

NATIONAL URBAN LEAGUE, INC.

**Consolidated Financial Statements
For the Years Ended December 31, 2015 and 2014
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

NATIONAL URBAN LEAGUE, INC.
Years Ended December 31, 2015 and 2014

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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, 2015 and 2014, 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free 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.

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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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mitchell Titus, LLP

August 22, 2016

NATIONAL URBAN LEAGUE, INC.
Consolidated Statements of Financial Position
As of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 16,954,320	\$ 11,742,043
Grants and pledges receivable, net	9,835,752	10,256,528
Franchise fees receivable, net	910,080	774,310
Prepaid expenses and other assets	427,099	382,765
Investments	19,374,071	20,606,165
Property and equipment, net	<u>5,409,321</u>	<u>4,880,320</u>
Total assets	<u><u>\$ 52,910,643</u></u>	<u><u>\$ 48,642,131</u></u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 4,785,696	\$ 3,970,155
Accrued payroll and vacation benefits	345,769	309,627
Accrued pension benefit costs	5,978,165	5,859,071
Accrued defined contribution costs	533,932	451,631
Deferred rent credit	169,656	241,505
Contract advances and other deposits	557,115	526,657
Loan payable	<u>-</u>	<u>47,437</u>
Total liabilities	<u>12,370,333</u>	<u>11,406,083</u>
<i>Net assets (deficit)</i>		
Unrestricted–		
Undesignated	5,773,116	5,657,204
Pension related	<u>(9,450,549)</u>	<u>(8,996,529)</u>
Total unrestricted	<u>(3,677,433)</u>	<u>(3,339,325)</u>
Temporarily restricted	24,194,678	20,552,308
Permanently restricted	<u>20,023,065</u>	<u>20,023,065</u>
Total net assets	<u>40,540,310</u>	<u>37,236,048</u>
Total liabilities and net assets	<u><u>\$ 52,910,643</u></u>	<u><u>\$ 48,642,131</u></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	<u>54,101,912</u>	<u>-</u>	<u>-</u>	<u>54,101,912</u>
<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	<u>(3,339,325)</u>	<u>20,552,308</u>	<u>20,023,065</u>	<u>37,236,048</u>
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 Activities
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
<i>Revenue, gains, and other support</i>				
Government grants and contracts	\$ 20,255,219	\$ -	\$ -	\$ 20,255,219
Donated materials and services	14,129,225	-	-	14,129,225
Contributions	5,851,224	14,904,286	1,000	20,756,510
Legacies and bequests	18,461	-	-	18,461
Special events	2,258,770	-	-	2,258,770
Federated fundraising agencies	1,315	-	-	1,315
Program service fees	5,385,662	-	-	5,385,662
Franchise fees	951,500	-	-	951,500
Net investment return designated for current operations	1,057,091	-	-	1,057,091
Sale of publications	37,618	-	-	37,618
Other	1,159,653	-	-	1,159,653
<i>Net assets released from restrictions</i>				
Satisfaction of restrictions	13,780,889	(13,780,889)	-	-
Total revenue, gains, and other support	<u>64,886,627</u>	<u>1,123,397</u>	<u>1,000</u>	<u>66,011,024</u>
<i>Operating expenses</i>				
<i>Program services</i>				
