MBEs gain access to capital, survive, prosper, grow, create jobs, and generate individual and community wealth. UEF will work to achieve its mission by focusing on the development of MBEs, which requires a comprehensive set of services to address the primary barriers that inhibit their growth. These services include:

- Providing business advisory services to address the business knowledge deficits (competence)
- Offering a range of small business loan products in the \$50,000-\$250,000 range (capital)
- Providing policy advocacy to improve the business climate for MBEs (customers)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses recorded when incurred.

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

Consolidated Financial Statement Presentation

In accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), the consolidated financial statements include the accounts of the League, UEF, and ULEC. All material intercompany transactions have been eliminated during consolidation.

NUL is required to report information regarding its financial position and activities according to three net asset classes: unrestricted, temporarily restricted, and permanently restricted, as applicable, 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 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 consolidated 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, 2016 and 2015 were \$4,230,230 and \$5,751,987, respectively, and consisted of money market funds and certificates of deposit.

The League maintains its cash and cash equivalent balances in financial institutions, which occasionally exceed the Federal Deposit Insurance Corporation limit and subject the League to 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. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The following is a description of the valuation methodologies used for assets measured at fair value:

Marketable equity securities: Recorded at fair value based on the quoted market prices and broker prices.

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

Investments *(continued)*

Money market funds: Recorded at fair value, which approximates amortized cost.

U.S. government agency securities: Valued using pricing models maximizing the use of observable inputs for similar securities. The inputs (quotes, spread, and data points for yield curves) to these methods can be considered to be observable market-based data.

Commingled fund: This fund invests primarily in high-quality, senior, secured, mortgage-backed securities (MBS), asset-backed securities and commercial MBS. 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 of the fund has been estimated, by the investment manager, using the net asset value (NAV) per share of the investments. The investment manager will use reasonable discretion to value the fund using as a guide a combination of (i) listed prices on widely available indices; (ii) independent pricing services using pricing models; and (iii) independent third-party broker quotes from multiple financial institutions engaged in trading investments or securities similar to the investments. This fund closed and was liquidated in 2015. In 2016, the League reinvested the funds in Semper MBS Total Return Fund, a public mutual fund registered with the SEC. It invests primarily in MBS, but does not use leverage or hedging strategies. It is managed versus the Barclays MBS Index. It has no liquidity restrictions and funds are available for withdrawal daily.

The League's Investment Committee is responsible for determining the valuation policies and analyzing information provided by the investment custodians and issuers, which 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 the League's 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 offset potential market declines.

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

Interest and dividend income is recognized when earned and reported as operating revenue in the consolidated statements of activities based on NUL's spending formula.

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

Investments *(continued)*

Realized gains and losses and unrealized appreciation and depreciation are included in the consolidated statements 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 sales, the cost of securities sold is based on the average costs of all shares of those securities sold.

The League is 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:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the NUL has the ability to access.
- Level 2:* Inputs to the valuation methodology include: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in inactive markets, (3) inputs other than quoted prices that are observable for the asset or liability, and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

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

Receivables

Allowance for doubtful accounts

The carrying value of grants receivable and contributions receivable is reduced by an appropriate allowance for uncollectible accounts, which approximates net realizable value. NUL determines its allowance by considering several factors, including the length of time receivables are past due, the NUL's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole.

Receivables outstanding longer than the payment terms are considered past due. NUL writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received.

Grants and pledges receivable

Grants and pledges receivable consist of amounts due from government agencies and unconditional promises received from donors, respectively. Grants receivable are recorded at their net realizable value. Unconditional promises are valued at fair value. 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. Fair value measurements also include consideration of donors' credit risk.

Franchise fees are annual fees charged to the League's affiliates. The League has agreements with several affiliates for payment of fees in arrears. The agreements provide for installment payments over periods varying from one to five years.

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.

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

Property and Equipment *(continued)*

Beginning in 2013 and continuing through 2016, 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 within property and equipment on the consolidated statements of financial position.

