

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**

**Combined Financial Statements and Additional Information
For the Year Ended June 30, 2010
(With Comparative Totals for 2009)
With Report of Independent Auditors**

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
June 30, 2010
(With Comparative Totals for 2009)

TABLE OF CONTENTS

	<u>Page(s)</u>
REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
Combined Statement of Financial Position	2
Combined Statement of Activities	3
Combined Statement of Cash Flows	4
Notes to Combined Financial Statements	5–20
ADDITIONAL INFORMATION	
Report of Independent Auditors on Additional Information	21
Combining Statement of Financial Position	22
Combining Statement of Activities	23
Combined Schedule of Functional Expenses	24

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
NAACP Legal Defense and Educational Fund, Inc.

We have audited the accompanying combined statement of financial position of NAACP Legal Defense and Educational Fund, Inc. and Affiliate (the Fund) as of June 30, 2010, and the related combined statements of activities and of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior-year summarized comparative information has been derived from the Fund's 2009 financial statements, and in our report dated October 20, 2009, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of NAACP Legal Defense and Educational Fund, Inc. and Affiliate as of June 30, 2010, and the changes in their combined net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.



October 25, 2010

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**

Combined Statement of Financial Position

As of June 30, 2010

(With Comparative Figures for 2009)

	2010	2009
ASSETS		
Cash and cash equivalents	\$ 5,092,386	\$ 5,846,119
Accounts receivable	132,944	161,321
Contributions receivable	2,303,017	2,515,577
Amounts held in escrow	30,484	30,630
Investments	21,232,269	20,289,389
Other assets	317,553	425,436
Property and equipment, net	2,929,173	2,855,770
Assets held in trust by others	1,293,258	1,223,504
Total assets	\$ 33,331,084	\$ 33,347,746
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 1,163,641	\$ 1,143,788
Accrued pension liability	1,368,512	121,650
Court awards and fees pending distribution	30,484	30,630
Total liabilities	2,562,637	1,296,068
Commitments and contingencies		
<i>Net assets</i>		
<i>Unrestricted</i>		
Available for operations	1,847,207	3,756,350
Designated for long-term investment	2,815,056	2,427,523
Invested in fixed assets	2,929,173	2,855,770
Total unrestricted	7,591,436	9,039,643
Temporarily restricted	4,892,375	5,203,284
Permanently restricted	18,284,636	17,808,751
Total net assets	30,768,447	32,051,678
Total liabilities and net assets	\$ 33,331,084	\$ 33,347,746

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

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**

Combined Statement of Activities

For the Year Ended June 30, 2010

(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
REVENUE, GAINS AND OTHER SUPPORT					
Contributions	\$ 4,130,661	\$ 2,335,535	\$ 1,131	\$ 6,467,327	\$ 8,070,703
Combined Federal Campaign	314,824	446	-	315,270	364,558
Bequests	2,777,739	7,158	405,000	3,189,897	862,410
Special events, net of direct donor benefits of \$337,051 and \$223,681, respectively	2,312,797	85,000	-	2,397,797	2,786,219
Court costs and attorney fees awarded	39,766	-	-	39,766	52,976
Investment income, net of fees of \$35,991 and \$27,463, respectively	623,879	86,735	-	710,614	858,442
Net appreciation (depreciation) in fair value of investments	129,198	228,094	69,754	427,046	(7,074,953)
Net assets released from restrictions	3,053,877	(3,053,877)	-	-	-
Total revenue, gains, and other support	<u>13,382,741</u>	<u>(310,909)</u>	<u>475,885</u>	<u>13,547,717</u>	<u>5,920,355</u>
EXPENSES					
<i>Program services</i>					
Legal	7,117,229	-	-	7,117,229	7,234,130
Public information	2,291,778	-	-	2,291,778	2,228,409
Herbert Lehman education	478,629	-	-	478,629	607,633
Earl Warren legal training	69,067	-	-	69,067	87,283
Total program services	<u>9,956,703</u>	<u>-</u>	<u>-</u>	<u>9,956,703</u>	<u>10,157,455</u>
<i>Supporting services</i>					
Fundraising	2,352,438	-	-	2,352,438	2,413,234
Management and general	1,378,380	-	-	1,378,380	1,126,482
Total supporting services	<u>3,730,818</u>	<u>-</u>	<u>-</u>	<u>3,730,818</u>	<u>3,539,716</u>
Total expenses	<u>13,687,521</u>	<u>-</u>	<u>-</u>	<u>13,687,521</u>	<u>13,697,171</u>
Change in net assets before other charges	(304,780)	(310,909)	475,885	(139,804)	(7,776,816)
OTHER CHARGES					
Charges for pension benefit other than net periodic pension cost	1,143,427	-	-	1,143,427	1,472,713
Change in net assets	(1,448,207)	(310,909)	475,885	(1,283,231)	(9,249,529)
Net assets at beginning of year	9,039,643	5,203,284	17,808,751	32,051,678	41,301,207
Net assets at end of year	<u><u>\$ 7,591,436</u></u>	<u><u>\$ 4,892,375</u></u>	<u><u>\$18,284,636</u></u>	<u><u>\$ 30,768,447</u></u>	<u><u>\$32,051,678</u></u>

