

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

**Consolidated Financial Statements and
Supplementary Information
For the Year Ended June 30, 2019
(With Summarized Financial Information for 2018)
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, 2019
(With Summarized Financial Information for 2018)

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7-31
SUPPLEMENTARY INFORMATION	
Consolidating Statement of Financial Position	32
Consolidating Statement of Activities	33



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, which comprise the consolidated statements of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, 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 from 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.

80 Pine Street
New York, NY 10005
T +1 212 709 4500
F +1 212 709 4680
mitchelltitus.com



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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the NAACP Legal Defense and Educational Fund, Inc. and Affiliate as of June 30, 2019, and the changes in their net assets and their 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 NAACP Legal Defense and Educational Fund, Inc. and Affiliate's consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information are presented for purposes of additional analysis and are 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2018, the NAACP Legal Defense and Educational Fund, Inc. and Affiliate adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

November 7, 2019

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Consolidated Statements of Financial Position
As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 22,160,064	\$ 18,022,723
Accounts receivable	72,701	50,494
Contributions and court fees receivable, net	17,941,475	10,116,913
Amounts held in escrow	3,425	3,425
Investments	29,347,000	26,830,437
Other assets	569,359	359,866
Property and equipment, net	14,282,230	14,387,239
Prepaid pension asset	231,523	-
Assets held in trust by others	1,610,484	1,617,233
Total assets	<u><u>\$ 86,218,261</u></u>	<u><u>\$ 71,388,330</u></u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 2,643,102	\$ 1,811,474
Mortgage payable	2,345,775	2,428,058
Accrued pension liability	-	461,037
Court awards and fees pending distribution	3,425	3,425
Total liabilities	<u>4,992,302</u>	<u>4,703,994</u>
<i>Net assets</i>		
<i>Without donor restrictions</i>		
Available for operations	5,383,064	5,363,222
Board designated	4,084,113	2,616,123
Invested in property and equipment	11,936,455	11,959,181
Total without donor restrictions	<u>21,403,632</u>	<u>19,938,526</u>
Net assets with donor restrictions	<u>59,822,327</u>	<u>46,745,810</u>
Total net assets	<u>81,225,959</u>	<u>66,684,336</u>
Total liabilities and net assets	<u><u>\$ 86,218,261</u></u>	<u><u>\$ 71,388,330</u></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, 2019

(With Summarized Financial Information for 2018)

	2019			
	Without Donor Restrictions	With Donor Restrictions	Total	2018 Total
REVENUE, GAINS, RECLASSIFICATIONS AND OTHER SUPPORT				
Contributions	\$ 11,061,493	\$ 20,653,288	\$ 31,714,781	\$ 18,240,001
Combined Federal campaign	555,192	411	555,603	676,678
Bequests	1,333,942	33,258	1,367,200	1,194,522
Special events, net of direct benefits to donor of \$331,466 and \$344,094, respectively	2,172,184	261,000	2,433,184	2,445,337
Court costs and attorney fees awarded	454,698	-	454,698	153,302
Other income	89,394	129,170	218,564	-
Investment income, net of fees of \$153,387 and \$149,294, respectively	-	788,060	788,060	654,689
Net appreciation on investments and assets held in trust by other	(15,433)	445,639	430,206	859,161
Net assets released from restrictions	9,234,309	(9,234,309)	-	-
Total revenue, gains, reclassifications, and other support	<u>24,885,779</u>	<u>13,076,517</u>	<u>37,962,296</u>	<u>24,223,690</u>
EXPENSES				
<i>Program services</i>				
Legal programs	12,432,832	-	12,432,832	9,958,095
Thurgood Marshall Institute	4,239,540	-	4,239,540	3,913,644
Herbert Lehman Education	375,362	-	375,362	394,540
Earl Warren Legal Training	51,038	-	51,038	50,700
Total program services	<u>17,098,772</u>	<u>-</u>	<u>17,098,772</u>	<u>14,316,979</u>
<i>Supporting services</i>				
Fundraising	4,850,960	-	4,850,960	3,732,622
Management and general	2,357,034	-	2,357,034	1,985,277
Total supporting services	<u>7,207,994</u>	<u>-</u>	<u>7,207,994</u>	<u>5,717,899</u>
Total expenses	<u>24,306,766</u>	<u>-</u>	<u>24,306,766</u>	<u>20,034,878</u>
Changes in net assets before other credit	579,013	13,076,517	13,655,530	4,188,812
OTHER CREDIT				
Credit for pension benefit other than net periodic pension cost	886,093	-	886,093	952,730
Changes in net assets	1,465,106	13,076,517	14,541,623	5,141,542
Net assets, beginning of year	19,938,526	46,745,810	66,684,336	61,542,794
Net assets, end of year	<u><u>\$ 21,403,632</u></u>	<u><u>\$ 59,822,327</u></u>	<u><u>\$ 81,225,959</u></u>	<u><u>\$ 66,684,336</u></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 Functional Expenses
For the Year Ended June 30, 2019
(With Summarized Financial Information for 2018)