Impairment Loss of Long-Lived Assets

NUL’s management reviews its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property is not recoverable. Recoverability is measured by comparing the carrying amount of the property to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the property. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There was no impairment loss recognized in 2016 and 2015.

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 consolidated statements of financial position, and also to recognize changes in the funded status of the plan in unrestricted net assets as a non-operating activity in the year that the changes occur. As of December 31, 2016 and 2015, 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 \$6,090,439 and \$5,978,165, respectively.

Revenue Recognition

Contributions

Unconditional contributions are recognized as revenue when received and 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 consolidated statement of activities as net assets released from restrictions.

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

Revenue Recognition *(continued)*

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 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 may exceed federally insured limits. The League believes it is not exposed to any significant credit risk on cash balances.

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 consolidated financial statements.

Donated Materials and Services

Donated materials and services that meet the requirements for recognition are recorded as revenue and expenses in the accompanying consolidated statements of activities at their fair values. Donated materials and services were in the form of donated media and medical services. The fair values of the donated media are determined based on consideration of cash payments typically made by buyers for similar advertising and media, standard discounts given for similarly placed media, the media type and placement and other considerations. The fair values of medical services were determined based on consideration of cash payments typically made by buyers receiving such services.

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated 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.

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. Advertising expenses of \$147,943 and \$203,497 in 2016 and 2015, respectively, are reported as part of the professional contract services expense in the consolidated 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 consolidated financial statements in conformity with U.S. GAAP 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 consolidated 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 consolidated financial statements.

UEF 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 consolidated financial statements. UEF is subject to routine audits by taxing jurisdictions. UEF’s initial filing year was 2013. There are no audits for any tax periods are currently in progress.

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

Income Taxes *(continued)*

Management has analyzed the tax positions taken by the League and has concluded that as of December 31, 2016 and 2015, 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 consolidated 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 2013.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also expands the footnote disclosure requirements related to contracts with customers. In August 2015, the effective date of the ASU was deferred for the League to January 1, 2019. The League is currently evaluating the impact of the adoption of the ASU on the League's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU requires an entity to recognize all lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The effective date of the ASU for the League is January 1, 2020. The League is currently evaluating the impact of the adoption of the ASU on the League's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU amends the requirements for presentation of the financial statements and notes. In particular, it enhances the qualitative and quantitative disclosures of the net asset classes, investment return, expenses, liquidity and availability of resources, and operating cash flows. The effective date of the ASU for the League is January 1, 2018. The League is currently evaluating the impact of the adoption of the ASU on the League's consolidated financial statements.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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

New Accounting Pronouncements *(continued)*

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance improves the presentation of net periodic pension cost and net periodic postretirement benefit costs. This ASU applies to all employers, including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. The effective date of the ASU for the League is January 1, 2018. The League is currently evaluating the impact of the adoption of the ASU on the League’s consolidated financial statements.

Reclassifications

Certain prior-year amounts have been reclassified to conform with the current year presentation.

NOTE 3 INVESTMENTS

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

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 698,091	\$ 698,091	\$ 7,227,375	\$ 7,227,375
Equity securities	8,180,584	10,208,606	8,051,999	9,828,835
Fixed-income funds	9,250,797	9,409,635	2,343,344	2,317,861
Total investments	\$ 18,129,472	\$ 20,316,332	\$ 17,622,718	\$ 19,374,071

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 3 INVESTMENTS (continued)

Fair Value on a Recurring Basis

The following tables set forth, by level within the fair value hierarchy, investment assets and liabilities as of December 31, 2016 and 2015:

	Fair Value-2016			Total
	Level 1	Level 2	Level 3	
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 3,219,105	\$ -	\$ -	\$ 3,219,105
Certificates of deposit	1,011,125	-	-	1,011,125
	<u>\$ 4,230,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,230,230</u>
<i>Investments</i>				
<i>Cash and cash equivalents</i>				
Short-term investment fund	\$ 698,091	\$ -	\$ -	\$ 698,091
Money markets	-	-	-	-
<i>Equity securities</i>				
Consumer discretionary	884,608	-	-	884,608
Consumer staples	629,508	-	-	629,508
Energy	715,235	-	-	715,235
Financials	1,444,625	-	-	1,444,625
Health care	1,398,270	-	-	1,398,270
Industrials	950,710	-	-	950,710
Information technology	1,738,190	-	-	1,738,190
Materials	599,666	-	-	599,666
Telecommunications services	18,042	-	-	18,042
Utilities	53,014	-	-	53,014
Real estate	124,282	-	-	124,282
Other	1,652,456	-	-	1,652,456
<i>Fixed income</i>				
Mortgage-backed bonds	905,235	-	-	905,235
U.S. Treasury bonds	673,386	-	-	673,386
Corporate bonds	1,030,483	-	-	1,030,483
Mutual fund	6,800,531	-	-	6,800,531
	<u>\$ 20,316,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,316,332</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 3 INVESTMENTS *(continued)*

Fair Value on a Recurring Basis *(continued)*

	Fair Value—2015			Total
	Level 1	Level 2	Level 3	
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 4,743,065	\$ -	\$ -	\$ 4,743,065
Certificate of Deposits	1,008,922	-	-	1,008,922
	<u>\$ 5,751,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,751,987</u>
<i>Investments</i>				
<i>Cash and cash equivalents</i>				
Short-term investment fund	\$ 6,578,208	\$ -	\$ -	\$ 6,578,208
Money markets	649,166	-	-	649,166
<i>Equity securities</i>				
Consumer discretionary	1,088,461	-	-	1,088,461
Consumer staples	638,762	-	-	638,762
Energy	738,842	-	-	738,842
Financials	1,358,286	-	13,149	1,371,435
Health care	1,126,652	-	-	1,126,652
Industrials	898,977	-	-	898,977
Information technology	1,777,899	-	-	1,777,899
Materials	457,223	-	-	457,223
Telecommunications services	37,484	-	-	37,484
Utilities	46,567	-	-	46,567
Real estate	127,112	-	-	127,112
Other	1,519,421	-	-	1,519,421
<i>Fixed income</i>				
Mortgage-backed bonds	524,931	-	-	524,931
Corporate bonds	1,792,931	-	-	1,792,931
	<u>\$ 19,360,922</u>	<u>\$ -</u>	<u>\$ 13,149</u>	<u>\$ 19,374,071</u>

Transfers out of Level 3 investments were made during 2016 as NUL liquidated its investment.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 3 INVESTMENTS *(continued)*

Fair Value on a Recurring Basis *(continued)*

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

	<u>2016</u>	<u>2015</u>
Dividends and interest income	\$ 526,967	\$ 269,429
Net realized (loss)/gains on sales of investments	(8,493)	1,209,356
Unrealized appreciation/(depreciation) of investments	435,506	(1,658,974)
Total investment return	<u>\$ 953,980</u>	<u>\$ (180,189)</u>
Current operations	\$ 1,002,778	\$ 1,050,440
Non-operating activity	(48,798)	(1,230,629)
Total investment return	<u>\$ 953,980</u>	<u>\$ (180,189)</u>

The dividends and interest income above are net of investment fees of \$102,517 and \$244,090 in 2016 and 2015, respectively.

