

NATIONAL URBAN LEAGUE, INC.

**Consolidated Financial Statements
For the Years Ended December 31, 2017 and 2016
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

NATIONAL URBAN LEAGUE, INC.
Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
National Urban League, Inc.

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, 2017 and 2016, 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, 2017 and 2016, 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

July 19, 2018

NATIONAL URBAN LEAGUE, INC.
Consolidated Statements of Financial Position
As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 13,467,139	\$ 15,917,882
Grants and pledges receivable, net	17,981,750	15,691,983
Franchise fees receivable, net	830,315	698,542
Prepaid expenses and other assets	511,882	850,496
Investments	23,142,455	20,316,332
Interest rate swap agreement	17,056	-
Property and equipment, net	13,073,299	5,740,415
Total assets	<u>\$ 69,023,896</u>	<u>\$ 59,215,650</u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Line of credit	\$ 1,500,000	\$ -
Accounts payable and accrued expenses	6,000,799	5,600,111
Accrued payroll and vacation benefits	502,676	431,689
Accrued defined contribution costs	590,578	575,983
Contract advances and other deposits	316,105	215,714
Deferred rent credit	618,248	97,808
Bonds payable (net of debt issuance costs of \$136,501)	4,085,098	-
Accrued pension benefit costs	5,864,046	6,090,439
Total liabilities	<u>19,477,550</u>	<u>13,011,744</u>
<i>Net assets (deficit)</i>		
<i>Unrestricted</i>		
Undesignated	6,356,568	6,084,993
Pension related	(9,714,413)	(9,756,368)
Total unrestricted	<u>(3,357,845)</u>	<u>(3,671,375)</u>
Temporarily restricted	32,906,126	29,877,216
Permanently restricted	19,998,065	19,998,065
Total net assets	<u>49,546,346</u>	<u>46,203,906</u>
Total liabilities and net assets	<u>\$ 69,023,896</u>	<u>\$ 59,215,650</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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES				
<i>Revenue, gains, and other support</i>				
Government grants and contracts	\$ 25,267,190	\$ -	\$ -	\$ 25,267,190
Donated materials and services	7,359,216	-	-	7,359,216
Contributions	7,213,578	15,791,843	-	23,005,421
Legacies and bequests	362,729	-	-	362,729
Special events	1,764,858	-	-	1,764,858
Program service fees	6,875,617	-	-	6,875,617
Franchise fees	904,000	-	-	904,000
Net investment return designated for current operations	1,016,709	-	-	1,016,709
Sale of publications	14,148	-	-	14,148
Other	472,688	-	-	472,688
<i>Net assets released from restrictions</i>				
Satisfaction of restrictions	14,582,289	(14,582,289)	-	-
Total revenue, gains, and other support	<u>65,833,022</u>	<u>1,209,554</u>	<u>-</u>	<u>67,042,576</u>
<i>Operating expenses</i>				
<i>Program services</i>				
Economic empowerment	30,276,633	-	-	30,276,633
Education and youth empowerment	5,789,296	-	-	5,789,296
Civic engagement and leadership empowerment	13,987,694	-	-	13,987,694
Technical assistance to affiliates	2,537,076	-	-	2,537,076
Health and quality of life empowerment	1,056,080	-	-	1,056,080
Civil rights and racial justice empowerment	356,795	-	-	356,795
Urban empowerment	425,337	-	-	425,337
Total program services	<u>54,428,911</u>	<u>-</u>	<u>-</u>	<u>54,428,911</u>
<i>Supporting services</i>				
Management and general	6,944,065	-	-	6,944,065
Fundraising	4,205,527	-	-	4,205,527
Total expenses	<u>65,578,503</u>	<u>-</u>	<u>-</u>	<u>65,578,503</u>
Changes in net assets from operations	<u>254,519</u>	<u>1,209,554</u>	<u>-</u>	<u>1,464,073</u>
NON-OPERATING ACTIVITIES				
Net investment return net of amount designated for current operations	-	1,819,356	-	1,819,356
Gain in fair value of interest rate swap	17,056	-	-	17,056
Pension-related changes other than net periodic pension costs	41,955	-	-	41,955
Total non-operating activities	<u>59,011</u>	<u>1,819,356</u>	<u>-</u>	<u>1,878,367</u>
Changes in net assets	313,530	3,028,910	-	3,342,440
Net assets (deficit), beginning of year	<u>(3,671,375)</u>	<u>29,877,216</u>	<u>19,998,065</u>	<u>46,203,906</u>
Net assets (deficit), end of year	<u>\$ (3,357,845)</u>	<u>\$ 32,906,126</u>	<u>\$ 19,998,065</u>	<u>\$ 49,546,346</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	<u>44,689,035</u>	<u>-</u>	<u>-</u>	<u>44,689,035</u>
<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 Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,342,440	\$ 5,663,596
<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	(41,955)	305,819
Depreciation	635,146	482,582
Amortization of debt issuance costs	1,923	-
Realized loss on write-off of fixed assets	3,593	-
Provision of deferred rent credit	520,440	(71,848)
Realized (gain)/loss on sales of investments	(1,049,624)	8,493
Bad debt expense	32,140	481,963
Unrealized appreciation of investments	(1,239,483)	(435,506)
Unrealized gain on interest rate swap agreement	(17,056)	-
<i>Changes in operating assets and liabilities</i>		
Change in grants and pledges receivable	(2,321,907)	(5,966,671)
Change in franchise fees receivable	(131,773)	(159,985)
Change in prepaid expenses and other assets	338,614	(423,397)
Change in accounts payable and accrued expenses	400,688	814,415
Change in accrued payroll and vacation benefits	70,987	85,920
Change in accrued pension benefit cost	(184,438)	(193,545)
Change in accrued defined contribution costs	14,595	42,051
Change in contract advances and other deposits	100,391	(341,401)
Net cash provided by operating activities	<u>474,721</u>	<u>292,486</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,971,623)	(813,676)
Sale of investments	6,254,165	4,973,571
Purchases of investments	<u>(6,791,181)</u>	<u>(5,488,819)</u>
Net cash used in investing activities	<u>(8,508,639)</u>	<u>(1,328,924)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of revenue bonds	(28,401)	-
Payment of debt issuance costs	(138,424)	-
Proceeds from issuance of revenue bonds	4,250,000	-
Proceeds from line of credit borrowings	1,500,000	-
Net cash provided by financing activities	<u>5,583,175</u>	<u>-</u>
Net decrease in cash and cash equivalents	(2,450,743)	(1,036,438)
Cash and cash equivalents, beginning of year	<u>15,917,882</u>	<u>16,954,320</u>
Cash and cash equivalents, end of year	<u>\$ 13,467,139</u>	<u>\$ 15,917,882</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 32,524</u>	<u>\$ -</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, 2017