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

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**

Combined Statement of Cash Flows

For the Year Ended June 30, 2010

(With Comparative Figures for 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (1,283,231)	\$ (9,249,529)
<i>Adjustments to reconcile changes in net assets to net cash used in operating activities</i>		
Depreciation and amortization	368,943	359,725
Donated securities	(34,471)	(140,505)
Net (appreciation) depreciation in fair value of investment	(427,046)	7,074,953
Decrease (increase) in accounts receivable	28,377	(35,698)
Decrease (increase) in contributions receivable	212,560	(418,937)
Decrease in other assets	107,883	15,789
Decrease in prepaid pension asset	-	1,864,127
Increase in accrued pension liability	1,246,862	121,650
Decrease in amounts held in escrow	146	6,854,874
Increase (decrease) in accounts payable and accrued expenses	19,853	(1,006,364)
Decrease in court awards and fees pending distribution	(146)	(6,854,874)
Permanently restricted public support	(406,131)	(329,685)
Net cash used in operating activities	(166,401)	(1,744,474)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	8,591,287	12,878,748
Purchase of investments	(9,142,404)	(12,496,909)
Purchase of property and equipment	(442,346)	(65,251)
Net cash (used in) provided by investing activities	(993,463)	1,219,925
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted public support	406,131	329,685
Net decrease in cash and cash equivalents	(753,733)	(194,864)
Cash and cash equivalents at beginning of year	5,846,119	6,944,320
Cash and cash equivalents at end of year	\$ 5,092,386	\$ 5,846,119
SUPPLEMENTAL DISCLOSURE		
In-kind contributions of goods and services expensed by the Fund	\$ 364,391	\$ 549,865

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

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 1 ORGANIZATION

Organization and Principles of Combination

The accompanying combined financial statements include the financial position and changes in net assets and cash flows of NAACP Legal Defense and Educational Fund, Inc. (LDF) and Earl Warren Legal Training Program, Inc. (EWLTP); collectively referred to as “the Fund”. The individual organizations have interrelated boards of directors and share common facilities and personnel. All material intercompany transactions and balances have been eliminated in combination. The Internal Revenue Service has classified both as tax-exempt organizations, as defined in Section 501(c)(3) of the Internal Revenue Code.

LDF’s primary purpose is to support litigation in the areas of poverty and justice, education, voting rights, fair employment, capital punishment, administration of criminal justice, and to increase educational opportunities through scholarships. Primary sources of revenue include fundraising from the general public, corporations, and foundations; reimbursement of court costs and fees; and investment income. LDF maintains offices in New York and Washington, D.C. EWLTP provides scholarship aid to minority law students. Its goal is to increase African-American representation in the legal profession and to meet the dire need of minority clients for skilled and knowledgeable attorneys.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying combined financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. for non-profit organizations requires management to make estimates and judgments that affect the reported amount of assets and liabilities and disclosures of contingencies at the date of the combined financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the 2009 financial statements were reclassified to conform to the 2010 presentation.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

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

Net Asset Classification

The Fund's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Fund and the changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may be met by actions of the Fund and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Fund. Generally, the donors of these assets permit the Fund to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

The Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Contributions and Revenue Recognition

Contributions, which include unconditional promises to give, are recognized as revenue in the period received. Contributions to be received after one year are discounted to present value.

Contribution revenue is reported as increases in unrestricted net assets unless its use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Net appreciation or depreciation in investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Legacies and bequests are recognized when an unassailable right to the gift has been established and the proceeds are measurable.

In-kind Contributions

In-kind contributions are recorded at their estimated fair values at the date of donation.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

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

Investments

Investments are measured at fair value. Realized and unrealized gains and losses are recognized as changes in net assets in the periods in which they occur, and investment income is recognized as revenue in the period earned. As discussed in Note 5, the Fund follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at date of gift, if donated. Property and equipment additions of \$1,000 or more are capitalized. Depreciation of the condominium interest, furniture, equipment, and website is provided over their estimated useful lives of 40 years for the condominium interest and three to 15 years for furniture, equipment, and website. Leasehold improvements are amortized over the lesser of their estimated useful lives or the term of the lease, including extensions expected to be exercised.

