

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

**Consolidated Financial Statements and
Supplementary Information
For the Year Ended June 30, 2016
(With Summarized Financial Information for 2015)
With Independent Auditor's Report**



MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
For the Year Ended June 30, 2016
(With Summarized Financial Information for 2015)

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of the NAACP Legal Defense and Educational Fund, Inc. and Affiliate (the Fund), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the NAACP Legal Defense and Educational Fund, Inc. and Affiliate as of June 30, 2016, and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Fund's consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position, consolidating statement of activities and consolidated schedule of functional expenses are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Mitchell Titus, LLP

November 10, 2016

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 9,300,795	\$ 7,200,206
Accounts receivable	41,051	86,312
Contributions and court fees receivable	3,132,020	5,956,531
Amounts held in escrow	3,423	3,423
Investments	23,335,889	24,290,525
Other assets	314,211	285,756
Property and equipment, net	15,309,654	15,584,443
Assets held in trust by others	1,472,953	1,568,141
Total assets	<u>\$ 52,909,996</u>	<u>\$ 54,975,337</u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 1,525,254	\$ 1,211,421
Mortgage payable	3,613,149	3,725,549
Accrued pension liability	4,441,442	2,371,685
Court awards and fees pending distribution	3,423	3,423
Total liabilities	<u>9,583,268</u>	<u>7,312,078</u>
<i>Net assets</i>		
<i>Unrestricted</i>		
Available for operations	81,150	2,731,210
Invested in property and equipment	11,696,505	11,858,894
Total unrestricted	<u>11,777,655</u>	<u>14,590,104</u>
Temporarily restricted	13,242,368	14,671,262
Permanently restricted	18,306,705	18,401,893
Total net assets	<u>43,326,728</u>	<u>47,663,259</u>
Total liabilities and net assets	<u>\$ 52,909,996</u>	<u>\$ 54,975,337</u>

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

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

Consolidated Statement of Activities

For the Year Ended June 30, 2016

(With Summarized Financial Information for 2015)

	2016			2015 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE, GAINS, RECLASSIFICATIONS AND OTHER SUPPORT					
Contributions	\$ 5,682,087	\$ 3,705,942	\$ -	\$ 9,388,029	\$13,277,363
Combined Federal campaign	203,459	-	-	203,459	190,496
Bequests	421,666	2,505	-	424,171	930,043
Special events, net of direct donor benefits of \$258,401 and \$319,801, respectively	1,826,468	264,750	-	2,091,218	1,568,728
Court costs and attorney fees awarded	52,500	47,500	-	100,000	1,558,231
Investment income, net of fees of \$100,598 and \$108,934, respectively	-	594,028	-	594,028	536,930
Net depreciation on investments	(2,284)	(332,999)	(95,188)	(430,471)	(537,639)
Net assets released from restrictions	5,710,620	(5,710,620)	-	-	-
Total revenue, gains, reclassifications and other support	13,894,516	(1,428,894)	(95,188)	12,370,434	17,524,152
EXPENSES					
<i>Program services</i>					
Legal	8,377,315	-	-	8,377,315	9,062,974
Thurgood Marshall Institute	2,954,387	-	-	2,954,387	-
Public information	-	-	-	-	1,872,117
Herbert Lehman education	365,966	-	-	365,966	398,721
Earl Warren legal training	68,040	-	-	68,040	73,040
Total program services	11,765,708	-	-	11,765,708	11,406,852
<i>Supporting services</i>					
Fundraising	2,447,250	-	-	2,447,250	2,055,517
Management and general	1,483,968	-	-	1,483,968	1,394,400
Total supporting services	3,931,218	-	-	3,931,218	3,449,917
Total expenses	15,696,926	-	-	15,696,926	14,856,769
Change in net assets before other charge	(1,802,410)	(1,428,894)	(95,188)	(3,326,492)	2,667,383
OTHER CREDIT (CHARGE)					
Charge for pension benefit other than net periodic pension cost	(1,010,039)	-	-	(1,010,039)	(739,273)
Changes in net assets	(2,812,449)	(1,428,894)	(95,188)	(4,336,531)	1,928,110
Net assets, beginning of year	14,590,104	14,671,262	18,401,893	47,663,259	45,735,149
Net assets, end of year	\$11,777,655	\$13,242,368	\$18,306,705	\$43,326,728	\$47,663,259

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

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (4,336,531)	\$ 1,928,110
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities</i>		
Depreciation and amortization	749,661	769,722
Donated securities	(127,618)	(526,098)
Net depreciation on investments and assets held in trust	430,471	537,639
Decrease (increase) in accounts receivable	45,261	(10,532)
Decrease (increase) in contributions receivable	2,824,511	(3,221,281)
(Increase) decrease in other assets	(28,455)	44,199
Increase in accrued pension liability	2,069,757	848,647
Increase (decrease) in accounts payable and accrued expenses	313,833	(336,958)
Net cash provided by operating activities	<u>1,940,890</u>	<u>33,448</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments and assets held in trust	11,531,596	10,938,521
Purchases of investments and assets held in trust	(10,784,625)	(9,394,965)
Purchases of property and equipment	(474,872)	(71,525)
Net cash provided by investing activities	<u>272,099</u>	<u>1,472,031</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of mortgage, representing		
Net cash used in financing activities	<u>(112,400)</u>	<u>(108,973)</u>
Net increase in cash and cash equivalents	2,100,589	1,396,506
Cash and cash equivalents, beginning of year	7,200,206	5,803,700
Cash and cash equivalents, end of year	<u><u>\$ 9,300,795</u></u>	<u><u>\$ 7,200,206</u></u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	<u><u>\$ 125,517</u></u>	<u><u>\$ 128,945</u></u>

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

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 1 ORGANIZATION AND OPERATIONS

The accompanying consolidated financial statements include the financial position, changes in net assets and cash flows of the NAACP Legal Defense and Educational Fund, Inc. (LDF) and Earl Warren Legal Training Program, Inc. (EWLTP), which are 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 were eliminated in consolidation.