	Program Services						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	Total	Management and General	Fundraising	Total
Salaries	\$ 2,481,419	\$ 974,256	\$ 1,945,671	\$ 831,380	\$ 346,589	\$ 145,076	\$ 225,000	\$ 6,949,391	\$ 3,160,099	\$ 1,530,181	\$ 11,639,671
Payroll taxes and related benefits	840,149	326,305	660,226	277,191	109,866	41,276	38,924	2,293,937	1,056,821	525,996	3,876,754
Subcontract payments	21,336,654	2,500,509	40,000	40,872	117,350	-	30,000	24,065,385	25,000	-	24,090,385
Donated materials and services	1,259,004	-	6,100,212	-	-	-	-	7,359,216	-	18,000	7,377,216
Professional contract services	2,278,145	738,716	2,437,879	452,799	172,178	62,014	107,656	6,249,387	704,291	1,003,521	7,957,199
Supplies	53,779	44,756	69,243	23,321	7,018	2,715	-	200,832	64,684	27,052	292,568
Telephone	44,681	21,280	53,474	20,243	8,996	5,565	815	155,054	71,245	23,976	250,275
Occupancy	585,663	262,261	535,233	222,787	85,256	33,175	-	1,724,375	881,991	422,759	3,029,125
Commercial insurance	54,074	16,824	33,776	14,181	5,655	2,112	-	126,622	53,813	26,909	207,344
Postage and shipping	8,315	9,456	29,407	10,595	2,868	2,010	-	62,651	23,417	49,436	135,504
Printing, duplication, and artwork	32,240	104,305	92,634	8,324	7,886	3,314	-	248,703	25,960	48,652	323,315
Travel, conferences, and conventions	723,456	542,208	1,612,743	515,806	109,124	38,801	19,523	3,561,661	373,935	342,976	4,278,572
Subscription and publication	15,516	18,466	72,999	6,711	2,051	1,066	-	116,809	10,150	28,981	155,940
Furniture and equipment	104,827	41,534	73,347	41,792	13,919	6,517	-	281,936	139,532	56,207	477,675
Awards and grants	303	437	15,000	-	-	-	-	15,740	1,000	-	16,740
Bad debt	-	-	-	-	-	-	-	-	32,140	-	32,140
Interest expense	7,357	2,831	5,727	2,404	959	358	-	19,636	9,819	4,992	34,447
Miscellaneous	305,089	132,694	103,982	24,107	48,593	6,160	3,419	624,044	141,059	3,384	768,487
Depreciation and amortization	145,962	52,458	106,141	44,563	17,772	6,636	-	373,532	169,109	92,505	635,146
Total expenses	\$ 30,276,633	\$ 5,789,296	\$ 13,987,694	\$ 2,537,076	\$ 1,056,080	\$ 356,795	\$ 425,337	\$ 54,428,911	\$ 6,944,065	\$ 4,205,527	\$ 65,578,503