Economic empowerment	25,216,881	-	-	25,216,881
Education and youth empowerment	9,688,404	-	-	9,688,404
Civic engagement and leadership empowerment	14,292,978	-	-	14,292,978
Technical assistance to affiliates	1,925,979	-	-	1,925,979
Health and quality of life empowerment	2,651,979	-	-	2,651,979
Civil rights and racial justice empowerment	239,798	-	-	239,798
Urban empowerment	512,538	-	-	512,538
Total program services	<u>54,528,557</u>	<u>-</u>	<u>-</u>	<u>54,528,557</u>
<i>Supporting services</i>				
Management and general	6,537,413	-	-	6,537,413
Fundraising	3,624,507	-	-	3,624,507
Total expenses	<u>64,690,477</u>	<u>-</u>	<u>-</u>	<u>64,690,477</u>
Changes in net assets from operations	<u>196,150</u>	<u>1,123,397</u>	<u>1,000</u>	<u>1,320,547</u>
NON-OPERATING ACTIVITIES				
Net investment return net of amount designated for current operations	-	395,248	-	395,248
Pension-related changes other than net periodic pension costs	(2,236,811)	-	-	(2,236,811)
Total non-operating activities	<u>(2,236,811)</u>	<u>395,248</u>	<u>-</u>	<u>(1,841,563)</u>
Changes in net assets	(2,040,661)	1,518,645	1,000	(521,016)
Net assets (deficit), beginning of year	<u>(1,298,664)</u>	<u>19,033,663</u>	<u>20,022,065</u>	<u>37,757,064</u>
Net assets (deficit), end of year	<u>\$ (3,339,325)</u>	<u>\$ 20,552,308</u>	<u>\$ 20,023,065</u>	<u>\$ 37,236,048</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,304,262	\$ (521,016)
<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	454,020	2,236,811
Depreciation and amortization	510,116	480,644
Realized loss on fixed assets	4,138	-
(Amortization) provision of deferred rent credit	(71,849)	(71,848)
Realized gain on sales of investments	(1,209,356)	(543,907)
Bad debt expense	116,375	748,184
Unrealized depreciation/(appreciation) of investments	1,658,974	(554,713)
<i>Changes in operating assets and liabilities</i>		
Decrease in grants and pledges receivable	411,901	1,505,017
Increase in franchise fees receivable	(243,270)	(256,090)
(Increase)/decrease in prepaid expenses and other assets	(44,334)	457,363
Increase/(decrease) in accounts payable and accrued expenses	815,541	(498,534)
Increase/(decrease) in accrued payroll and vacation benefits	36,142	(499,071)
Decrease in accrued pension benefit cost	(334,926)	(531,230)
Increase/(decrease) in accrued defined contribution costs	82,301	(87,645)
Increase in contract advances and other deposits	30,458	128,824
Net cash provided by operating activities	<u>5,520,493</u>	<u>1,992,789</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(1,043,255)	(1,156,302)
Purchases of investments	(261,304)	(338,967)
Proceeds from sale of investments	1,043,780	2,004,145
Net cash (used in) provided by investing activities	<u>(260,779)</u>	<u>508,876</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayments on loan payable	(47,437)	(50,756)
Net cash used in financing activities	<u>(47,437)</u>	<u>(50,756)</u>
Net increase in cash and cash equivalents	5,212,277	2,450,909
Cash and cash equivalents, beginning of year	11,742,043	9,291,134
Cash and cash equivalents, end of year	<u>\$ 16,954,320</u>	<u>\$ 11,742,043</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 716</u>	<u>\$ 2,281</u>