LDF's primary purpose is supporting 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 revenue sources include fund-raising from the general public, corporations, and foundations; reimbursement of court costs and fees; and investment income. LDF maintains offices in New York and Washington, DC. EWLTP provides scholarship aid to minority law students. Its goal is to increase African-American representation in the legal profession and meet the dire need of minority clients for skilled and knowledgeable attorneys.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

The consolidated financial statements are presented in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). Accordingly, the Fund is required to report information regarding its consolidated financial position and activities according to three net asset classes: unrestricted, temporarily restricted, and permanently restricted.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain items in the 2015 financial statements have been reclassified to conform to the 2016 financial statement presentation.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

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

Net Asset Classification

The Fund's net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Fund's net assets 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 pursuant to those stipulations and/or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that allow for the principal to 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 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 at fair value. The fair value of long-term contributions receivables is measured based on the present value of future cash flows, with consideration given for the donor's credit risk and expectation about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants.

Contribution revenue is reported as increases in unrestricted net assets unless its use is limited by donor-imposed restrictions. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose was fulfilled and/or the stipulated time period elapsed) are reported as net assets released from restrictions. Donor-restricted contributions received during the year whose restrictions have been met within the year are recorded as unrestricted contributions.

Legacies and bequests are recognized when an unassailable right to the gift has been established and the proceeds are measurable.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

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

Contributions and Revenue Recognition *(continued)*

In fiscal year 2015, the Fund received a \$5 million contribution that included a donor matching condition of \$2 million. The unconditional contribution amount of \$3 million was recognized by the Fund as of June 30, 2015. As of June 30, 2016, the Fund met \$1 million of the donor matching portion and; therefore, recognized \$1 million as contribution revenue. However, the Fund had not met the remaining matching condition stipulated by the donor; therefore, the Fund did not recognize the remaining \$1 million portion of the contribution for the year ended June 30, 2016.

Allowance for Doubtful Accounts

The Fund provides an allowance for doubtful accounts for losses that may result from the inability of the debtor or donor to make payment on amounts owed or pledged to the Fund. Such allowance is based on several factors, including, but not limited to, the age of the receivables and the Fund's historical collection experience. Receivables that are determined to be uncollectible are charged against the allowance. As of June 30, 2016 and 2015, no allowance for doubtful accounts was deemed required.

In-kind Contributions

In-kind contributions represent donated securities and legal services reflected in the consolidated financial statements at their estimated fair values at the date of donation.

Investments

Investments are carried at their fair value based on quoted market prices. For purposes of determining the gain or loss on a sale, the cost of securities sold is based on the average cost of each security held at the date of sale. Purchases and sales of securities are recorded on a trade-date basis. See Note 6 for further discussion and disclosures related to fair value measurements.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

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

Investments *(continued)*

In accordance with Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, assets and liabilities measured at fair value are categorized into the following fair value hierarchy:

Level 1: Quoted prices for identical assets or liabilities in an active market that the Fund has the ability to access at the measurement date.

Level 2: Quoted prices in markets that are not active, 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 asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurements and unobservable. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the investment and are based on the best available information, some of which may be internally developed.

The following valuation methodologies were used for assets measured at fair value:

U.S. Government obligations, mutual funds, common stock and exchange-traded funds – are reported at fair value based on quoted market prices representing the interest/shares held.

Corporate bonds – valued based on quoted market prices on national security exchanges, when available, or using valuation models which incorporate certain other observable inputs including recent trading activity for comparable securities and broker quoted prices.

Common collective trust – are determined using the Net Asset Value ("NAV") as a practical expedient. The NAV is determined by four times a month (valuation dates) based upon the fair value of the underlying assets owned, less liabilities, divided by the number of outstanding units. Redemptions of the common collective trust units' are made on the valuation dates. Complete liquidation requires 12 month's notice. The common collective trust has no unfunded commitments at June 30, 2016.

Changes in valuation techniques may result in transfers in or out of an assigned level within the hierarchy.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

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

Investments *(continued)*

The methods described above may produce a fair value calculation that may not indicate net realizable value or reflect future fair values. Furthermore, while management 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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Net (depreciation) appreciation includes the Fund's gains and losses on investments bought, sold, and held during the year.

Investment Income and Investment Management Fees

Realized gains and losses are calculated based on the difference between the cost of the investments and the proceeds received from the sale of the respective investments. Realized and unrealized gains and losses are included in the consolidated statement of activities as increases or decreases in unrestricted net assets, unless donor or relevant laws place temporary or permanent restrictions on these gains and losses. Changes in net unrealized (depreciation) appreciation are calculated based on the change in the difference between the cost and the fair values of investments at June 30 of the current year compared to the cost and the fair values of investments at June 30 of the prior year. Net (depreciation) appreciation in the fair value of investments is reflected in changes in unrestricted, temporarily and permanently restricted net assets. No investment income pertains to unrestricted investments. Investment management fees of \$100,598 and \$108,934 have been incurred for the years ended June 30, 2016 and 2015, respectively.

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 on a straight-line basis over their estimated useful lives of 40 years for the condominium interest, 20 years for building improvements and three to 15 years for the furniture, equipment, and website. Depreciation is recorded on a half-year convention in both the year of asset acquisition and disposal. Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful lives or the term of the lease, including extensions expected to be exercised.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

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

Property and Equipment *(continued)*

The Fund evaluates long-lived assets, which are held for use, for impairment whenever events or circumstances indicate that 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, 2016 and 2015.