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						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	Total	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
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.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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 90 professionally staffed affiliates in 37 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, 2017 and 2016

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 wellness and quality of life through participation in preventative measures, health literacy programs, 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 select urban League affiliate markets. The mission of UEF is to help MBEs gain access to capital, survive, prosper, grow, create jobs, and generate individual and community wealth. UEF works 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 ranging from \$50,000-\$250,000 (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 are 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, 2017 and 2016 were \$3,267,823 and \$4,230,230, 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. 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:

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

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

Investments *(continued)*

Equity securities: Recorded at fair value based on the quoted market prices and broker prices. Consists of common stock, mutual funds and other exchange traded funds.

Fixed-income securities: Recorded at fair value based on the quoted market prices and broker prices. Consists of mutual funds and other exchange-traded funds.

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 are 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 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.

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, 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 is recorded at its 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

Building, 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>
Building	40
Leasehold improvements	5–20
Furniture and fixtures	10
Equipment	3–7
Computer software	5–7

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

Property and Equipment *(continued)*

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 2017, 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 2017 and 2016.

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, 2017 and 2016, 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 \$5,864,046 and \$6,090,439, respectively.

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

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 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.

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

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 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.

In-kind contributions are the value of non-cash contributions provided by affiliates. They are often required in the provisions of public grants. They may be in the form of real and personal property, as well as the value of goods and services that directly benefit a project. For the League, in-kind contributions consist mainly of the cost associated with the supervision of program participants that is not directly charged to a project and the costs of materials and training spaces.

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 \$46,726 and \$147,943 in 2017 and 2016, 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 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 is 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, 2017 and 2016, 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 2014.

Debt Issuance Costs

Debt issuance costs related to the revenue bonds are presented in the consolidated statements of financial position as a reduction to the carrying value of long-term debt and are amortized over the period the revenue bonds are outstanding using the straight-line method, which approximates the effective interest method (see Note 8 – Long-Term Debt).

Interest Rate Swap Agreement

The interest rate swap agreement is stated at fair value. Its fair value is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

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

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, 2018. 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, 2019. 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 the 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.