The Fund evaluates long-lived assets, which are held for use, for impairment whenever events or circumstances indicate an impairment may exist. An impairment loss is recorded if the net carrying value of the asset exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. Management determined that no long-lived assets were impaired at June 30, 2010.

Split-Interest Agreements

Perpetual trusts held by outside trustees, through whom the Fund has an irrevocable right to receive the income earned on trust assets, are recognized in the accompanying combined statement of financial position as assets held in trust by others at the fair value of the Fund's share of the trust assets. Distributions from the trust are recorded as investment income and changes to the perpetual trusts' value are reported in permanently restricted net asset class.

The Fund's interest in charitable remainder annuity trusts held by outside trustees is recognized in the accompanying combined statement of financial position as contributions receivable at the estimated present value of amounts to be received upon termination of the trusts. Annual adjustments to the receivable are recognized as gains or losses.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

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

Court Costs and Attorney Fees Awarded

In connection with certain cases decided or settled in LDF's favor, attorney fees may be awarded. Revenues are recognized when notification is received from the courts.

Defined Benefit Pension Plan

LDF's defined benefit pension plan is presented on a funded-status basis, recognizing in the statement of activities the net gain or loss and net prior service cost or credit for the year in addition to the net transition asset or obligation recognized as a component of net periodic benefit cost for the period. Any amounts that have not yet been recognized as components of net periodic benefit cost are presented in the statement of financial position. As discussed in Note 9 the pension plan was frozen effective July 1, 2009.

Defined Contribution Plan

LDF has a voluntary defined contribution plan where employees of the Fund make tax-deferred contributions through payroll deductions. Currently, LDF does not match or make any contributions to this plan.

Recent Accounting Pronouncements

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*. SFAS No. 168 was codified as Accounting Standards Codification (ASC) Topic 105-10 and replaced SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to establish the FASB ASC as the primary source of authoritative, non-governmental GAAP. As the ASC was not intended to change or alter existing GAAP, it did not have any impact on the Fund's combined financial statements.

The Fund adopted ASC 740, *Accounting for Uncertainty in Income Taxes*. This interpretation clarifies the accounting for income taxes by prescribing the minimum standard a tax position is required to meet before being recognized in the financial statements. ASC 740 is effective for fiscal years beginning after December 15, 2008. The Fund has not taken any uncertain tax position that should be accounted for under ASC 740.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 3 CASH AND CASH EQUIVALENTS

The Fund maintains its cash and cash equivalents in a number of bank accounts held by certain financial institutions. The cash in these accounts from time to time exceeds the amount insured by the Federal Deposit Insurance Corporation, subjecting the Fund to concentration of risk. However, the Fund monitors this risk on a regular basis.

At June 30, 2010, approximately 91% of the Fund's cash and cash equivalents was held by two financial institutions.

NOTE 4 INVESTMENTS

Investments as of June 30, 2010 and 2009, were as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Cash and cash equivalents	\$ 277,411	\$ 277,411	\$ 903,337	\$ 903,337
Mutual funds	8,924,130	7,452,491	3,901,771	4,134,952
Common stocks	6,093	6,101	-	-
Corporate bonds	3,512,895	3,513,277	5,186,932	5,280,188
U.S. government and agency obligations	<u>8,511,740</u>	<u>8,239,778</u>	<u>10,297,349</u>	<u>10,008,680</u>
	<u>\$ 21,232,269</u>	<u>\$ 19,489,058</u>	<u>\$ 20,289,389</u>	<u>\$ 20,327,157</u>

At June 30, 2010, approximately 100% of the Fund's investments were held by two financial institutions.

NOTE 5 FAIR VALUE MEASUREMENTS

LDF follows the provisions of ASC 820-10, *Fair Value Measurements and Disclosures*. ASC 820-10 establishes a fair value hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally ranges from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value; however, the level of fair value for each financial asset or liability presented below is based on the lowest significant input level within this fair value hierarchy.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 5 FAIR VALUE MEASUREMENTS *(continued)*

The following table provides the fair value hierarchy of the Fund's financial assets as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 4,839,580	\$ -	\$ -	\$ 4,839,580
<i>Investments</i>				
Cash equivalents	106,165	-	-	106,165
Mutual funds – equities	6,370,877	-	-	6,370,877
Mutual funds – fixed income	2,553,253	-	-	2,553,253
Corporate bonds	3,512,895	-	-	3,512,895
Common stock	6,093			6,093
U.S. government and agency obligations	8,511,740	-	-	8,511,740
<i>Assets held in trust by others</i>				
Cash equivalents	59,057	2,467	-	61,524
Mutual funds – equities	674,974	28,692	-	703,666
Mutual funds – fixed income	459,133	22,440	-	481,573
Real estate investment trusts	46,495	-	-	46,495
Total	<u>\$ 27,140,262</u>	<u>\$ 53,599</u>	<u>\$ -</u>	<u>\$ 27,193,861</u>

Details on the methods and assumptions used to determine the fair values of the financial assets and liabilities are as follows:

Fair value measurements based on Level 1 inputs: Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.