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

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

	Program Services							Total	Supporting Services		
	Economic	Education	Civic Engagement	Technical	Health and	Civil Rights and	Urban		Management	Fundraising	Total
	Empowerment	and Youth Empowerment	and Leadership Empowerment	Assistance to Affiliates	Quality of Life Empowerment	Racial Justice Empowerment	Empowerment Fund		and General		
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.
Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2014

	Program Services							Total	Supporting Services		
	Economic	Education	Civic Engagement	Technical	Health and	Civil Rights and	Urban		Management	Fundraising	Total
	Empowerment	and Youth Empowerment	and Leadership Empowerment	Assistance to Affiliates	Quality of Life Empowerment	Racial Justice Empowerment	Empowerment Fund		and General		
Salaries	\$ 2,321,173	\$ 1,141,531	\$ 1,548,925	\$ 740,437	\$ 343,088	\$ 98,497	\$ 380,512	\$ 6,574,163	\$ 2,818,763	\$ 1,280,517	\$ 10,673,443
Payroll taxes and related benefits	686,126	334,017	455,619	214,295	95,692	22,684	78,491	1,886,924	816,390	382,219	3,085,533
Subcontract payments	19,217,396	1,908,509	103,793	999	549,807	999	-	21,781,503	3,995	-	21,785,498
Donated materials and services	921,025	4,262,621	7,645,579	-	1,300,000	-	-	14,129,225	-	13,000	14,142,225
Professional contract services	532,809	942,106	2,371,837	282,552	93,810	37,321	20,950	4,281,385	619,728	922,135	5,823,248
Supplies	41,315	66,871	60,255	21,371	7,982	1,490	-	199,284	51,832	22,583	273,699
Telephone	60,215	32,319	56,254	25,250	8,660	3,522	2,344	188,564	95,181	33,542	317,287
Occupancy	503,096	244,915	334,079	157,130	70,165	16,633	-	1,326,018	597,200	280,259	2,203,477
Commercial insurance	36,773	18,925	38,271	11,820	5,012	1,188	250	112,239	43,260	25,973	181,472
Postage and shipping	8,371	14,062	38,106	9,622	3,843	1,223	83	75,310	14,876	16,476	106,662
Printing, duplication, and artwork	44,598	130,918	111,335	17,631	18,455	1,240	87	324,264	10,828	16,733	351,825
Travel, conferences, and conventions	443,854	463,019	1,227,165	352,141	78,993	42,300	23,411	2,630,883	345,163	352,791	3,328,837
Subscription and publication	10,865	6,084	68,782	2,374	566	536	-	89,207	16,666	26,774	132,647
Furniture and equipment	78,065	38,889	51,839	37,382	10,887	2,581	-	219,643	97,804	49,188	366,635
Awards and grants	2,552	2,000	9,901	212	-	-	-	14,665	675	2,853	18,193
Bad debt	-	-	-	-	-	-	-	-	748,184	-	748,184
Interest expense	513	250	341	160	72	17	-	1,353	642	286	2,281
Miscellaneous	199,975	28,714	99,074	18,822	49,862	5,991	6,410	408,848	120,913	138,926	668,687
Depreciation and amortization	108,160	52,654	71,823	33,781	15,085	3,576	-	285,079	135,313	60,252	480,644
Total expenses	\$ 25,216,881	\$ 9,688,404	\$ 14,292,978	\$ 1,925,979	\$ 2,651,979	\$ 239,798	\$ 512,538	\$ 54,528,557	\$ 6,537,413	\$ 3,624,507	\$ 64,690,477

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

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 and (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.

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.

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.

The Urban Empowerment Fund (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 the National Urban League'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 U.S. generally accepted accounting principles (GAAP), the consolidated financial statements include the accounts of the League, UEF, and ULEC. All material intercompany transactions have been eliminated.

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, 2015 and 2014 were \$5,751,987 and \$3,970,949, respectively, and consisted of money market funds.

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. 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.

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

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

Investments *(continued)*

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.

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.

Realized gains and losses and unrealized depreciation and appreciation 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.

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.

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

Receivables

Allowance for doubtful accounts

All receivables are presented on the consolidated statements of financial position net of estimated uncollectible amounts. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful.

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

Receivables *(continued)*

Grants and pledges receivable

Grants and pledges receivables 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. The 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.

Beginning in 2013 and continuing through 2015, 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 (see Note 6).

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.

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

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, 2015 and 2014, 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 \$5,978,165 and \$5,859,071, 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.

Government Grants

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

Program Service Fees

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

Franchise Fees

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

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.

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

Credit and Financial Risk *(continued)*

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 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.

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 expense of \$203,497 and \$410,684 in 2015 and 2014, 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).

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

Use of Estimates

The preparation of consolidated 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 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.

Management has analyzed the tax positions taken by the League and has concluded that as of December 31, 2015 and 2014, 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 2012.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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

New Accounting Pronouncement

In May 2014, the FASB issued new guidance related to *Revenue from Contracts with Customers*. This guidance supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Accounting Standards Codification. The guidance 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 guidance also expands the footnote disclosure requirements around contracts with customers. An entity can either adopt retrospectively to each prior reporting period presented, or elect a modified retrospective approach with the cumulative effect of initially applying the update recognized at the date of initial application. The guidance will be effective for the League in 2019. The League is currently evaluating the potential impact on the adoption of the guidance on the League's consolidated financial statements.