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 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.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 3 INVESTMENTS

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, 2017 and 2016:

	Assets at Fair Value as of December 31, 2017		
	Total	Level 1	Level 2
<i>Cash and cash equivalents</i>			
Interest-bearing cash deposits	\$ 2,831,455	\$ 2,831,455	\$ -
Certificates of deposit	436,368	436,368	-
Total cash and cash equivalents	3,267,823	3,267,823	-
<i>Investments</i>			
Money market funds	999,479	999,479	-
Equity securities	12,347,166	12,347,166	-
Fixed-income securities	9,795,810	9,795,810	-
Total investments	23,142,455	23,142,455	-
Interest rate swap agreement	17,056	-	17,056
Total assets at fair value	\$ 26,427,334	\$ 26,410,278	\$ 17,056

	Assets at Fair Value as of December 31, 2016		
	Total	Level 1	Level 2
<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	-
Total cash and cash equivalents	4,230,230	4,230,230	-
<i>Investments</i>			
Money market funds	698,091	698,091	-
Equity securities	10,208,601	10,208,601	-
Fixed-income securities	9,409,640	9,409,640	-
Total investments	20,316,332	20,316,332	-
Total assets at fair value	\$ 24,546,562	\$ 24,546,562	\$ -

There are no Level 3 investment transfers in 2017. Transfers out of Level 3 investments were made during 2016 as NUL liquidated its investment.

The measurement of fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (*i.e.*, an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Fair value measurement establishes a three-level valuation hierarchy based upon observable and non-observable inputs.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 3 INVESTMENTS *(continued)*

Fair Value on a Recurring Basis *(continued)*

Assets and liabilities recorded at fair value in the consolidated statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The three levels of inputs defined by ASC 820 are as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The League's interest rate swap is observable at commonly quoted intervals for the full term of the swap and is, therefore, considered a Level 2 item. For the interest swap to be in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset.

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

	<u>2017</u>	<u>2016</u>
Dividends and interest income	\$ 546,958	\$ 526,967
Net realized gains\loss on sales of investments	1,049,624	(8,493)
Unrealized appreciation of investments	<u>1,239,483</u>	<u>435,506</u>
Total investment return	<u>\$ 2,836,065</u>	<u>\$ 953,980</u>
Current operations	\$ 1,016,709	\$ 1,002,778
Non-operating activity	<u>1,819,356</u>	<u>(48,798)</u>
Total investment return	<u>\$ 2,836,065</u>	<u>\$ 953,980</u>

The dividends and interest income above are net of investment fees of \$107,675 and \$102,517 in 2017 and 2016, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 3 INVESTMENTS *(continued)*

Fair Value on a Recurring Basis *(continued)*

Under the League's endowment spending policy in 2017 and 2016, 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>2017</u>	<u>2016</u>
Gain on non-long-term reserves	\$ 11,946	\$ 14,846
Board-designated for current operations from prior-year earnings	<u>1,004,763</u>	<u>987,932</u>
Total designated for current operations	<u>1,016,709</u>	<u>1,002,778</u>
Investment return on long-term reserves	2,824,119	939,134
Board-designated for current operations from prior-year earnings	<u>(1,004,763)</u>	<u>(987,932)</u>
Non-operating investment return	<u>1,819,356</u>	<u>(48,798)</u>
Total investment return	<u><u>\$ 2,836,065</u></u>	<u><u>\$ 953,980</u></u>

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 1.89% and 1.20% in 2017 and 2016, respectively. Grants and pledges receivable at December 31 are comprised of the following:

	<u>2017</u>	<u>2016</u>
<i>Grant and contract receivables</i>		
Less than one year	\$11,479,604	\$ 9,237,495
One to five years	750,000	1,900,000
Less: Fair value adjustment	(27,567)	(28,925)
<i>Pledges receivable</i>		
Pledges due in less than one year	<u>5,879,713</u>	<u>4,683,413</u>
	18,081,750	15,791,983
Less: Allowance for doubtful amounts	<u>(100,000)</u>	<u>(100,000)</u>
Total grants and pledges receivable, net	<u><u>\$17,981,750</u></u>	<u><u>\$15,691,983</u></u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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>2017</u>	<u>2016</u>
Gross franchise fees receivable	\$ 1,730,315	\$ 1,598,542
Less: Allowance for doubtful amounts	<u>(900,000)</u>	<u>(900,000)</u>
Net franchise fees receivable	<u><u>\$ 830,315</u></u>	<u><u>\$ 698,542</u></u>