Fair value measurements based on Level 2 inputs: Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks, and others.

Fair value measurements based on Level 3 inputs: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or have positions with longer durations.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 5 FAIR VALUE MEASUREMENTS *(continued)*

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while LDF believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 6 PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2010 and 2009, was as follows:

	2010	2009
Condominium interest	\$ 4,094,689	\$ 4,094,689
Furniture and equipment	<u>1,441,271</u>	<u>1,344,780</u>
	5,535,960	5,439,469
<i>Less:</i> accumulated depreciation and amortization	<u>(2,606,787)</u>	<u>(2,583,699)</u>
	<u>\$ 2,929,173</u>	<u>\$ 2,855,770</u>

Depreciation and amortization expenses were \$368,943 and \$359,725 for the years ended June 30, 2010 and 2009, respectively.

NOTE 7 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes or period at June 30, 2010 and 2009:

	2010	2009
Restricted for periods after June 30, 2010	\$ 865,575	\$ 103,339
Herbert Lehman education	1,867,011	2,028,746
Earl Warren legal training	209,529	195,779
Legal program	<u>1,950,260</u>	<u>2,875,420</u>
	<u>\$ 4,892,375</u>	<u>\$ 5,203,284</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

**NOTE 7 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED
NET ASSETS (continued)**

Net assets were released from donor restrictions in 2010 and 2009 by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	2010	2009
Legal	\$ 2,134,799	\$ 1,439,245
Herbert Lehman education (including fundraising expenses of \$63,876 and \$38,912, respectively)	550,881	671,505
Earl Warren legal training (including fundraising expenses of \$139 and \$125, respectively)	69,192	87,422
Passage of time	299,005	246,449
	\$ 3,053,877	\$ 2,444,621

Permanently restricted net assets (including perpetual trusts held by outside trustees) totaled to \$18,284,636 and \$17,808,751 at June 30, 2010 and 2009, respectively. These are categorized as follows based on the purposes for which the related investment income may be used pursuant to respective donors' stipulations:

	2010	2009
Unrestricted	\$ 14,464,793	\$ 14,058,662
Litigation program	2,124,160	2,124,160
Scholarships	402,425	402,425
<i>Perpetual trusts</i>		
Scholarships	1,239,659	1,181,188
Unrestricted	53,599	42,316
	\$ 18,284,636	\$ 17,808,751

Investment gains and losses are reported in the same net asset category as the corresponding investment income, except in the case of the perpetual trusts, where gains and losses are recorded in the permanently restricted net asset class.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Lease Agreement

LDF leases office space in Washington D.C. under a noncancelable operating lease that expires in July 2011.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 8 **COMMITMENTS AND CONTINGENCIES** *(continued)*

Future minimum annual lease payments under this lease are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 254,275
2012	<u>21,233</u>
	<u>\$ 275,508</u>

Total rent expenses, including escalations, for the year ended June 30, 2010 and 2009, were \$270,774 and \$281,936, respectively.

Line of Credit Agreement

Effective August 27, 2009, LDF entered into a line of credit agreement with a financial institution in the amount of \$2 million at an initial interest rate at the prime rate on any unpaid principal balance. As of June 30, 2010, there was no outstanding balance.

NOTE 9 **PENSION PLAN**

LDF sponsors a noncontributory defined benefit pension plan (the Plan) for all full-time employees. On April 16, 2009, LDF's Board of Directors approved the Plan to be frozen as of July 1, 2009.

The following table provides information with respect to the Plan as of and for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Reconciliation of benefit obligation		
Obligation at beginning of year	\$ 6,214,924	\$ 5,856,511
Service cost	107,250	349,362
Interest cost	399,422	400,982
Actuarial (gain) loss	1,317,115	696,923
Benefit payments	(893,413)	(230,580)
Curtailements	<u>-</u>	<u>(858,274)</u>
Obligation at end of year	<u>\$ 7,145,298</u>	<u>\$ 6,214,924</u>
Reconciliation of fair value of Plan assets		
Fair value of Plan assets at beginning of year	\$ 6,093,274	\$ 7,720,638
Actual return on Plan assets	326,925	(1,596,784)
Employer contributions	250,000	200,000
Benefit payments	(893,413)	(230,580)
Fair value of Plan assets at end of year	<u>\$ 5,776,786</u>	<u>\$ 6,093,274</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 9 PENSION PLAN *(continued)*