NOTE 3 INVESTMENTS

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

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 7,227,375	\$ 7,227,375	\$ 899,498	\$ 899,498
Corporate stocks	8,051,999	9,828,835	7,349,179	10,089,921
U.S. Government agencies	2,343,343	2,317,861	2,060,254	2,039,817
Commingled funds	-	-	6,886,906	7,576,929
Total investments	\$ 17,622,717	\$ 19,374,071	\$ 17,195,837	\$ 20,606,165

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
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NOTE 3 INVESTMENTS *(continued)*

Fair Value Measurement and Levels

The following tables summarize the investments measured at fair value based on NAV per share:

<u>Investments Class</u>	<u>As of December 31, 2014</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Active MBS Fund ^a	\$ 7,576,929	\$ -	Quarterly	90 days

- a. 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 has been estimated using the NAV per share of the investments.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
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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, 2015 and 2014:

	Fair Value—2015			Total
	Level 1	Level 2	Level 3	
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 5,751,987	\$ -	\$ -	\$ 5,751,987
	<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>				
U.S. Treasury	-	-	-	-
FNMA	2,317,862	-	-	2,317,862
	<u>\$ 19,360,922</u>	<u>\$ -</u>	<u>\$ 13,149</u>	<u>\$ 19,374,071</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENTS (continued)

Fair Value on a Recurring Basis (continued)

	Fair Value—2014			Total
	Level 1	Level 2	Level 3	
<i>Cash and cash equivalents</i>				
Interest-bearing cash deposits	\$ 3,970,949	\$ -	\$ -	\$ 3,970,949
	<u>\$ 3,970,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,970,949</u>
<i>Investments</i>				
<i>Cash and cash equivalents</i>				
Money markets	\$ 899,498	\$ -	\$ -	\$ 899,498
<i>Equity securities</i>				
Consumer discretionary	1,002,826	-	-	1,002,826
Consumer staples	986,958	-	-	986,958
Energy	843,823	-	-	843,823
Financials	1,451,544	-	-	1,451,544
Health care	1,214,823	-	-	1,214,823
Industrials	1,089,311	-	-	1,089,311
Information technology	1,856,862	-	-	1,856,862
Materials	393,115	-	-	393,115
Telecommunications services	108,420	-	-	108,420
Utilities	47,283	-	-	47,283
Real estate	76,244	-	-	76,244
Other	1,018,712	-	-	1,018,712
<i>Fixed income</i>				
U.S. Treasury	-	1,036,416	-	1,036,416
FNMA	-	1,003,401	-	1,003,401
<i>Commingled funds</i>				
Mortgage-backed securities	-	7,576,929	-	7,576,929
	<u>\$ 10,989,419</u>	<u>\$ 9,616,746</u>	<u>\$ -</u>	<u>\$ 20,606,165</u>

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

	2015	2014
Dividends and interest income	\$ 269,429	\$ 353,719
Net realized gains on sales of investments	1,209,356	543,907
Unrealized (depreciation)/appreciation of investments	(1,658,974)	554,713
Total investment return	<u>\$ (180,189)</u>	<u>\$ 1,452,339</u>
Current operations	\$ 1,050,440	\$ 1,057,091
Non-operating activity	(1,230,629)	395,248
Total investment return	<u>\$ (180,189)</u>	<u>\$ 1,452,339</u>

The dividends and interest income above are net of investment fees of \$244,090 and \$173,759 in 2015 and 2014, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 3 INVESTMENTS *(continued)*

Fair Value on a Recurring Basis *(continued)*

Under the League's endowment spending policy in 2015 and 2014, 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>2015</u>	<u>2014</u>
Gain on non-long-term reserves	\$ 14,675	\$ 13,311
Board-designated for current operations from prior-year earnings	<u>1,035,765</u>	<u>1,043,780</u>
Total designated for current operations	<u>1,050,440</u>	<u>1,057,091</u>
Investment return on long-term reserves	(194,864)	1,439,028
Board-designated for current operations from prior-year earnings	<u>(1,035,765)</u>	<u>(1,043,780)</u>
Non-operating investment return	<u>(1,230,629)</u>	<u>395,248</u>
Total investment return	<u>\$ (180,189)</u>	<u>\$ 1,452,339</u>

NOTE 4 GRANTS AND PLEDGES RECEIVABLE

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

	<u>2015</u>	<u>2014</u>
Grant and contract receivables	\$ 5,660,644	\$ 6,066,754
<i>Pledges receivable:</i>		
Pledges due in less than 1 year	<u>4,262,785</u>	<u>4,358,628</u>
	9,925,429	10,425,382
Allowance for doubtful amounts	<u>(89,677)</u>	<u>(168,854)</u>
Total grants and pledges receivable, net	<u>\$ 9,835,752</u>	<u>\$ 10,256,528</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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>2015</u>	<u>2014</u>
Gross franchise fees receivable	\$ 1,810,080	\$ 1,574,310
Less: Allowance for doubtful amounts	<u>(900,000)</u>	<u>(800,000)</u>
Net franchise fees receivable	<u><u>\$ 910,080</u></u>	<u><u>\$ 774,310</u></u>