NOTE 6 PROPERTY AND EQUIPMENT

At December 31, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Leasehold improvements	\$ 2,537,494	\$ 263,363	\$ 2,274,131
Building	4,109,068	42,803	4,066,265
Furniture and fixtures	1,067,977	211,919	856,058
Equipment	1,594,751	1,145,775	448,976
Computer software	<u>1,979,457</u>	<u>1,209,564</u>	<u>769,893</u>
	11,288,747	2,873,424	8,415,323
Construction in progress	<u>4,657,976</u>	<u>-</u>	<u>4,657,976</u>
Total	<u><u>\$ 15,946,723</u></u>	<u><u>\$ 2,873,424</u></u>	<u><u>\$ 13,073,299</u></u>
	<u>2016</u>		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
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	<u>1,714,337</u>	<u>975,119</u>	<u>739,218</u>
	6,703,100	5,503,161	1,199,939
Construction in progress	<u>4,540,476</u>	<u>-</u>	<u>4,540,476</u>
Total	<u><u>\$ 11,243,576</u></u>	<u><u>\$ 5,503,161</u></u>	<u><u>\$ 5,740,415</u></u>

Depreciation and amortization expenses for 2017 and 2016 were \$635,146 and \$482,582, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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 2017 and 2016 was \$574,927 and \$559,940, 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>2017</u>	<u>2016</u>
<i>Change in benefit obligations</i>		
Projected benefit obligations, beginning of year	\$ 21,561,776	\$ 21,143,292
Service cost	138,243	163,485
Interest cost	800,868	835,715
Actuarial (gain) loss	1,058,495	675,094
Benefit payments and settlements	<u>(1,249,143)</u>	<u>(1,255,810)</u>
Projected benefit obligations, end of year	<u>22,310,239</u>	<u>21,561,776</u>
<i>Change in plan assets</i>		
Fair value of plan assets, beginning of year	15,471,337	15,165,127
Actual return on plan assets (net of expenses)	1,365,482	763,166
Employer contributions	858,517	798,854
Benefit payments and settlements	<u>(1,249,143)</u>	<u>(1,255,810)</u>
Fair value of plan assets, end of year	<u>16,446,193</u>	<u>15,471,337</u>
Funded status	<u><u>\$ (5,864,046)</u></u>	<u><u>\$ (6,090,439)</u></u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

	<u>2017</u>	<u>2016</u>
<i>Reconciliation of funded status</i>		
Funded status	\$ 5,864,046	\$ 6,090,439
Actuarial (loss)	<u>(9,714,413)</u>	<u>(9,756,368)</u>
Accrued benefit (gain)	<u>\$ (3,850,367)</u>	<u>\$ (3,665,929)</u>
	<u>2017</u>	<u>2016</u>
<i>Amounts recognized in the consolidated statements of financial position, as of December 31</i>		
Accrued benefit gain	\$ 3,850,367	\$ 3,665,929
Actuarial loss at prior measurement date	(9,756,368)	(9,450,549)
Pension-related changes other than net periodic pension credit (costs)	<u>41,955</u>	<u>(305,819)</u>
Accrued pension benefit costs	<u>\$ (5,864,046)</u>	<u>\$ (6,090,439)</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, 2017 required a reduction of its liability associated with the defined benefit plan of \$41,955 (actuarial gains or losses and prior service costs or credits that arise during 2017 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, 2016 required an additional 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 increase in liability was reflected as an increase in the accrued pension cost and resulted in a corresponding decrease in unrestricted net assets.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

The accumulated benefit obligations for the defined benefit pension plan were \$21,867,000 and \$21,093,859 at December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
<i>Components of net periodic benefit cost</i>		
Service cost	\$ 138,243	\$ 163,485
Interest cost	800,868	835,715
Expected return on plan assets	(697,352)	(795,876)
Amortization of net actuarial loss	432,320	401,985
Net periodic benefit cost	<u>\$ 674,079</u>	<u>\$ 605,309</u>

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

	<u>2017</u>	<u>2016</u>
<i>Additional information</i>		
Discount rate	3.40%	3.85%
Rate of compensation increase	2.00%	3.00%