Assets Held in Trust by Others

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 consolidated statements 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' values are reported in the permanently restricted net asset class.

Split-interest Agreements

The Fund's interest in charitable remainder annuity trusts held by outside trustees is recognized in the accompanying consolidated statements of financial position as assets held in trust by others at the estimated fair value of amounts to be received upon termination of the trusts of \$58,405 and \$60,246 at June 30, 2016 and 2015, respectively. Annual adjustments to fair value amounts are recognized as net (depreciation) appreciation in the permanently restricted net asset on the consolidated statement of activities.

Court Costs and Attorney Fees Awarded

In connection with certain cases decided or settled in LDF's favor, attorney fees may be awarded. Revenue is 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. In the consolidated statement of activities, the net gain or loss and net prior service cost or credit for the year are recognized, in addition to the net transition asset or obligation recognized as a component of net periodic benefit cost for the year. Any amounts not yet recognized as components of net periodic benefit cost are presented in the consolidated statements of financial position. As discussed in Note 10, the pension plan was frozen, effective July 1, 2009.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

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

Defined Contribution Plan

LDF has a voluntary defined-contribution plan where employees of the Fund make tax-deferred contributions through payroll deductions. As of June 30, 2016, LDF does not match or make any contributions to this plan.

Income Tax

LDF and EWLTP both qualify as charitable organizations, as defined by Internal Revenue Code (IRC) Section 501(c)(3) and, accordingly, are exempt from Federal income tax under IRC Section 501(a). Additionally, since both are publicly supported, contributions to them qualify for the maximum charitable contribution deduction under the IRC. LDF and EWLTP are also exempt from state and local income taxes.

U.S. GAAP requires management to evaluate uncertain tax positions taken by the Fund. The consolidated financial statement effects of a tax position are recognized when the position is more-likely-than-not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Fund and has concluded that as of June 30, 2016, there were no uncertain tax positions taken or expected to be taken. The Fund has recognized no interest or penalties related to uncertain tax positions. The Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2013.

New York State Nonprofit Revitalization Act

On December 18, 2013, the Governor of New York State signed into law the New York Non-Profit Revitalization Act of 2013 (the Act), of which most provisions take effect July 1, 2014. The primary reforms of the Act stipulates that non-profit corporations and charitable trusts with 20 or more employees and annual revenue of over \$1 million must adopt whistle-blower and conflict of interest policies; ensure the board chair has not been an employee of the non-profit during the last three years; specify steps to review and declare any related-party transactions; designate an Audit Committee to provide oversight of the audit function; and allow communications during meetings by using modern technology. The Fund has evaluated the effect of the Act and has updated its Conflict of Interest and Whistle-blower policies to comply with the requirements of the Act.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

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

Summarized Financial Information

The amounts shown for the year ended June 30, 2015 in the accompanying consolidated financial statements are summarized totals that were included to provide a basis for comparison with 2016. Accordingly, the 2015 totals are not intended to present all information necessary for a fair presentation in conformity with U.S. GAAP.

Functional Allocation of Expenses

The costs associated with providing the Fund's programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities, which includes all expenses incurred during the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 occasionally exceeds the amount insured by the Federal Deposit Insurance Corporation, subjecting the Fund to concentration of risk. However, the Fund regularly monitors this risk.

At June 30, 2016 and 2015, approximately 97% of the Fund's cash and cash equivalents were held by two financial institutions.

NOTE 4 CONTRIBUTIONS AND COURT COST RECEIVABLE

Contributions and court cost receivable as of June 30, 2016 and 2015 were due as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 3,117,390	\$ 3,810,595
One to five years	6,864	2,138,170
More than five years	<u>37,386</u>	<u>37,386</u>
	3,161,640	5,986,151
Fair value adjustment	<u>(29,620)</u>	<u>(29,620)</u>
	<u>\$ 3,132,020</u>	<u>\$ 5,956,531</u>

Those receivables that are due in more than one year are recorded at their fair value, using discount rates ranging from 4% to 12% per year for the years ending June 30, 2016 and 2015, respectively.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 5 INVESTMENTS

Investments as of June 30, 2016 and 2015 were as follows:

	2016		2015	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash equivalents	\$ 603,026	\$ 603,026	\$ 776,293	\$ 776,293
U.S. Government and agency obligations	2,186,037	2,187,650	2,186,955	2,219,128
Common stocks	1,891,921	2,331,857	2,655,012	2,457,497
Corporate bonds	854,855	816,942	977,992	982,478
Exchange-traded funds	16,891,248	14,392,756	16,819,493	14,796,124
Mutual funds	<u>908,802</u>	<u>814,727</u>	<u>874,780</u>	<u>784,184</u>
	<u>\$ 23,335,889</u>	<u>\$ 21,146,958</u>	<u>\$ 24,290,525</u>	<u>\$ 22,015,704</u>