Funded status

Funded status at end of year	<u>\$ (1,368,512)</u>	<u>\$ (121,650)</u>
------------------------------	-----------------------	---------------------

At June 30, 2010 and 2009, the funded status of the Plan is reported in the statements of financial position as follows:

	<u>2010</u>	<u>2009</u>
Accrued pension liability	\$ 1,368,512	\$ 121,650

The assumptions used in the measurement of the Plan's benefit obligation are shown in the following table:

	<u>2010</u>	<u>2009</u>
Assumptions as of June 30		
Discount rate	5.25%	6.25%
Rate of compensation increase	not applicable	4.00%

Amounts recognized in net unrestricted assets consisted of the following:

	<u>2010</u>	<u>2009</u>
Net loss	<u>\$ 4,333,737</u>	<u>\$ 3,190,310</u>

Other changes in Plan assets and benefit obligations recognized in unrestricted net assets in 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Net loss	\$ 1,342,587	\$ 2,824,649
Amortization of prior service cost	-	64,023
Amortization of net loss	(199,160)	(49,585)
Curtailement gain	-	(858,274)
Curtailement impact	-	380,054
Total other changes	<u>\$ 1,143,427</u>	<u>\$ 1,472,713</u>

The estimated net gain (loss), transition asset (obligation) and prior service credit (cost) for the Plan that will be amortized from accumulated change in unrestricted net assets into net periodic pension cost over the next fiscal year amount to \$(246,422), \$0 and \$0, respectively.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 9 PENSION PLAN *(continued)*

Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the plan for 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 107,250	\$ 349,362
Interest cost	399,422	400,982
Expected return on plan assets	(352,397)	(530,942)
Amortization of prior service cost	-	64,023
Amortization of net loss	<u>199,160</u>	<u>49,585</u>
Net periodic benefit cost	<u>\$ 353,435</u>	<u>\$ 713,064</u>

The prior service costs have been fully recognized as a result of the Plan being frozen effective July 1, 2009.

The assumptions used in the measurement of the net periodic benefit cost are shown in the following table:

	<u>2010</u>	<u>2009</u>
Weighted-average assumptions as of June 30		
Discount rate	6.25%	6.75%
Expected return on plan assets	6.00%	7.00%
Rate of compensation increase	not applicable	4.00%

Plan Assets

The Plan determines its assumptions for the expected rate of return on Plan assets for its retirement plans based on ranges of anticipated rates of return for each asset class. The Plan considers the expected rate of return to be a longer-term assessment of return expectations and does not anticipate changing this assumption annually, unless there are significant changes in economic conditions.

Previous market performance covering a wide range of economic conditions is evaluated to determine whether there are sound reasons for projecting forward any past trends.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 9 PENSION PLAN *(continued)*

LDF's Investment Committee monitors the asset allocation of the pension plan assets. Assets are rebalanced, as LDF deems appropriate. The Plan's investment strategy, with respect to its pension asset, is to maintain the principal of the assets. To develop the expected long-term rate of return on assets assumption, the Fund considered the historical returns and the expectations for future returns. The Plan's pension funds' investment strategies are to invest in a prudent manner for the exclusive purpose of providing benefits to participants. The investment strategies are targeted to produce a total return that, when combined with LDF's contributions to the fund, will maintain the funds' ability to meet all required benefit obligations. Risk is controlled through investment in conservative fixed-income securities and cash. The guidelines allow the managers to keep up to \$1 million in cash and cash equivalents.

The target allocation of Plan assets and actual allocation at the end of 2010 and 2009, by asset category based on asset fair values, are as follows:

Asset Category	2010 Target Allocation	2010 Actual Allocation	2009 Actual Allocation
Cash and cash equivalents	5.0%	2.2%	8.6%
Equities	20.0%	18.9%	-
Debt securities	75.0%	78.9%	91.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The following table provides the fair value hierarchy of the Plan's assets (excluding accrued interest income of \$19,586) as of June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents	\$ 126,358	\$ -	\$ -	\$ 126,358
U.S. government and agency obligations	1,559,116	-	-	1,559,116
Corporate bonds	856,202	-	-	856,202
Mutual funds - equities	1,094,630	-	-	1,094,630
Mutual funds – fixed income	2,088,475	-	-	2,088,475
Loans receivable	-	-	32,418	32,418
Total	<u>\$ 5,724,781</u>	<u>\$ -</u>	<u>\$ 32,418</u>	<u>\$ 5,757,199</u>

Loans to participants are carried at their principal balance plus any accrued but unpaid interest, which are considered to approximate fair value. Loans have a maximum term of five years from inception and bear annual interest computed at 2% over the prime rate during the calendar quarter immediately preceding the date of the loan application.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 9 PENSION PLAN *(continued)*

The activity in loans receivable consisted of:

Balance, beginning of year	\$ 58,843
Loans granted	-
Loans repaid	<u>(26,425)</u>
Balance, end of year	<u>\$ 32,418</u>

Contributions

The contributions made during the years ended June 30, 2010 and 2009 were \$250,000 and \$200,000, respectively. LDF does not expect to contribute to the Plan during the fiscal year ending June 30, 2011.