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

	<u>2017</u>	<u>2016</u>
Discount rate	3.85%	4.10%
Expected return on plan assets	5.75%	6.50%
Rate of compensation increase	3.00%	3.00%

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

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

The League's pension plan's weighted-average asset allocations at December 31, 2017 and 2016, by asset category, are as follows:

	<u>2017</u>	<u>2016</u>
<i>Asset category</i>		
Stocks and equity securities	40%	39%
Bonds	54	53
Insurance contracts	6	8
Total	<u>100%</u>	<u>100%</u>

Cash Flows

Pension Contributions – The League expects to contribute approximately \$362,500 to its pension plan in 2018.

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>
2018	\$ 1,600,000
2019	1,550,000
2020	1,540,000
2021	1,510,000
2022	1,480,000
2022-2025	7,040,000

Plan Assets

The following table provides the fair value hierarchy of the Plan's assets as of December 31, 2017:

	<u>Assets at Fair Value as of December 31, 2017</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>Group pension contracts</i>				
Insurance contracts	\$ 940,103	\$ -	\$ -	\$ 940,103
<i>Investments at NAV</i>				
Pooled separate accounts	15,506,090			
Total	<u>\$ 16,446,193</u>			

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 7 ACCRUED PENSION BENEFITS *(continued)*

Plan Assets *(continued)*

The following table provides the fair value hierarchy of the Plan's assets as of December 31, 2016:

	Assets at Fair Value as of December 31, 2016			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>Group pension contracts</i>				
Insurance contracts	\$ 1,053,982	\$ -	\$ -	\$ 1,053,982
<i>Investments at NAV</i>				
Pooled separate accounts	14,417,355			
Total	<u>\$ 15,471,337</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, 2017 and 2016:

Group pension contracts - 2017

Balance, at December 31, 2016	\$ 1,053,982
Investment income	27,148
Payments and settlements	(141,027)
Balance, at December 31, 2017	<u>\$ 940,103</u>

Group pension contracts - 2016

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

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

Commingled pooled separate accounts: The League opted to use the net asset value per share, or its equivalent, as a practical expedient for fair value of the Plan's interest in pooled separate accounts. 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.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
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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 LONG-TERM DEBT

In August 2017, Branch Banking and Trust Company (BB&T) issued \$4,250,000 in Revenue Bonds Series 2017 (2017 Bonds). The 2017 Bonds are tax exempt and bear interest, which is payable monthly at a rate of 2.4%.

Long-term debt consisted of the following as of December 31, 2017:

	<u>2017</u>
Revenue bonds (gross)	\$ 4,221,599
Unamortized debt issuance costs	<u>(136,501)</u>
Long-term debt (net)	<u>\$ 4,085,098</u>

The aggregate amounts of principal maturities for the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 114,510
2019	118,167
2020	121,950
2021	125,844
2022	129,861
2023-2042	<u>3,611,267</u>
Total	<u>\$ 4,221,599</u>

Interest expense, including interest rate swap interest, was \$32,524 for the year ended December 31, 2017.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
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NOTE 8 LONG-TERM DEBT *(continued)*

Amortization of debt issuance costs is included as an addition to interest expense on the consolidated statements of activities. The amortization of debt issuance costs was \$1,923 for the year ended December 31, 2017.

NOTE 9 INTEREST RATE SWAP AGREEMENT

The League has entered into an interest rate swap agreement with BB&T. Under the agreement, the League's original notional amount was \$4,250,000, which equated to approximately 100% of the obligation under the 2017 Bonds. The notional amount at December 31, 2017 was \$4,221,599. Under the terms of the agreement, the floating rate was swapped into a fixed rate of 3.03%, with a termination date of September 1, 2025. This mechanism is intended to allow the League to realize the potential benefit of a lower fixed rate. At December 31, 2017, the agreement's estimated fair value was in an asset position of \$17,056.

The League's intent is to reduce overall interest expense while maintaining an acceptance level of risk exposure to increases in interest rates. The League follows the Derivatives and Hedging Topic of the FASB ASC, which requires the League to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for the change in fair value (*i.e.*, gain or loss) of the derivative instrument is recognized in the statement of activities.