Under the League's endowment spending policy in 2016 and 2015, 5% 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 consolidated statements of activities in accordance with this policy:

	<u>2016</u>	<u>2015</u>
Gain on non-long-term reserves	\$ 14,846	\$ 14,675
Board-designated for current operations from prior-year earnings	987,932	1,035,765
Total designated for current operations	<u>1,002,778</u>	<u>1,050,440</u>
Investment return on long-term reserves	939,134	(194,864)
Board-designated for current operations from prior-year earnings	(987,932)	(1,035,765)
Non-operating investment return	(48,798)	(1,230,629)
Total investment return	<u>\$ 953,980</u>	<u>\$ (180,189)</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 4 GRANTS AND PLEDGES RECEIVABLE

The discount rate applied to contributions receivable in excess of one year consisted of the application of a current two-year Treasury bill rate at that time. Amounts due in more than one year were adjusted to fair value using present value techniques that assumed a discount rate of 1.20% in 2016. There were no amounts due in more than one year in 2015. Grants and pledges receivable at December 31 are comprised of the following:

	<u>2016</u>	<u>2015</u>
<i>Grant and contract receivables</i>		
Less than one year	\$ 9,237,495	\$ 5,660,644
One to five years	1,900,000	-
Less: Fair value adjustment	(28,925)	-
<i>Pledges receivable</i>		
Pledges due in less than one year	<u>4,683,413</u>	<u>4,262,785</u>
	15,791,983	9,925,429
Less: Allowance for doubtful amounts	<u>(100,000)</u>	<u>(89,677)</u>
Total grants and pledges receivable, net	<u>\$ 15,691,983</u>	<u>\$ 9,835,752</u>

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 three years.

	<u>2016</u>	<u>2015</u>
Gross franchise fees receivable	\$ 1,598,542	\$ 1,810,080
Less: Allowance for doubtful amounts	<u>(900,000)</u>	<u>(900,000)</u>
Net franchise fees receivable	<u>\$ 698,542</u>	<u>\$ 910,080</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 6 PROPERTY AND EQUIPMENT

At December 31, 2016 and 2015, property and equipment consisted of the following:

	2016		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Leasehold improvements	\$ 2,657,289	\$ 2,439,790	\$ 217,499
Furniture and fixtures	1,189,990	1,058,903	131,087
Equipment	1,141,484	1,029,349	112,135
Computer software	1,714,337	975,119	739,218
	<u>6,703,100</u>	<u>5,503,161</u>	<u>1,199,939</u>
Construction in progress	4,540,476	-	4,540,476
Total	<u>\$ 11,243,576</u>	<u>\$ 5,503,161</u>	<u>\$ 5,740,415</u>
	2015		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Leasehold improvements	\$ 2,620,789	\$ 2,317,463	\$ 303,326
Furniture and fixtures	1,166,673	1,027,405	139,268
Equipment	1,095,673	927,025	168,648
Computer software	1,462,363	748,686	713,677
	<u>6,345,498</u>	<u>5,020,579</u>	<u>1,324,919</u>
Construction in progress	4,084,402	-	4,084,402
Total	<u>\$ 10,429,900</u>	<u>\$ 5,020,579</u>	<u>\$ 5,409,321</u>

Depreciation and amortization expenses for 2016 and 2015 were \$482,582 and \$510,116, respectively.

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 2016 and 2015 was \$559,940 and \$517,889, 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.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

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

	<u>2016</u>	<u>2015</u>
<i>Change in benefit obligations</i>		
Projected benefit obligations, beginning of year	\$ 21,143,292	\$ 21,923,630
Service cost	163,485	180,746
Interest cost	835,715	846,945
Actuarial (gain) loss	675,094	(478,595)
Benefit payments and settlements	<u>(1,255,810)</u>	<u>(1,329,434)</u>
Projected benefit obligations, end of year	<u>21,561,776</u>	<u>21,143,292</u>
<i>Change in plan assets</i>		
Fair value of plan assets, beginning of year	15,165,127	16,064,559
Actual return on plan assets (net of expenses)	763,166	(227,205)
Employer contributions	798,854	657,205
Benefit payments and settlements	<u>(1,255,810)</u>	<u>(1,329,432)</u>
Fair value of plan assets, end of year	<u>15,471,337</u>	<u>15,165,127</u>
Funded status	<u>\$ (6,090,439)</u>	<u>\$ (5,978,165)</u>
	<u>2016</u>	<u>2015</u>
<i>Reconciliation of funded status</i>		
Funded status	\$ 6,090,439	\$ 5,978,165
Actuarial (loss)	<u>(9,756,368)</u>	<u>(9,450,549)</u>
Accrued benefit (gain)	<u>\$ (3,665,929)</u>	<u>\$ (3,472,384)</u>
	<u>2016</u>	<u>2015</u>
<i>Amounts recognized in the consolidated statements of financial position, as of December 31</i>		
Accrued benefit gain	\$ 3,665,929	\$ 3,472,384
Actuarial loss at prior measurement date	(9,450,549)	(8,996,529)
Pension-related changes other than net periodic pension credit (costs)	<u>(305,819)</u>	<u>(454,020)</u>
Accrued pension benefit costs	<u>\$ (6,090,439)</u>	<u>\$ (5,978,165)</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