NOTE 6 FAIR VALUE MEASUREMENTS

The following tables set forth by level, within the fair value hierarchy described in Note 2, the Fund's investments at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of June 30, 2016				
Cash equivalents	\$ 8,391,492	\$ -	\$ -	\$ 8,391,492
<i>Investments</i>				
Cash and cash equivalents	603,026	-	-	603,026
U.S. Government and agency obligations	2,186,037	-	-	2,186,037
Common stocks	1,891,921	-	-	1,891,921
Corporate bonds	-	854,855	-	854,855
Mutual funds	908,802	-	-	908,802
<i>Exchange-traded funds</i>				
Equities	9,128,421	-	-	9,128,421
Fixed income	5,122,581	-	-	5,122,581
Real estate	1,190,658	-	-	1,190,658
Hedge funds	1,050,031	-	-	1,050,031
Commodities	399,557	-	-	399,557
Subtotal	<u>22,481,034</u>	<u>854,855</u>	<u>-</u>	<u>23,335,889</u>
<i>Assets held in trust by others</i>				
Cash and cash equivalents	3,736	-	-	3,736
Mutual funds—equities	357,768	-	-	402,087
Mutual funds—fixed income	97,078	-	-	97,078
Mutual funds—hedge funds	142,104	-	-	142,104
Mutual funds—commodities	44,530	-	-	44,530
Real estate investment trusts	92,837	-	-	92,837
<i>Common/collective trust funds</i>				
Equities	-	619,312	-	619,312
Fixed income	-	115,588	-	115,588
Subtotal	<u>738,053</u>	<u>734,900</u>	<u>-</u>	<u>1,472,953</u>
Total	<u>\$ 31,610,579</u>	<u>\$ 1,589,755</u>	<u>\$ -</u>	<u>\$ 33,200,334</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 6 FAIR VALUE MEASUREMENTS (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of June 30, 2015				
Cash equivalents	\$ 4,709,422	\$ -	\$ -	\$ 4,709,422
<i>Investments</i>				
Cash and cash equivalents	776,293	-	-	776,293
U.S. Government and agency obligations	2,186,955	-	-	2,186,955
Common stocks	2,655,012	-	-	2,655,012
Corporate bonds	-	977,992	-	977,992
Mutual funds	874,780	-	-	874,780
<i>Exchange-traded funds</i>				
Equities	9,717,965	-	-	9,717,965
Fixed income	5,088,513	-	-	5,088,513
Real estate	633,232	-	-	633,232
Hedge funds	1,126,346	-	-	1,126,346
Commodities	253,437	-	-	253,437
Subtotal	<u>23,312,533</u>	<u>977,992</u>	<u>-</u>	<u>24,290,525</u>
<i>Assets held in trust by others</i>				
Cash and cash equivalents	34,420	-	-	34,420
Mutual funds—equities	619,365	-	-	619,365
Mutual funds—fixed income	34,451	-	-	34,451
Mutual funds—hedge funds	187,262	-	-	187,262
Mutual funds—commodities	48,510	-	-	48,510
Real estate investment trusts	91,869	-	-	91,869
<i>Common/collective trust funds</i>				
Equities	-	422,685	-	422,685
Fixed income	-	129,579	-	129,579
Subtotal	<u>1,015,877</u>	<u>552,264</u>	<u>-</u>	<u>1,568,141</u>
Total	<u>\$ 29,037,832</u>	<u>\$ 1,530,256</u>	<u>\$ -</u>	<u>\$ 30,568,088</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 7 PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Condominium interest	\$ 16,031,320	\$ 15,718,874
Furniture and equipment	1,075,211	1,075,255
Computer equipment	558,902	505,155
Telephone	140,588	140,588
Website	30,000	4,500
Leasehold improvements	<u>11,389</u>	<u>11,389</u>
	17,847,410	17,455,761
Less: Accumulated depreciation and amortization	<u>(2,537,756)</u>	<u>(1,871,318)</u>
	<u>\$ 15,309,654</u>	<u>\$ 15,584,443</u>

Depreciation and amortization expenses were \$749,661 and \$769,722 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 8 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET
ASSETS**

Temporarily restricted net assets were available for the following purposes or periods at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unappropriated income of endowment assets:		
General fund	\$ 2,255,200	\$ 3,102,191
Herbert Lehman education	1,005,090	1,157,049
Earl Warren legal training	<u>216,369</u>	<u>229,485</u>
	3,476,659	4,488,725
<i>Restricted as to the passage of time or purpose:</i>		
Restricted for periods after June 30, 2016	2,774,574	2,271,500
Herbert Lehman education	49,793	52,275
Earl Warren legal training	21,218	28,993
Thurgood Marshall Institute	4,476,314	-
Legal program	<u>2,444,810</u>	<u>7,829,769</u>
	<u>\$ 13,242,368</u>	<u>\$ 14,671,262</u>

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

Notes to Consolidated Financial Statements

For the Year Ended June 30, 2016

**NOTE 8 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET
ASSETS (continued)**

Net assets were released from donor restrictions in 2016 and 2015 by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	<u>2016</u>	<u>2015</u>
Released from temporarily restricted net assets due to appropriation of income from endowment assets		
General and legal programs	\$ 1,021,800	\$ 976,260
Herbert Lehman scholarship program	223,375	235,290
Earl Warren scholarship program	<u>28,000</u>	<u>27,000</u>
	1,273,175	1,238,550
<i>Purpose restrictions met</i>		
Legal program	1,780,354	1,395,737
Thurgood Marshall Institute	2,024,094	-
Herbert Lehman education (including fundraising expenses of \$34,925 and \$37,875, respectively)	177,517	201,603
Earl Warren legal training (including fundraising expenses of \$125 and \$125, respectively)	40,165	46,165
Passage of time	<u>415,315</u>	<u>1,092,666</u>
	<u>\$ 5,710,620</u>	<u>\$ 3,974,721</u>

Permanently restricted net assets (including perpetual trusts held by outside trustees) totaled \$18,306,705 and \$18,401,893 at June 30, 2016 and 2015, respectively. These are categorized as follows based on the purposes for which the related investment income may be used pursuant to the respective donors' stipulations:

	<u>2016</u>	<u>2015</u>
Funds for general operations	\$ 14,307,167	\$ 14,307,167
Funds for legal program	2,124,160	2,124,160
Funds for scholarships	402,425	402,425
<i>Perpetual trusts</i>		
Scholarships	1,414,548	1,507,895
Unrestricted	<u>58,405</u>	<u>60,246</u>
	<u>\$ 18,306,705</u>	<u>\$ 18,401,893</u>

NOTE 9 COMMITMENTS AND CONTINGENCIES

Lease Agreement

LDF leases office space in Washington, DC under a non-cancelable operating lease that expired in July 2011 but was extended for 10 years through July 2021.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Lease Agreement *(continued)*

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

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ 287,900
2018	295,722
2019	303,115
2020	310,692
2021	318,460
Thereafter	<u>26,592</u>
	<u>\$ 1,542,481</u>

Total rent expenses, including escalations, for the years ended June 30, 2016 and 2015, were \$295,115 and \$279,419, respectively.