Activity for the year ended December 31, 2017, for the interest rate swap agreement, is as follows:

Fair value of interest rate swap asset, beginning of year	\$ -
Unrealized gain on interest rate swap	<u>17,056</u>
Fair value of interest rate swap asset, end of year	<u><u>\$ 17,056</u></u>

NOTE 10 LINE OF CREDIT

In August 2017, the League entered into a loan agreement (the Agreement) with BB&T, whereby the Bank provided the League with a revolving line of credit in the amount of \$2,000,000. The Loan bears an interest rate of 3.25%. The line of credit is secured by all personal property of League, as defined in the loan agreement.

The loan balance at December 31, 2017 amounted to \$1,500,000. Interest expense in 2017 and 2016 amounted to zero.

The League is in compliance with the terms of the Agreement.

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NOTE 11 DONATED SERVICES AND MATERIALS

NUL received total donated materials and services valued at \$7,359,216 and \$7,060,978 in 2017 and 2016, respectively. Included in the donated materials and services are \$6,096,656 and \$6,028,716 for its television airtime in 2017 and 2016, respectively; \$1,259,004 and \$1,032,262 from affiliates for donated time for programmatic initiatives for 2017 and 2016, respectively; and, \$3,556 and \$0 for other donated materials for 2017 and 2016, respectively.

NOTE 12 SPECIAL EVENTS

The League sponsored one special event: The Equal Opportunity Dinner in November.

For the years ended December 31, 2017 and 2016, total revenue and expenses related to the events were as follows:

	<u>2017</u>	<u>2016</u>
Special event-revenues (gross)	\$ 1,764,858	\$ 1,520,660
Special event-expenses (gross)	<u>(538,807)</u>	<u>(494,947)</u>
Net special event-revenue	<u><u>\$ 1,226,051</u></u>	<u><u>\$ 1,025,713</u></u>

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

NOTE 13 COMMITMENTS AND CONTINGENCIES

Operating Lease

NUL leased their New York office space, 120 Wall Street, under a 20-year lease agreement expired in 2017, which provided for waivers of rent payments from April 15, 1997 to September 30, 1998. The balances of \$0 and \$22,545 in deferred rent credits represent the unamortized balance of the rent waivers as of December 31, 2017 and 2016, respectively.

The New York office, 120 Wall Street, rental expense for the years ended December 31, 2017 and 2016 was \$1,211,903 and \$1,793,982, respectively.

In December 2016, NUL entered into a new lease for the New York office space, 80 Pine Street, from January 2017 until December 2021. The balance of \$618,248 and \$0 in deferred rent credits represents the unamortized balance of the rent waivers as of December 31, 2017 and 2016, respectively.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
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NOTE 13 COMMITMENTS AND CONTINGENCIES *(continued)*

Operating Lease *(continued)*

Annual future minimum rental payments and income under the lease and sublease are as follows:

<u>Year</u>	<u>Rental Expense</u>	<u>Sublease Income</u>
2018	\$ 1,545,615	\$ 135,000
2019	1,545,615	135,000
2020	1,545,615	135,000
2021	1,545,615	135,000

The New York office, 80 Pine Street, rental expense for the years ended December 31, 2017 and 2016 was \$1,299,645 and \$0, respectively.

NUL leases its Washington, DC office space under a 10-year lease agreement, which provided for waivers of rent payments from June 1, 2013 to October 31, 2013. The balances of \$0 and \$75,263 in deferred rent credits represent the unamortized balance of the rent waivers as of December 31, 2017 and 2016, respectively.

The Washington, DC net office rental expense for the years ended December 31, 2017 and 2016 was \$165,382 and \$331,139, respectively. The lease terminated during 2017.