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, and transition assets or obligations must be disclosed in the notes to the consolidated financial statements.

In addition, the League's consolidated statement of financial position as of December 31, 2016 required a reduction of its liability associated with the defined benefit plan of \$305,519 (actuarial gains or losses and prior service costs or credits that arise during 2016 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. The League's consolidated statement of financial position as of December 31, 2015 required an additional liability associated with the defined benefit plan of \$454,020 (actuarial gains or losses and prior service costs or credits that arise during 2015 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.

The accumulated benefit obligations for the defined benefit pension plan were \$21,093,859 and \$20,727,451 at December 31, 2016 and 2015, respectively.

	<u>2016</u>	<u>2015</u>
<i>Components of net periodic benefit cost</i>		
Service cost	\$ 163,485	\$ 180,746
Interest cost	835,715	846,945
Expected return on plan assets	(795,876)	(1,064,088)
Amortization of net actuarial loss	401,985	358,680
Net periodic benefit cost	<u>\$ 605,309</u>	<u>\$ 322,283</u>

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

	<u>2016</u>	<u>2015</u>
<i>Additional information</i>		
Discount rate	3.85%	4.10%
Rate of compensation increase	3.00%	2.00%

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

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

	<u>2016</u>	<u>2015</u>
Discount rate	4.10%	4.00%
Expected return on plan assets	6.50%	7.00%
Rate of compensation increase	3.00%	2.00%

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.

The League's pension plan's weighted-average asset allocations at December 31, 2016 and 2015, by asset category, are as follows:

	<u>2016</u>	<u>2015</u>
<i>Asset category</i>		
Stocks and equity securities	39%	42%
Bonds	53	50
Insurance contracts	8	8
Cash/other	-	-
Total	<u>100%</u>	<u>100%</u>

Cash Flows

Pension Contributions—The League expects to contribute approximately \$859,000 to its pension plan in 2017.

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>
2017	\$ 1,520,000
2018	1,480,000
2019	1,480,000
2020	1,500,000
2021	1,460,000
2022-2025	7,000,000

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 7 ACCRUED PENSION BENEFITS (continued)

Plan Assets

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

	Fair Value 2016			
	Level 1	Level 2	Level 3	Total
Investments				
<i>Commingled separate account funds-</i>				
<u>Mutual funds</u>				
Large capital	\$ -	\$ 6,451,695	\$ -	\$ 6,451,695
Diversified international fund	-	\$1,559,888	-	1,559,888
Small capital	-	1,874,232	-	1,874,232
Bond index fund	-	4,531,540	-	4,531,540
<i>Group pension contracts insurance contracts-</i>				
<u>Mutual funds</u>				
Dividend experience fund	-	-	857,454	857,454
Direct experience fund	-	-	196,528	196,528
	<u>\$ -</u>	<u>\$ 14,417,355</u>	<u>\$ 1,053,982</u>	<u>\$ 15,471,337</u>