Line of Credit Agreement

LDF maintained an annually renewable line of credit agreement with a financial institution in the amount of \$1 million. Advances drawn from the line of credit bear interest, generally at the rate of 3% above the prime rate. As of June 30, 2016, LDF no longer has this agreement in place. As of June 30, 2015, there was no outstanding balance. No fees are payable under the agreement.

NOTE 10 PENSION PLAN

LDF sponsors a non-contributory, defined-benefit pension plan (the Plan) for all full-time employees. The Plan was frozen as of July 1, 2009.

The following tables provide information about the Plan as of and for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<i>Reconciliation of accumulated benefit obligation</i>		
Obligation, beginning of year	\$ 9,178,625	\$ 8,456,797
Service cost	142,975	132,763
Interest cost	404,978	344,880
Actuarial loss	1,772,086	637,616
Benefit payments	(438,106)	(393,431)
Settlements	<u>(1,151,815)</u>	<u>-</u>
Obligation, end of year	<u>\$ 9,908,743</u>	<u>\$ 9,178,625</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 10 PENSION PLAN *(continued)*

	<u>2016</u>	<u>2015</u>
<i>Reconciliation of fair value of plan assets</i>		
Fair value of plan assets, beginning of year	\$ 6,806,940	\$ 6,933,759
Actual return on plan assets	70,282	84,112
Employer contributions	180,000	182,500
Settlements	(1,151,815)	-
Benefit payments	<u>(438,106)</u>	<u>(393,431)</u>
Fair value of plan assets, end of year	<u>\$ 5,467,301</u>	<u>\$ 6,806,940</u>
<i>Funded status</i>		
Funded status, end of year	<u>\$(4,441,442)</u>	<u>\$(2,371,685)</u>

At June 30, 2016 and 2015, the funded status of the Plan is reported in the consolidated statement of financial position as follows:

	<u>2016</u>	<u>2015</u>
Accrued pension liability	<u>\$ 4,441,442</u>	<u>\$ 2,371,685</u>

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

	<u>2016</u>	<u>2015</u>
Discount rate	3.25%	4.25%
Rate of compensation increase	Not applicable	Not applicable

Amounts recognized in net unrestricted assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Net loss	<u>\$ 5,212,874</u>	<u>\$ 4,202,835</u>

Other (credit) charge in plan assets and benefit obligations recognized in unrestricted net assets in 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Net loss	\$ (2,100,598)	\$ (963,263)
Recognized loss due to Settlement	605,956	-
Amortization of net loss	<u>484,603</u>	<u>223,990</u>
Total charge	<u>\$ (1,010,039)</u>	<u>\$ (739,273)</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 \$527,750, \$0 and \$0, respectively.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 10 PENSION PLAN *(continued)*

Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the Plan for 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Service cost	\$ 142,975	\$ 132,763
Interest cost	404,978	344,880
Expected return on plan assets	(398,794)	(409,759)
Amortization of net loss	<u>484,603</u>	<u>223,990</u>
Net periodic benefit cost	<u>\$ 633,762</u>	<u>\$ 291,874</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>2016</u>	<u>2015</u>
Weighted-average assumptions, as of June 30		
Discount rate	3.25%	4.25%
Expected return on plan assets	6.00%	6.00%
Rate of compensation increase	Not applicable	Not applicable

Plan Assets

The Plan determines its assumptions for the expected rate of return on plan assets based on the 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.

LDF's Investment Committee monitors the asset allocation of the Plan's assets. Assets are rebalanced, as LDF deems appropriate. The Plan's investment strategy, with respect to its pension assets, 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 investment strategies are to invest prudently for the sole purpose of providing benefits to participants. The target is to produce a total return that, when combined with LDF's contributions to the Plan, will maintain the Plan's ability to meet all required benefit obligations. Risk is controlled through an investment in conservative fixed-income securities and cash. The guidelines allow the managers to maintain up to \$1.2 million in cash and cash equivalents.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 10 PENSION PLAN *(continued)*

Plan Assets *(continued)*

The target allocation of plan assets and actual allocation at the end of 2016 and 2015, by asset category based on asset fair values, are as follows:

<u>Asset Category</u>	<u>2016 Target Allocation</u>	<u>2016 Actual Allocation</u>	<u>2015 Actual Allocation</u>
Cash and cash equivalents	2.0%	2.9%	9.5%
Equities	45.0%	44.9%	41.8%
Fixed income/debt securities	38.0%	39.6%	37.6%
<i>Exchange-traded funds</i>			
Real estate	3.0%	4.3%	3.7%
Hedge funds	9.0%	6.1%	5.6%
Commodities	3.0%	2.2%	1.8%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

At June 30, the Plan's assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Investments		
Cash equivalents	\$ 158,455	\$ 634,942
U.S. Government and agency obligations	612,735	724,725
Corporate bonds	280,271	365,357
<i>Exchange-traded funds</i>		
Equities	2,454,514	2,808,860
Fixed income	1,226,259	1,438,925
Real estate	240,579	251,689
Hedge funds	329,508	382,114
Commodities	<u>122,212</u>	<u>121,969</u>
Total investments	5,424,533	6,728,581
Accrued interest on investments	3,999	11,005
Prepaid expenses	17,917	-
Accrued expenses	(26,529)	-
Notes receivable from loan participants	<u>47,381</u>	<u>67,354</u>
Total plan assets	<u>\$ 5,467,301</u>	<u>\$ 6,806,940</u>

The Plan's investments as of June 30, 2016 and 2015 are carried at fair value based on quoted market prices in active markets and are all classified as Level 1 in accordance with the fair value hierarchy described in Note 2.