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.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
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NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	<u>2017</u>	<u>2016</u>
<i>Purpose restricted</i>		
Economic Empowerment	\$ 5,875,598	\$ 4,690,824
Building Fund	11,268,999	9,083,329
Education and Youth Empowerment	7,321,022	9,728,226
Civic Engagement/Leadership Empowerment	687,680	336,437
Health and Quality of Life Empowerment	125,763	1,005,776
Urban Empowerment Fund	<u>72,123</u>	<u>71,225</u>
Total purpose restricted	25,351,185	24,915,817
<i>Time restricted</i>		
Future periods	5,200,490	4,426,304
Endowment funds	<u>2,354,451</u>	<u>535,095</u>
Total	<u>\$ 32,906,126</u>	<u>\$ 29,877,216</u>

Permanently restricted net assets were restricted for investment in perpetuity:

	<u>2017</u>	<u>2016</u>
Permanent Development Fund	\$ 4,956,505	\$ 4,956,505
Breakthrough Campaign	14,762,433	14,762,433
Other	<u>279,127</u>	<u>279,127</u>
Total	<u>\$ 19,998,065</u>	<u>\$ 19,998,065</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 15 UNRESTRICTED NET ASSETS

During 2017, the League generated an unrestricted operating surplus of \$254,519. The net results of these activities increased the unrestricted undesignated net assets to \$6,356,568. The League is also required to recognize net actuarial gains of \$41,955 that came from its defined benefit pension plan during 2017 but were not recognized as components of net periodic benefit cost. As a result, this caused the pension-related cost balance to be \$(9,714,413) as of December 31, 2017.

NOTE 15 UNRESTRICTED NET ASSETS *(continued)*

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.

NOTE 16 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;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return of income and the appreciation of investments;
- (6) Other resources of the organization; and
- (7) The investment policies of the organization.

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
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NOTE 16 **ENDOWMENTS** *(continued)*

Endowment Net Asset Composition by Type of Fund

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2017				
Donor-restricted endowment funds	\$ -	\$ 2,387,195	\$ 19,998,065	\$ 22,385,260
Total funds, as of December 31, 2017	<u>\$ -</u>	<u>\$ 2,387,195</u>	<u>\$ 19,998,065</u>	<u>\$ 22,385,260</u>
December 31, 2016				
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>

Changes in endowment net assets for the fiscal year ended December 31, 2017 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	\$ 535,095	\$ 19,998,065	\$ 20,565,904
<i>Investment return</i>				
Investment income—				
Interest and dividends	-	535,012	-	535,012
Net appreciation of investments	-	2,289,107	-	2,289,107
Reclassification	(32,744)	32,744	-	-
<i>Board-approved appropriations</i>				
Appropriation of endowment assets to current operations	-	(1,004,763)	-	(1,004,763)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,387,195</u>	<u>\$ 19,998,065</u>	<u>\$ 22,385,260</u>

NATIONAL URBAN LEAGUE, INC.
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

NOTE 16 **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
<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)
Endowment net assets, end of year	<u>\$ 32,744</u>	<u>\$ 535,095</u>	<u>\$ 19,998,065</u>	<u>\$ 20,565,904</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 16 **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 16 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>2017</u>	<u>2016</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>\$ 19,998,065</u>
<i>Endowment fund classified as temporarily restricted net assets</i>		
The portion of the perpetual endowment fund that is subject to appropriation	<u>\$ 2,387,195</u>	<u>\$ 535,095</u>
<i>Endowment fund classified as unrestricted net assets</i>		
The portion of the perpetual endowment fund that is unexpended	<u>\$ -</u>	<u>\$ 32,744</u>

NOTE 17 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 2017 and 2016, NUL recognized franchise fees of \$904,000 and \$924,000, respectively.

NUL had franchise fee receivable write offs of \$0 and \$371,523 in 2017 and 2016, respectively.

Subcontract payments are made by the League to affiliates for their services in carrying out specific projects. In 2017 and 2016, subcontract payments to affiliates totaled \$24,090,385 and \$18,658,498, respectively.

The League received \$1,259,004 and \$1,032,262 in donated services and materials from affiliates in 2017 and 2016, respectively.

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NOTE 18 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 \$337,500 and \$126,675 in fees for the years ended December 31, 2017 and 2016, respectively.

NOTE 19 SUBSEQUENT EVENTS

The League has evaluated its subsequent events (events occurring after December 31, 2017) through July 19, 2018, 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.