NOTE 10 AMOUNTS HELD IN ESCROW/COURT AWARDS AND FEES PENDING DISTRIBUTION

Upon the successful completion of cases, the court may make awards. These awards may be made to members of the class action litigation or to participating attorneys. As of June 30, 2010 and 2009, LDF held in escrow \$30,484 and \$30,630, respectively, for members of the class and participating attorneys. The escrow amounts are invested in checking or money market accounts.

NOTE 11 IN-KIND CONTRIBUTIONS

In fiscal years ended June 30, 2010 and 2009, the Fund received the following in-kind contributions, which were recognized as contributions in the accompanying combined statement of activities at fair value on the date of receipt:

	<u>2010</u>	<u>2009</u>
Marketable securities (recorded as investments)	\$ 34,471	\$ 140,505
Legal services (recorded as personnel cost)	<u>329,920</u>	<u>409,360</u>
Total in-kind contribution	<u>\$ 364,391</u>	<u>\$ 549,865</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 12 ENDOWMENTS

LDF's endowment consists of funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on donor-imposed restrictions or as designated by the Board of Directors.

Interpretation of Relevant Law

LDF's Board of Directors has interpreted the applicable state law 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, LDF classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 as permanently restricted net assets is characterized as unrestricted or temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by state law. In accordance with state law, the Fund considers the following factors in making a determination to appropriate or calculate donor-restricted endowment funds:

1. The duration and preservation of the Fund
2. The general 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 from income and appreciation of investments
6. Other resources of the Fund
7. The investment policies of the Fund

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 12 **ENDOWMENTS** *(continued)*

The changes in endowment net assets for the years ended June 30, 2010 and 2009, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Year ended June 30, 2009</i>				
Endowment net assets at beginning of year	\$ 9,608,317	\$ 2,474,841	\$ 17,791,005	\$ 29,874,163
<i>Investment return</i>				
Investment income	719,860	79,019	-	798,879
Net realized/unrealized depreciation in value of investments	(6,022,202)	(742,233)	(311,939)	(7,076,374)
Contributions	-	19,972	329,685	349,657
Appropriation for expenditure	(1,878,452)	(219,815)	-	(2,098,267)
Endowment net assets at beginning of year	<u>\$ 2,427,523</u>	<u>\$ 1,611,784</u>	<u>\$ 17,808,751</u>	<u>\$ 21,848,058</u>
<i>Year ended June 30, 2010</i>				
Endowment net assets at beginning of year	\$ 2,427,523	\$ 1,611,784	\$ 17,808,751	\$ 21,848,058
<i>Investment return</i>				
Investment income	610,959	77,734	-	688,693
Net realized/unrealized appreciation in value of investments	187,007	169,623	69,754	426,384
Contributions	-	-	406,131	406,131
Appropriation for expenditure	(410,433)	(128,859)	-	(539,292)
Endowment net assets at end of the year	<u>\$ 2,815,056</u>	<u>\$ 1,730,282</u>	<u>\$ 18,284,636</u>	<u>\$ 22,829,974</u>

Return Objectives and Risk Parameters

LDF has adopted investment and spending policies for endowment assets, which 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 those assets of board-designated and donor-restricted funds that LDF must hold in perpetuity or for donor specified periods. Under this policy, as approved by the Investment Committee of the Board of Directors, the endowment assets are invested in a manner intended to preserve the assets of donor-restricted funds that LDF must hold in perpetuity while assuming

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2010

NOTE 12 **ENDOWMENTS** *(continued)*

a low level of investment risk. LDF expects its endowment funds over time to provide an average rate of return of approximately 4% annually. Actual returns in any given year may vary from this amount.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowments are to be thought of as a permanent fund. As such, the investment objectives require disciplined and consistent management philosophies that accommodate all relevant, reasonable, and probable events. Therefore, a periodic review of total rate of return and spending rate objectives is required. Extreme positions or variations in management style are not consistent with these objectives. The spending policy of LDF allows up to 2% of the market value of the portfolio if funds are available, subject to donor-stipulated restrictions.