NOTE 6 PROPERTY AND EQUIPMENT

At December 31, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
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><u>\$ 10,429,900</u></u>	<u><u>\$ 5,020,579</u></u>	<u><u>\$ 5,409,321</u></u>
	<u>2014</u>		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Leasehold improvements	\$ 2,628,221	\$ 2,143,110	\$ 485,111
Furniture and fixtures	1,203,891	1,043,289	160,602
Equipment	1,198,719	975,366	223,353
Computer software	1,168,533	604,442	563,091
	<u>6,199,364</u>	<u>4,766,207</u>	<u>1,433,157</u>
Construction in progress	3,447,163	-	3,447,163
Total	<u><u>\$ 9,646,527</u></u>	<u><u>\$ 4,766,207</u></u>	<u><u>\$ 4,880,320</u></u>

Depreciation and amortization expenses for 2015 and 2014 were \$510,116 and \$480,644, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

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 2015 and 2014 was \$517,889 and \$451,631, 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>2015</u>	<u>2014</u>
<i>Change in benefit obligation</i>		
Projected benefit obligation, beginning of year	\$ 21,923,630	\$ 19,857,629
Service cost	180,746	121,740
Interest cost	846,945	867,315
Actuarial (gain) loss	(478,595)	2,382,929
Benefit payments and settlements	<u>(1,329,434)</u>	<u>(1,305,983)</u>
Projected benefit obligation, end of year	<u>21,143,292</u>	<u>21,923,630</u>
<i>Change in plan assets</i>		
Fair value of plan assets, beginning of year	16,064,559	15,704,139
Actual return on plan assets (net of expenses)	(227,205)	764,906
Employer contributions	657,205	901,497
Benefit payments and settlements	<u>(1,329,432)</u>	<u>(1,305,983)</u>
Fair value of plan assets, end of year	<u>15,165,127</u>	<u>16,064,559</u>
Funded status	<u>\$ (5,978,165)</u>	<u>\$ (5,859,071)</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

	<u>2015</u>	<u>2014</u>
Reconciliation of funded status		
Funded status	\$ 5,978,165	\$ 5,859,071
Actuarial (loss)	<u>(9,450,549)</u>	<u>(8,996,529)</u>
Accrued benefit (gain)	<u><u>\$ (3,472,384)</u></u>	<u><u>\$ (3,137,458)</u></u>
	<u>2015</u>	<u>2014</u>
Amounts recognized in the statements of financial position, as of December 31		
Accrued benefit gain	\$ 3,472,384	\$ 3,137,458
Actuarial loss at prior measurement date	(8,996,529)	(6,759,718)
Pension-related changes other than net periodic pension credit (costs)	<u>(454,020)</u>	<u>(2,236,811)</u>
Accrued pension benefit costs	<u><u>\$ (5,978,165)</u></u>	<u><u>\$ (5,859,071)</u></u>

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, 2015 required a reduction of its 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 League's consolidated statement of financial position as of December 31, 2014 required an additional liability associated with the defined benefit plan of \$2,236,811 (actuarial gains or losses and prior service costs or credits that arise during 2014 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 \$20,727,451 and \$21,393,980 at December 31, 2015 and 2014, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

	<u>2015</u>	<u>2014</u>
Components of net periodic benefit cost		
Service cost	\$ 180,746	\$ 121,740
Interest cost	846,945	867,315
Expected return on plan assets	(1,064,088)	(884,899)
Amortization of net actuarial loss	358,680	266,107
Net periodic benefit cost	<u>\$ 322,283</u>	<u>\$ 370,263</u>

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

	<u>2015</u>	<u>2014</u>
<i>Additional information</i>		
Discount rate	4.10%	4.00%
Rate of compensation increase	2.00%	3.00%

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.00%	4.54%
Expected return on plan assets	7.00%	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.