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

	Fair Value 2015			
	Level 1	Level 2	Level 3	Total
Investments				
<i>Commingled separate account funds-</i>				
<u>Mutual funds</u>				
Large capital	\$ -	\$ 6,733,219	\$ -	\$ 6,733,219
Diversified international fund	-	1,491,573	-	1,491,573
Small capital	-	1,533,154	-	1,533,154
Bond index fund	-	4,274,203	-	4,274,203
<i>Group pension contracts insurance contracts-</i>				
<u>Mutual funds</u>				
Dividend experience fund	-	-	944,273	944,273
Direct experience fund	-	-	188,705	188,705
	<u>\$ -</u>	<u>\$ 14,032,149</u>	<u>\$ 1,132,978</u>	<u>\$ 15,165,127</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

Plan Assets *(continued)*

The following tables set forth a summary of changes in the value of the Plan's Level 3 investments for the years ended December 31:

Group pension contracts - 2016

Balance, at December 31, 2015	\$ 1,132,978
Investment income	48,368
Payments and settlements	<u>(127,364)</u>
Balance, at December 31, 2016	<u>\$ 1,053,982</u>

Group pension contracts - 2015

Balance, at December 31, 2014	\$ 1,393,192
Investment income	(35,158)
Payments and settlements	<u>(225,056)</u>
Balance, at December 31, 2015	<u>\$ 1,132,978</u>

The following is a description of the valuation techniques and inputs used for each major class of investments at fair value.

Commingled separate account funds: The fair value of separate account assets is based on the fair value of the underlying assets owned by the separate account funds. Assets within the separate accounts include various types of mutual funds, fixed maturity securities, equity securities, mortgage loans, derivatives, hedge funds, other limited partnerships interests, short-term investments and cash and cash equivalents and are generally Level 2 assets. Types of assets include: fixed maturity securities priced principally through independent pricing services. These fixed maturity securities include most U.S. Treasury and agency securities. Equity securities consist principally of non-redeemable preferred stock priced principally through independent pricing services and certain equity securities where market quotes are available but are not considered actively traded. Short-term investments and trading securities included are of a similar nature to these fixed maturity and equity securities.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

Plan Assets *(continued)*

Group pension contracts: Group pension contract funds are maintained at book value in investment year generations. The generations consist of “new money,” which is equal to funds received in that calendar year, investment income credited for that year, minus disbursements from the account made during that year. Each generation is associated with investments made during that year. To determine the fair value of a generation, all of the investments held in that generation must be brought to the current value. Fair value is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Once the current value of the securities in each generation is determined, the percentage of the generation attributable to the contract is determined. The value of that percentage is the fair value. The total of all of the generations equals the fair market value of the entire contract fund.

NOTE 8 DONATED SERVICES AND MATERIALS

NUL received total donated materials and services valued at \$7,060,978 and \$17,196,926 in 2016 and 2015, respectively. Included in the donated materials and services are \$6,028,716 and \$14,628,419 for its television airtime in 2016 and 2015, respectively; zero and \$1,300,000 for medical services that occurred in 2016 and 2015, \$1,032,262 and \$1,176,301 from affiliates for donated time for programmatic initiatives for 2016 and 2015 and zero and \$92,206 for other donated materials for 2016 and 2015, respectively.

NOTE 9 SPECIAL EVENTS

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

For the years ended December 31, total revenue and expenses related to the events were as follows:

	<u>2016</u>	<u>2015</u>
Special event-revenues (gross)	\$ 1,520,660	\$ 1,532,532
Special event-expenses (gross)	<u>(494,947)</u>	<u>(451,157)</u>
Net special event-revenue	<u>\$ 1,025,713</u>	<u>\$ 1,081,375</u>

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

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 10 COMMITMENTS AND CONTINGENCIES

Operating Lease

NUL leases its New York 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 balances of \$22,545 and \$82,663 in deferred rent credits represent the unamortized balance of the rent waivers as of December 31, 2016 and 2015, respectively.