Notes receivables from participants represent participant loans that are carried at their principal balance plus any accrued but unpaid interest, which are considered to approximate fair value. Participant 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 Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 10 PENSION PLAN *(continued)*

Contributions

The minimum required contributions for the Plan years beginning July 1, 2015 and July 1, 2014 are \$318,225 and \$224,149, respectively. Cash contributions of \$142,218 were made during 2016, an additional cash contribution of \$163,187 will be made by March 15, 2017 and LDF has utilized a Prefunding Balance Elective of \$25,893 to meet the minimum required contribution for the plan year beginning July 1, 2015. The July 1, 2014 minimum required contribution was satisfied through cash contributions of \$37,782 during 2015 and an additional contribution of \$188,769 made through Prefunding Balance Electives to meet the minimum required contribution for the plan year beginning July 1, 2014.

Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the fiscal years ending June 30:

<u>Year</u>	<u>Amount</u>
2017	\$ 368,607
2018	393,782
2019	388,809
2020	476,965
2021	472,038
2022-2026	2,455,814

**NOTE 11 AMOUNTS HELD IN ESCROW/COURT AWARDS AND FEES PENDING
DISTRIBUTION**

Upon the successful completion of cases, the court may make awards to members of the class action litigation or to participating attorneys. As of June 30, 2016 and 2015, LDF held in escrow \$3,423 for members of the class and participating attorneys. The escrow amounts are invested in checking or money market accounts.

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

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 12 IN-KIND CONTRIBUTIONS

In fiscal years ended June 30, 2016 and 2015, the Fund received the following in-kind contributions, which were recognized as contributions in the accompanying consolidated statement of activities at fair value on the date of receipt:

	<u>2016</u>	<u>2015</u>
Marketable securities (recorded as investments)	\$ 127,618	\$ 526,098
Goods	<u>2,000</u>	<u>-</u>
Total in-kind contributions	<u>\$ 129,618</u>	<u>\$ 526,098</u>

NOTE 13 ENDOWMENTS

LDF's endowment consists of funds established for a variety of purposes. As required by U.S. 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

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 New York Uniform Management of Institutional Funds Act. The Fund's Board of Directors follows the requirements of NYPMIFA, which allows an institution to appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent, but subject, however, to the intent of the donor expressed in the gift instrument. NYPMIFA provides that unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until so appropriated for expenditure by the institution. For purposes of financial statement presentation, LDF classifies permanently restricted net assets as: (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 temporarily restricted. It should be noted, however, that under NYPMIFA, the Fund is entitled to appropriate for expenditure endowment funds, whether here characterized as "permanently restricted" or "temporarily restricted," except where inconsistent with the intent of the donor expressed in the gift instrument.

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 endowment fund;
2. The purposes of the Fund and the endowment fund;

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 13 ENDOWMENTS *(continued)*

Interpretation of Relevant Law *(continued)*

3. General economic conditions;
4. The possible effect of inflation or 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; and
8. Where appropriate and circumstances would otherwise warrant alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Fund.

The changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended June 30, 2016				
Endowment net assets, beginning of year	\$ -	\$ 4,488,725	\$ 16,833,752	\$ 21,322,477
<i>Investment return</i>				
Investment income	-	594,108	-	594,108
Net realized/unrealized appreciation in value of investments	-	(332,999)	-	(332,999)
Contributions	-	-	-	-
Appropriation for expenditures	1,273,175	(1,273,175)	-	-
Expenditures	(1,273,175)	-	-	(1,273,175)
Endowment net assets, end of year	\$ -	\$ 3,476,659	\$ 16,833,752	\$ 20,310,411
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended June 30, 2015				
Endowment net assets, beginning of year	\$ -	\$ 5,614,632	\$ 16,833,752	\$ 22,448,384
<i>Investment return</i>				
Investment income	-	536,930	-	536,930
Net realized/unrealized appreciation in value of investments	-	(424,287)	-	(424,287)
Contributions	-	-	-	-
Appropriation for expenditures	1,238,550	(1,238,550)	-	-
Expenditures	(1,238,550)	-	-	(1,238,550)
Endowment net assets, end of year	\$ -	\$ 4,488,725	\$ 16,833,752	\$ 21,322,477

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 13 ENDOWMENTS *(continued)*

Interpretation of Relevant Law *(continued)*

At June 30, 2016 and 2015, the endowment fund compositions by net asset classification are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted fund	\$ -	\$ 3,476,659	\$ 16,833,752	\$ 20,310,411
Board-designated fund	-	-	-	-
Endowment net assets, June 30, 2016	\$ -	\$ 3,476,659	\$ 16,833,752	\$ 20,310,411
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted fund	\$ -	\$ 4,488,725	\$ 16,833,752	\$ 21,322,477
Board-designated fund	-	-	-	-
Endowment net assets, June 30, 2015	\$ -	\$ 4,488,725	\$ 16,833,752	\$ 21,322,477

The disclosure for the 2015 endowment funds have been adjusted to eliminate the inclusion of the beneficial interest of the perpetual trust.

Funds with Deficiencies

Occasionally, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Fund to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2016 and 2015.