The League's pension plan weighted-average asset allocations at December 31, 2015 and 2014, by asset category, are as follows:

	<u>2015</u>	<u>2014</u>
<i>Asset category</i>		
Stocks and equity securities	42%	43%
Bonds	50	45
Insurance contracts	8	9
Cash/other	-	3
Total	<u>100%</u>	<u>100%</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

Cash Flows

Pension Contributions—The League expects to contribute approximately \$797,000 to its pension plan in 2016.

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>
2016	\$ 1,520,000
2017	1,450,000
2018	1,450,000
2019	1,440,000
2020	1,460,000
2021-2025	6,940,000

Plan Assets

The following tables provide the fair value hierarchy of the Plan's assets as of December 31:

	<u>Fair Value—2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

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NOTE 7 ACCRUED PENSION BENEFITS (continued)

Plan Assets (continued)

The following tables provide the fair value hierarchy of the Plan's assets as of December 31:

	Fair Value—2014			Total
	Level 1	Level 2	Level 3	
Investments				
<i>Commingled separate account funds-</i>				
<u>Mutual funds</u>				
Large capital	\$ -	\$ 7,579,424	\$ -	\$ 7,579,424
Diversified international fund	-	1,455,962	-	1,455,962
Small capital	-	1,491,832	-	1,491,832
Bond index fund	-	4,144,153	-	4,144,153
<i>Group pension contracts insurance contracts-</i>				
<u>Mutual funds</u>				
Dividend experience fund	-	-	1,195,693	1,195,693
Direct experience fund	-	-	197,499	197,499
	<u>\$ -</u>	<u>\$ 14,671,371</u>	<u>\$ 1,393,192</u>	<u>\$ 16,064,563</u>

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 - 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>

Group pension contracts - 2014

Balance, at December 31, 2013	\$ 1,463,510
Investment income	83,373
Payments and settlements	<u>(153,691)</u>
Balance, at December 31, 2014	<u>\$ 1,393,192</u>

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

Plan Assets *(continued)*

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 which 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. In 2014, the League changed custodians of the commingled separate account funds that no longer include derivatives, hedge funds and other limited partnership interests.

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 \$17,206,926 and \$14,142,255 in 2015 and 2014, respectively. Included in the donated materials and services are \$14,628,419 and \$11,908,200 for its television airtime in 2015 and 2014, respectively; \$1,300,000 for medical services that occurred in both 2015 and 2014, and \$1,176,301 and \$921,025 from affiliates for donated time for programmatic initiatives for 2015 and 2014, respectively.

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NOTE 9 SPECIAL EVENTS

The League sponsored two special events: 1) A Benefit Concert in July 2015, and 2) The Equal Opportunity Day Dinner in November 2015.

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

	<u>2015</u>	<u>2014</u>
Special event-revenues (gross)	\$ 1,532,532	\$ 2,258,770
Special event-expenses (gross)	<u>(451,157)</u>	<u>(677,889)</u>
Net special event-revenue	<u><u>\$ 1,081,375</u></u>	<u><u>\$ 1,580,881</u></u>

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

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 \$82,663 and \$142,782 in deferred rent credits represent the unamortized balance of the rent waivers as of December 31, 2015 and 2015, respectively. The future base rentals, excluding rent escalations, under the lease are as follows:

<u>Year</u>	<u>2015</u>
2016	\$ 1,298,708
2017	<u>649,354</u>
	<u><u>\$ 1,948,062</u></u>

The New York net office rental expense for the years ended December 31, 2015 and 2014 was \$1,620,715 and \$1,570,937, respectively.

NATIONAL URBAN LEAGUE, INC.
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NOTE 10 COMMITMENTS AND CONTINGENCIES *(continued)*

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 \$86,994 and \$98,723 in deferred rent credits represent the unamortized balance of the rent waivers as of December 31, 2015 and 2014, respectively. The future base rentals, excluding rent escalations, under the lease are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 300,070
2017	307,572
2018	315,261
2019	323,143
2020	331,221
2021-2023	<u>833,976</u>
	<u><u>\$ 2,411,243</u></u>

The Washington, DC net office rental expense for the years ended December 31, 2015 and 2014 was \$332,021 and \$316,214, respectively.