In December 2016, NUL entered into a new lease for the New York office space from January 2017 until December 2021.

The office leases provides for the minimum annual payments as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 1,422,162
2018	1,545,615
2019	1,545,615
2020	1,545,615
2021	1,545,615

The New York net office rental expense for the years ended December 31, 2016 and 2015 was \$1,793,982 and \$1,620,715, respectively.

NUL leases its Washington, DC office space under a 10-year lease agreement expiring in 2023, which provided for waivers of rent payments from June 1, 2013 to October 31, 2013. The balances of \$75,263 and \$86,993 in deferred rent credits represent the unamortized balance of the rent waivers as of December 31, 2016 and 2015, respectively. Future base rentals, excluding rent escalations, under the lease are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 307,572
2018	315,261
2019	323,143
2020	331,221
2021	339,502
2022-2023	494,474
	<u>\$ 2,111,173</u>

The Washington, DC net office rental expense for the years ended December 31, 2016 and 2015 was \$331,139 and \$332,021, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 10 COMMITMENTS AND CONTINGENCIES *(continued)*

Contingencies

NUL is involved in several legal proceedings arising from the ordinary course of its business. Management believes that these legal proceedings will not have a material adverse effect on NUL's financial position, changes in net assets, or cash flows.

NOTE 11 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>2016</u>	<u>2015</u>
<i>Purpose restricted</i>		
Economic Empowerment	\$ 4,690,824	\$ 7,819,918
Building Fund	9,083,329	8,666,666
Education and Youth Empowerment	9,728,226	1,787,630
Civic Engagement/Leadership Empowerment	336,437	331,084
Health and Quality of Life Empowerment	1,005,776	-
Urban Empowerment Fund	<u>71,225</u>	<u>4,344</u>
Total purpose restricted	24,915,817	18,609,642
<i>Time restricted</i>		
Future periods	4,426,304	5,001,143
Endowment funds	<u>535,095</u>	<u>583,893</u>
Total	<u><u>\$ 29,877,216</u></u>	<u><u>\$ 24,194,678</u></u>

Permanently restricted net assets were restricted for investment in perpetuity:

	<u>2016</u>	<u>2015</u>
Permanent Development Fund	\$ 4,956,505	\$ 4,981,505
Breakthrough Campaign	14,762,433	14,762,433
Other	<u>279,127</u>	<u>279,127</u>
Total	<u><u>\$ 19,998,065</u></u>	<u><u>\$ 20,023,065</u></u>

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 U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence, if any, of donor-imposed restrictions.

NOTE 12 UNRESTRICTED NET ASSETS

During 2016, the League generated an unrestricted operating surplus of \$311,877. The net results of these activities increased the unrestricted undesignated net assets to \$(6,084,993). The League is also required to recognize net actuarial losses of \$305,819 that came from its defined benefit pension plan during 2016 but were not recognized as components of net periodic benefit cost. As a result, this caused the pension-related cost balance to be (\$9,756,368) as of December 31, 2016.

During 2015, the League generated an unrestricted operating surplus of \$115,912. The net results of these activities increased the unrestricted undesignated net assets to \$5,773,116. The League is also required to recognize net actuarial losses of \$454,020 that came from its defined benefit pension plan during 2015 but were not recognized as components of net periodic benefit cost. As a result, this caused the pension-related cost balance to be \$(9,450,549) as of December 31, 2015.

NOTE 13 ENDOWMENTS

NUL's endowments consist of funds received through separate fundraising campaigns established for several purposes. Its endowment includes donor-restricted endowment funds. As required by U.S. GAAP, the net assets associated with endowment funds 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;

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 13 ENDOWMENTS *(continued)*

Interpretation of Relevant Law *(continued)*

- (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.