NOTE 13 **SUBSEQUENT EVENTS**

The Fund has evaluated events subsequent to June 30, 2010, through October 25, 2010, the date the financial statements were available to be issued, and determined that there were no subsequent events that required disclosure.

ADDITIONAL INFORMATION

**REPORT OF INDEPENDENT AUDITORS
ON ADDITIONAL INFORMATION**

The Board of Directors
NAACP Legal Defense and Educational Fund, Inc.

Our report on our audit of the basic combined financial statements of NAACP Legal Defense and Educational Fund, Inc. and Affiliate as of June 30, 2010, appears on page one. That audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining statements of financial position and activities and the combined schedule of functional expenses of the NAACP Legal Defense and Educational Fund, Inc. and the Earl Warren Legal Training Program, Inc. are presented for the purpose of additional analysis and are not required parts of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Mitchell & Titus, LLP

October 25, 2010

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**

Combining Statement of Financial Position

As of June 30, 2010

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 5,035,128	\$ 57,258	\$ 5,092,386
Accounts receivable	132,944	-	132,944
Contributions receivable	2,303,017	-	2,303,017
Amounts held in escrow	30,484	-	30,484
Investments	20,677,573	554,696	21,232,269
Other assets	317,553	-	317,553
Property and equipment, net	2,929,173	-	2,929,173
Assets held in trust by others	1,293,258	-	1,293,258
Total assets	<u>\$ 32,719,130</u>	<u>\$ 611,954</u>	<u>\$33,331,084</u>
LIABILITIES AND NET ASSETS			
<i>Liabilities</i>			
Accounts payable and accrued expenses	\$ 1,163,641	\$ -	\$ 1,163,641
Accrued pension liability	1,368,512	-	1,368,512
Court awards and fees pending distribution	30,484	-	30,484
Total liabilities	<u>2,562,637</u>	<u>-</u>	<u>2,562,637</u>
<i>Net assets</i>			
<i>Unrestricted</i>			
Available for operations	1,847,207	-	1,847,207
Designated for long-term investment	2,815,056	-	2,815,056
Invested in fixed assets	2,929,173	-	2,929,173
Total unrestricted	<u>7,591,436</u>	<u>-</u>	<u>7,591,436</u>
Temporarily restricted	4,682,846	209,529	4,892,375
Permanently restricted	17,882,211	402,425	18,284,636
Total net assets	<u>30,156,493</u>	<u>611,954</u>	<u>30,768,447</u>
Total liabilities and net assets	<u>\$ 32,719,130</u>	<u>\$ 611,954</u>	<u>\$33,331,084</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**

Combining Statement of Activities

For the Year Ended June 30, 2010

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	Total
REVENUES, GAINS AND OTHER SUPPORT			
Contributions	\$ 6,424,452	\$ 42,875	\$ 6,467,327
Combined Federal Campaign	314,824	446	315,270
Bequests	3,189,897	-	3,189,897
Special events, net of direct donor benefits of \$336,866	2,397,797	-	2,397,797
Court costs and attorney fees awarded	39,766	-	39,766
Investment income, net of fees of \$35,991	694,208	16,406	710,614
Net depreciation in fair value of investments	403,831	23,215	427,046
Total revenue, gains, and other support	<u>13,464,775</u>	<u>82,942</u>	<u>13,547,717</u>
EXPENSES			
<i>Program services</i>			
Legal	7,117,229	-	7,117,229
Public information	2,291,778	-	2,291,778
Herbert Lehman education	478,629	-	478,629
Earl Warren legal training	-	69,067	69,067
Total program services	<u>9,887,636</u>	<u>69,067</u>	<u>9,956,703</u>
<i>Supporting services</i>			
Fundraising	2,352,438	-	2,352,438
Management and general	1,378,255	125	1,378,380
Total supporting services	<u>3,730,693</u>	<u>125</u>	<u>3,730,818</u>
Total expense	<u>13,618,329</u>	<u>69,192</u>	<u>13,687,521</u>
Change in net assets before other charges	(153,554)	13,750	(139,804)
OTHER CHARGES			
Charges for pension benefit other than net periodic pension cost	1,143,427	-	1,143,427
Change in net assets	(1,296,981)	13,750	(1,283,231)
Net assets at beginning of year	<u>31,453,474</u>	<u>598,204</u>	<u>32,051,678</u>
Net assets at end of year	<u>\$ 30,156,493</u>	<u>\$ 611,954</u>	<u>\$ 30,768,447</u>

NAACP LEGAL DEFENSE AND EDUCATIONAL FUND, INC.
 Combined Schedule of Functional Expenses
 For the Year Ended June 30, 2010
 (With Comparative Totals for 2009)