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 LONG-TERM DEBT

The details concerning long-term debt at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Note payable to Citibank, with interest at 3% and monthly payments of principal and interest of \$3,667, due Nov. 30, 2015	\$ -	\$ 39,362
Note payable to Citibank, with interest at 3% and monthly payments of principal and interest of \$753, due Nov. 30, 2015	-	<u>8,075</u>
Total	<u><u>\$ -</u></u>	<u><u>\$ 47,437</u></u>

NATIONAL URBAN LEAGUE, INC.
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NOTE 12 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>2015</u>	<u>2014</u>
<i>Purpose restricted</i>		
Economic Empowerment	\$ 7,819,918	\$ 7,422,656
Building Fund	8,666,666	5,950,000
Education and Youth Empowerment	1,787,630	569,437
Civic Engagement/Leadership Empowerment	331,084	487,103
Health and Quality of Life Empowerment	-	415,560
Urban Empowerment Fund	4,344	199,007
Total purpose restricted	<u>18,609,642</u>	<u>15,043,763</u>
<i>Time restricted</i>		
Future periods	5,001,143	3,694,023
Endowment funds	583,893	1,814,522
Total	<u><u>\$ 24,194,678</u></u>	<u><u>\$ 20,552,308</u></u>

Permanently restricted net assets were restricted for investment in perpetuity:

	<u>2015</u>	<u>2014</u>
Permanent Development Fund	\$ 4,981,505	\$ 4,981,505
Breakthrough Campaign	14,762,433	14,762,433
Other	279,127	279,127
Total	<u><u>\$ 20,023,065</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 generally accepted accounting principles (GAAP) in the U.S., the net assets associated with endowment funds, are classified and reported based on the existence, if any, of donor-imposed restrictions.

NOTE 13 UNRESTRICTED NET ASSETS

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 UNRESTRICTED NET ASSETS *(continued)*

During 2014, the League generated an unrestricted operating surplus of \$196,150. The net results of these activities increased the unrestricted undesignated net assets to \$5,657,204. The League is also required to recognize net actuarial losses of \$2,236,811 that came from its defined benefit pension plan during 2014 but were not recognized as components of net periodic benefit cost. As a result, this caused the pension-related cost balance to be \$(8,996,529) as of December 31, 2014.

NOTE 14 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 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;
- (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.

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NOTE 14 **ENDOWMENTS** *(continued)*

Endowment Net Asset Composition by Type of Fund

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>
December 31, 2014	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 34,198	\$ 1,814,522	\$ 20,023,065	\$ 21,871,785
Total funds, as of December 31, 2014	<u>\$ 34,198</u>	<u>\$ 1,814,522</u>	<u>\$ 20,023,065</u>	<u>\$ 21,871,785</u>

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>

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NOTE 14 **ENDOWMENTS** *(continued)*

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

Changes in endowment net assets for the fiscal year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,419,274	\$ 20,022,065	\$ 21,441,339
<i>Investment return</i>				
Investment income	-	-	1,000	1,000
Interest and dividends	-	340,696	-	340,696
Net appreciation of investr	-	1,098,332	-	1,098,332
<i>Board-approved appropriations</i>				
Appropriation of endowment assets to current operations	1,043,780	(1,043,780)	-	-
Expenditures of endowment assets	<u>(1,009,582)</u>	<u>-</u>	<u>-</u>	<u>(1,009,582)</u>
Endowment net assets, end of year	<u><u>\$ 34,198</u></u>	<u><u>\$ 1,814,522</u></u>	<u><u>\$ 20,023,065</u></u>	<u><u>\$ 21,871,785</u></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 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.

NOTE 14 **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.

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NOTE 14 **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>2015</u>	<u>2014</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>\$ 20,023,065</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>\$ 583,893</u>	<u>\$ 1,814,522</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>\$ 34,198</u>

NOTE 15 **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 2015 and 2014, NUL recognized franchise fees of \$953,000 and \$951,500, respectively.

Subcontract payments are made by the League to affiliates for their services in carrying out specific projects. In 2015 and 2014, subcontract payments to affiliates totaled \$17,750,589 and \$21,785,498, respectively.

The League received \$1,176,301 and \$921,025 in donated services and materials from affiliates in 2015 and 2014, respectively.

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NOTE 16 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 \$672,736 and \$796,172 in fees for the years ended December 31, 2015 and 2014, respectively.

NOTE 17 SUBSEQUENT EVENTS

The League has evaluated its subsequent events (events occurring after December 31, 2015) through August 22, 2016, 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 financial statements. There were no events noted that required adjustment to the financial statements.