Endowment Net Asset Composition by Type of Fund

December 31, 2016	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 32,744	\$ 535,095	\$ 19,998,065	\$ 20,565,904
Total funds, as of December 31, 2016	<u>\$ 32,744</u>	<u>\$ 535,095</u>	<u>\$ 19,998,065</u>	<u>\$ 20,565,904</u>
December 31, 2015	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 32,744	\$ 583,893	\$ 20,023,065	\$ 20,639,702
Total funds, as of December 31, 2015	<u>\$ 32,744</u>	<u>\$ 583,893</u>	<u>\$ 20,023,065</u>	<u>\$ 20,639,702</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 32,744	\$ 583,893	\$ 20,023,065	\$ 20,639,702
Contributions				
<i>Investment return</i>	-	-	-	-
Investment income—				
Interest and dividends	-	512,205	-	512,205
Net appreciation of investments	-	426,929	-	426,929
Expiration of release	-	-	(25,000)	(25,000)
<i>Board-approved appropriations</i>				
Appropriation of endowment assets to current operations	-	(987,932)	-	(987,932)
Expenditures of endowment assets	-	-	-	-
Endowment net assets, end of year	<u>\$ 32,744</u>	<u>\$ 535,095</u>	<u>\$ 19,998,065</u>	<u>\$ 20,565,904</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 34,198	\$ 1,814,522	\$ 20,023,065	\$ 21,871,785
Contributions				
<i>Investment return</i>	-	-	-	-
Investment income—				
Interest and dividends	-	254,596	-	254,596
Net depreciation of investments	-	(449,460)	-	(449,460)
<i>Board-approved appropriations</i>				
Appropriation of endowment assets to current operations	1,035,765	(1,035,765)	-	-
Expenditures of endowment assets	<u>(1,037,219)</u>	<u>-</u>	<u>-</u>	<u>(1,037,219)</u>
Endowment net assets, end of year	<u>\$ 32,744</u>	<u>\$ 583,893</u>	<u>\$ 20,023,065</u>	<u>\$ 20,639,702</u>

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). 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 organized 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.

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.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 13 ENDOWMENTS *(continued)*

Spending Policy and How the Investment Objectives Relate to Spending Policy
(continued)

Amounts classified as permanently restricted net assets, temporarily restricted net assets (endowment only) and unrestricted net assets (endowment only) are as follows:

	<u>2016</u>	<u>2015</u>
<i>Endowment fund classified as permanently restricted net assets</i>		
The portion of the perpetual endowment fund that is required to be retained permanently either by explicit donor stipulation or by State law	<u>\$ 19,998,065</u>	<u>\$ 20,023,065</u>
<i>Endowment fund classified as temporarily restricted net assets</i>		
The portion of the perpetual endowment fund that is subject to appropriation	<u>\$ 535,095</u>	<u>\$ 583,893</u>
<i>Endowment fund classified as unrestricted net assets</i>		
The portion of the perpetual endowment fund that is unexpended	<u>\$ 32,744</u>	<u>\$ 32,744</u>

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 2016 and 2015, NUL recognized franchise fees of \$924,000 and \$953,000, respectively.

NUL had franchise fee receivable write offs of \$371,523 and \$7,500 in 2016 and 2015, respectively.

Subcontract payments are made by the League to affiliates for their services in carrying out specific projects. In 2016 and 2015, subcontract payments to affiliates totaled \$18,658,498 and \$17,750,589, respectively.

The League received \$1,032,262 and \$1,176,301 in donated services and materials from affiliates in 2016 and 2015, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 15 NEW MARKETS TAX CREDIT

On August 21, 2009, an agreement was signed between the League and Stonehenge Community Development LLC. The 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 \$126,675 and \$672,736 in fees for the years ended December 31, 2016 and 2015, respectively.

NOTE 16 SUBSEQUENT EVENTS

The League has evaluated its subsequent events (events occurring after December 31, 2016) through August 4, 2017, which is the date the consolidated financial statements were available to be issued. Subsequent events that were noted are disclosed accordingly within the footnotes to the consolidated financial statements. There were no subsequent events to recognize in these consolidated financial statements.