Return Objectives and Risk Parameters

LDF 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 donor-restricted funds that LDF must hold in perpetuity or for donor-specified periods or purposes and related unappropriated investment income. Under this policy, as approved by the Board of Directors' Investment Committee, endowment assets are invested with the intent of preserving the assets of donor-restricted funds that LDF must hold in perpetuity, while assuming a low level of investment risk. Over time, LDF expects its endowment funds to provide an average rate of return of approximately 6.5% and 6.7% for 2016 and 2015, respectively. Actual returns in any given year may vary from this amount.

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

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 13 ENDOWMENTS *(continued)*

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowments are to be considered 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. LDF's spending policy allows up to 4.5% of the fair value of the portfolio if funds are available, subject to donor-stipulated restrictions.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Fund 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). The Fund targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 14 MORTGAGE NOTE PAYABLE

On November 15, 2012, LDF entered into a new mortgage loan agreement with a face value of \$4,000,000. The mortgage bears interest at 3.36% for five years and is secured by LDF's property at 40 Rector Street. Thereafter, the interest rate shall be adjusted and fixed for an additional five years at a rate per year equal to the United States Treasury Securities Rate plus 2.90%. LDF does have the right to prepay the mortgage on November 17, 2017 with no prepayment penalty. The mortgage note provides for monthly payments of principal and interest to Bank of America, the loan holder, through November 15, 2022, at which time the remaining principal balance plus any accrued and unpaid interest becomes due.

Future minimum principal payments as of June 30, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 116,634
2018	39,661
Thereafter	<u>3,456,854</u>
	<u>\$ 3,613,149</u>

The mortgage loan agreement contains a financial covenant wherein LDF agreed, until the mortgage has been repaid, to maintain, on a consolidated basis, a maximum leverage ratio not to exceed 1.0. As of June 30, 2016, the Fund met this requirement.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2016

NOTE 15 SUBSEQUENT EVENTS

The Fund evaluated events subsequent to June 30, 2016, through November 10, 2016, the date the consolidated financial statements were available to be issued, and determined that there were no subsequent events that required disclosure.

SUPPLEMENTARY INFORMATION

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

Consolidating Statement of Financial Position

For the Year Ended June 30, 2016

(With Summarized Financial Information for 2015)

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	2016 Total	2015 Total
ASSETS				
Cash and cash equivalents	\$ 9,279,577	\$ 21,218	\$ 9,300,795	\$ 7,200,206
Accounts receivable	41,051	-	41,051	86,312
Contributions receivable	3,132,020	-	3,132,020	5,956,531
Amounts held in escrow	3,423	-	3,423	3,423
Investments	22,717,095	618,794	23,335,889	24,290,525
Other assets	314,211	-	314,211	285,756
Intercompany receivable (payable)	-	-	-	-
Property and equipment, net	15,305,984	3,670	15,309,654	15,584,443
Assets held in trust by others	1,472,953	-	1,472,953	1,568,141
Total assets	\$ 52,266,314	\$ 643,682	\$ 52,909,996	\$ 54,975,337
LIABILITIES AND NET ASSETS				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 1,525,254	\$ -	\$ 1,525,254	\$ 1,211,421
Mortgage payable	3,613,149	-	3,613,149	3,725,549
Accrued pension liability	4,441,442	-	4,441,442	2,371,685
Court awards and fees pending distribution	3,423	-	3,423	3,423
Total liabilities	9,583,268	-	9,583,268	7,312,078
<i>Net assets</i>				
<i>Unrestricted</i>				
Available for operations	81,150	-	81,150	2,731,210
Invested in property and equipment	11,692,835	3,670	11,696,505	11,858,894
Total unrestricted	11,773,985	3,670	11,777,655	14,590,104
Temporarily restricted	13,004,781	237,587	13,242,368	14,671,262
Permanently restricted	17,904,280	402,425	18,306,705	18,401,893
Total net assets	42,683,046	643,682	43,326,728	47,663,259
Total liabilities and net assets	\$ 52,266,314	\$ 643,682	\$ 52,909,996	\$ 54,975,337

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

Consolidating Statement of Activities

For the Year Ended June 30, 2016

(With Summarized Financial Information for 2015)

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	2016 Total	2015 Total
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 9,362,979	\$ 25,050	\$ 9,388,029	\$ 13,277,363
Combined Federal campaign	203,459	-	203,459	190,496
Bequests	424,171	-	424,171	930,043
Special events, net of direct donor benefits of \$258,401 and \$319,801, respectively	2,091,218	-	2,091,218	1,568,728
Court costs and attorney fees awarded	100,000	-	100,000	1,558,231
Investment income, net of fees of \$100,598 and \$108,934, respectively	574,238	19,790	594,028	536,930
Net depreciation on investments	(425,565)	(4,906)	(430,471)	(537,639)
Total revenue, gains, and other support	<u>12,330,500</u>	<u>39,934</u>	<u>12,370,434</u>	<u>17,524,152</u>
EXPENSES				
<i>Program services</i>				
Legal	8,377,315	-	8,377,315	9,062,974
Thurgood Marshall Institute	2,954,387	-	2,954,387	-
Public information	-	-	-	1,872,117
Herbert Lehman education	365,966	-	365,966	398,721
Earl Warren legal training	-	68,040	68,040	73,040
Total program services	<u>11,697,668</u>	<u>68,040</u>	<u>11,765,708</u>	<u>11,406,852</u>
<i>Supporting services</i>				
Fundraising	2,447,125	125	2,447,250	2,055,517
Management and general	1,483,968	-	1,483,968	1,394,400
Total supporting services	<u>3,931,093</u>	<u>125</u>	<u>3,931,218</u>	<u>3,449,917</u>
Total expense	<u>15,628,761</u>	<u>68,165</u>	<u>15,696,926</u>	<u>14,856,769</u>
Change in net assets before other charges	(3,298,261)	(28,231)	(3,326,492)	2,667,383
OTHER CREDIT (CHARGE)				
Charge to pension benefit other than net periodic pension cost	(1,010,039)	-	(1,010,039)	(739,273)
Change in net assets	(4,308,300)	(28,231)	(4,336,531)	1,928,110
Net assets, beginning of year	46,991,346	671,913	47,663,259	45,735,149
Net assets, end of year	<u>\$ 42,683,046</u>	<u>\$ 643,682</u>	<u>\$ 43,326,728</u>	<u>\$ 47,663,259</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Consolidated Schedule of Functional Expenses
For the Year Ended June 30, 2016
(With Summarized Financial Information for 2015)