Description	Program Services					Supporting Services			2010	2009
	Legal Program	Public Information	Herbert Lehman	Earl Warren	Sub Total	Fund Raising	Mgmt & General	Sub Total	Total Expenses	Total Expenses
Personnel Costs										
Payroll	\$ 2,980,459	\$ 1,147,848	\$ 72,037	\$ 4,800	\$ 4,205,144	\$ 679,791	\$ 774,798	\$ 1,454,589	\$ 5,659,733	\$ 5,375,977
Benefits	798,303	307,446	2,220	1,200	1,109,169	182,079	207,526	389,605	1,498,774	1,748,176
Temporary help	85,549	3,433	-	-	88,982	1,188	1,054	2,242	91,224	81,865
Total Personnel Costs	3,864,311	1,458,727	74,257	6,000	5,403,295	863,058	983,378	1,846,436	7,249,731	7,206,018
Legal Program										
Court costs	18,231	-	-	-	18,231	-	-	-	18,231	12,339
Expert witness	111,355	-	-	-	111,355	-	-	-	111,355	67,160
Legal printing	20,560	-	-	-	20,560	-	-	-	20,560	16,478
Attorney conferences	213,081	-	-	-	213,081	-	-	-	213,081	207,556
Special research	136,641	-	-	-	136,641	-	-	-	136,641	153,826
Library	156,096	-	-	-	156,096	-	-	-	156,096	189,769
Bar association dues	23,604	-	-	-	23,604	-	-	-	23,604	25,073
Total Legal Program	679,568	-	-	-	679,568	-	-	-	679,568	672,201
Other Programs										
Scholarships/grants	102,000	-	324,500	49,000	475,500	-	-	-	475,500	554,000
Other Expenses										
Photos/press release	2,395	30,077	-	-	32,472	9,706	270	9,976	42,448	70,590
Clipping service	-	6,287	-	-	6,287	-	-	-	6,287	-
List rental	-	-	-	-	-	9,797	-	9,797	9,797	22,145
Mail handling	-	-	-	-	-	116,231	-	116,231	116,231	124,564
Periodicals	6,521	3,562	56	36	10,175	3,161	2,938	6,099	16,274	21,270
Insurance	52,949	18,501	1,241	-	72,691	11,658	12,762	24,420	97,111	94,079
Telephone	104,079	32,669	2,176	1,200	140,124	21,006	24,122	45,128	185,252	178,247
Occupancy expense	382,202	50,422	3,363	2,400	438,387	31,584	34,573	66,157	504,544	489,776
Bank charges	2,635	1,210	-	-	3,845	17,071	15,667	32,738	36,583	55,767
Storage	52,462	512	34	-	53,008	322	353	675	53,683	46,440
Mailing	84,482	6,222	1,558	404	92,666	90,797	4,133	94,930	187,596	178,487
Office supplies	60,114	24,287	1,621	497	86,519	11,155	10,511	21,666	108,185	91,801
Messenger services	1,251	392	-	-	1,643	1,117	1,070	2,187	3,830	4,185
Equipment repairs and maintenance	98,059	32,025	2,149	-	132,233	67,867	25,014	92,881	225,114	255,277
Utilities	47,112	21,250	1,426	300	70,088	13,391	14,658	28,049	98,137	133,540
Catering costs	71,643	10,262	33	-	81,938	10,719	4,464	15,183	97,121	134,462
Pledges receivable written off	-	-	-	-	-	-	19,540	19,540	19,540	-
Miscellaneous	42,513	13,570	970	230	57,283	54,150	10,318	64,468	121,751	90,088
Photocopying	60,576	15,691	1,050	300	77,617	9,866	10,799	20,665	98,282	115,848
Meetings and travel	308,830	36,045	3,233	-	348,108	83,484	6,587	90,071	438,179	500,207
Service bureau	2,261	1,038	70	-	3,369	954	12,050	13,004	16,373	13,339
Professional fees	815,710	415,331	55,468	8,700	1,295,209	754,177	128,909	883,086	2,178,295	2,061,105
Printing	99,570	32,863	-	-	132,433	120,228	504	120,732	253,165	224,010
Amortization	31,671	14,547	976	-	47,194	9,167	10,035	19,202	66,396	67,246
Depreciation	144,315	66,288	4,448	-	215,051	41,772	45,725	87,497	302,548	292,479
Total Other Expenses	2,471,350	833,051	79,872	14,067	3,398,340	1,489,380	395,002	1,884,382	5,282,722	5,264,952
Total Expenses	\$ 7,117,229	\$ 2,291,778	\$ 478,629	\$ 69,067	\$ 9,956,703	\$2,352,438	\$1,378,380	\$ 3,730,818	\$ 13,687,521	\$ 13,697,171