Description	Program Services					Supporting Services			2016 Total Expenses	2015 Total Expenses
	Legal Programs	Thurgood Marshall Institute	Herbert Lehman Education	Earl Warren Legal Training	Subtotal	Fundraising	Mgmt. and General	Subtotal		
<i>Personnel costs</i>										
Payroll	\$ 2,751,448	\$ 1,263,649	\$ 57,425	\$ 24,000	\$ 4,096,522	\$ 523,810	\$ 706,176	\$ 1,229,986	\$ 5,326,508	\$ 5,047,555
Benefits	1,238,125	568,615	14,156	6,000	1,826,896	235,703	317,764	553,467	2,380,363	1,308,998
Temporary help	124,809	95,886	-	-	220,695	120,329	9,930	130,259	350,954	123,549
Total personnel costs	4,114,382	1,928,150	71,581	30,000	6,144,113	879,842	1,033,870	1,913,712	8,057,825	6,480,102
<i>Legal programs</i>										
Legal Fees Coop Attorneys	-	-	-	-	-	-	-	-	-	-
Travel Coop Attorneys	-	-	-	-	-	-	-	-	-	-
Other Exp Coop Attorneys	-	-	-	-	-	-	-	-	-	-
Court costs	29,713	-	-	-	29,713	-	-	-	29,713	62,114
Expert witness	186,372	-	-	-	186,372	-	-	-	186,372	119,332
Legal printing	6,666	-	-	-	6,666	-	-	-	6,666	2,800
Attorney conferences	228,970	-	-	-	228,970	-	-	-	228,970	231,047
Special research	185,337	-	-	-	185,337	-	-	-	185,337	260,490
Library	18,040	-	-	-	18,040	-	-	-	18,040	28,826
Bar association dues	19,881	-	-	-	19,881	-	-	-	19,881	12,065
Total legal programs	674,979	-	-	-	674,979	-	-	-	674,979	716,674
<i>Other programs</i>										
Scholarships/grants	1,336,600	-	260,000	25,000	1,621,600	-	-	-	1,621,600	2,107,500
<i>Other expenses</i>										
Photos/press release	20,574	3,668	-	-	24,242	5,623	419	6,042	30,284	49,872
List rental	-	-	-	-	-	50,380	-	50,380	50,380	27,615
Mail handling	-	-	-	-	-	7,521	-	7,521	7,521	5,840
Fundraising professionals	-	-	-	-	-	704,538	-	704,538	704,538	941,035
Insurance	62,707	17,832	1,330	-	81,869	12,092	16,038	28,130	109,999	108,962
Telephone	91,709	30,654	1,821	1,200	125,384	17,502	22,982	40,484	165,868	185,732
Occupancy expense	281,031	192,546	3,330	2,400	479,307	30,280	42,819	73,099	552,406	489,889
Bank charges	21,975	5,525	4,617	-	32,117	30,418	4,974	35,392	67,509	60,226
Storage	31,110	43,487	48	-	74,645	440	583	1,023	75,668	72,492
Mailing	21,208	6,707	292	-	28,207	112,860	1,991	114,851	143,058	140,727
Office supplies	51,638	14,366	20	-	66,024	19,490	14,889	34,379	100,403	78,840
Messenger services	537	150	-	-	687	2,834	144	2,978	3,665	5,187
Equipment repairs and maintenance	104,335	25,689	1,750	-	131,774	85,878	21,103	106,981	238,755	231,700
Utilities	39,549	13,499	1,008	300	54,356	9,163	12,153	21,316	75,672	67,681
Catering costs	113,726	37,729	-	-	151,455	13,923	7,664	21,587	173,042	153,530
Custodian and brokers fees	-	-	-	-	-	-	-	-	-	-
Interest expense	64,712	22,913	1,711	-	89,336	15,553	20,628	36,181	125,517	128,945
Miscellaneous	36,138	10,175	453	-	46,766	62,959	9,840	72,799	119,565	80,433
Photocopying	41,999	8,686	619	300	51,604	5,627	7,464	13,091	64,695	74,195
Meetings and travel	481,207	146,646	270	-	628,123	37,309	9,974	47,283	675,406	619,678
Service bureau	2,053	727	54	-	2,834	494	5,943	6,437	9,271	16,788
IT professionals	159,160	53,935	6,240	-	219,335	54,534	48,466	103,000	322,335	415,410
Professional fees	229,635	255,171	720	1,500	487,026	20,031	80,214	100,245	587,271	643,979
Printing	13,087	830	-	-	13,917	176,116	-	176,116	190,033	184,015
Amortization	143,637	50,455	3,767	-	197,859	34,249	45,424	79,673	277,532	264,349
Depreciation	239,627	84,847	6,335	7,340	338,149	57,594	76,386	133,980	472,129	505,373
Total other expenses	2,251,354	1,026,237	34,385	13,040	3,325,016	1,567,408	450,098	2,017,506	5,342,522	5,552,493
Total expenses	\$ 8,377,315	\$ 2,954,387	\$ 365,966	\$ 68,040	\$ 11,765,708	\$ 2,447,250	\$ 1,483,968	\$ 3,931,218	\$ 15,696,926	\$ 14,856,769