Description	Program Services				Subtotal	Supporting Services			2019 Total Expenses	2018 Total Expenses
	Legal Programs	Thurgood Marshall Institute	Herbert Lehman Education	Earl Warren Legal Training		Fundraising	Mgmt. and General	Subtotal		
<i>Personnel costs</i>										
Payroll	\$ 5,241,835	\$ 1,632,178	\$ 37,892	\$ 12,000	\$ 6,923,905	\$ 1,314,804	\$ 1,196,515	\$ 2,511,319	\$ 9,435,224	\$ 7,526,235
Benefits	1,717,366	534,745	8,747	3,000	2,263,858	430,766	391,779	822,545	3,086,403	2,673,097
Temporary help	234,183	40,300	-	-	274,483	133,973	14,764	148,737	423,220	398,467
Total personnel costs	7,193,384	2,207,223	46,639	15,000	9,462,246	1,879,543	1,603,058	3,482,601	12,944,847	10,597,799
<i>Legal programs</i>										
Court costs	54,822	-	-	-	54,822	-	-	-	54,822	26,191
Expert witness	211,788	-	-	-	211,788	-	-	-	211,788	103,063
Special research	224,309	25,850	-	-	250,159	-	-	-	250,159	217,980
Total legal programs	490,919	25,850	-	-	516,769	-	-	-	516,769	347,234
<i>Other programs</i>										
Scholarships/grants	8,945	-	308,000	30,000	346,945	-	-	-	346,945	357,318
<i>Other expenses</i>										
Photos/press release	157,160	52,453	-	-	209,613	82,684	-	82,684	292,297	333,080
List rental	924	-	-	-	924	32,222	-	32,222	33,146	82,773
Mail handling	13	-	-	-	13	6,711	-	6,711	6,724	5,148
Fundraising professionals	-	-	-	-	-	1,547,283	-	1,547,283	1,547,283	832,785
Insurance	70,225	14,989	573	-	85,787	18,221	17,047	35,268	121,055	162,178
Telephone	120,212	33,389	1,061	1,200	155,862	38,680	33,874	72,554	228,416	198,765
Occupancy expense	423,187	332,512	1,442	2,400	759,541	47,598	42,912	90,510	850,051	792,883
Bank charges	3,848	-	-	-	3,848	125,579	62	125,641	129,489	134,788
Storage	1,941	110,333	22	-	112,296	671	640	1,311	113,607	100,859
Mailing and messenger services	44,568	11,181	2,389	-	58,138	202,101	5,969	208,070	266,208	209,660
Office supplies	62,769	23,190	41	-	86,000	15,285	17,805	33,090	119,090	97,158
Bad debt expense	-	-	-	-	-	-	-	-	-	31,578
Library	30,148	2,262	-	-	32,410	9,649	10,131	19,780	52,190	25,803
Equipment repairs and maintenance	99,394	53,524	550	-	153,468	55,207	21,025	76,232	229,700	322,093
Utilities	52,426	15,401	612	300	68,739	19,111	18,215	37,326	106,065	59,906
Catering costs	197,838	94,526	165	-	292,529	37,464	11,349	48,813	341,342	259,184
Interest expense	47,700	14,013	557	-	62,270	17,388	16,573	33,961	96,231	98,889
Dues and membership fees	28,025	1,734	-	-	29,759	6,108	1,828	7,936	37,695	24,682
Miscellaneous	74,337	25,349	590	-	100,276	69,031	7,254	76,285	176,561	171,620
Conferences and meetings	254,173	10,712	-	-	264,885	1,224	2,249	3,473	268,358	265,051
Meetings and travel	884,728	231,588	113	-	1,116,429	107,621	29,123	136,744	1,253,173	1,004,044
Computer services	6,377	1,873	74	-	8,324	2,325	36,707	39,032	47,356	12,812
Accounting professionals	-	-	-	-	-	-	68,160	68,160	68,160	64,210
Legal professionals	960,397	-	-	-	960,397	-	226,528	226,528	1,186,925	1,380,271
IT professionals	108,070	31,682	6,172	338	146,262	71,226	38,471	109,697	255,959	190,070
Professional fees	601,001	764,182	1,386	1,500	1,368,069	89,684	-	89,684	1,457,753	610,995
Printing/Photocopying	85,219	44,664	214	300	130,397	219,694	6,375	226,069	356,466	447,639
Amortization	170,848	62,278	1,795	-	234,921	56,039	53,411	109,450	344,371	329,934
Depreciation	254,056	74,632	2,967	-	331,655	92,611	88,268	180,879	512,534	483,669
Total other expenses	4,739,584	2,006,467	20,723	6,038	6,772,812	2,971,417	753,976	3,725,393	10,498,205	8,732,527
Total expenses	\$ 12,432,832	\$ 4,239,540	\$ 375,362	\$ 51,038	\$17,098,772	\$ 4,850,960	\$ 2,357,034	\$ 7,207,994	\$24,306,766	\$20,034,878

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 14,541,623	\$ 5,141,542
<i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	856,905	813,603
Donated securities	(1,583,038)	(491,517)
Bad debt expense	-	31,578
Net appreciation on investments and assets held by others in trust	(430,206)	(859,161)
Increase in accounts receivable	(22,207)	(4,937)
Increase in contributions and court fees receivable	(7,824,562)	(2,257,991)
(Increase) decrease in other assets	(209,493)	13,604
Decrease in accrued pension liability and increase in prepaid pension assets	(692,560)	(3,039,024)
Increase (decrease) in accounts payable and accrued expenses	831,628	(107,020)
Net cash provided by (used in) operating activities	<u>5,468,090</u>	<u>(759,323)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	29,424,894	9,402,768
Purchases of investments	(29,921,464)	(7,043,317)
Purchases of property and equipment	(751,896)	(235,303)
Net cash (used in) provided by investing activities	<u>(1,248,466)</u>	<u>2,124,148</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgage issuance	-	2,448,713
Repayment of mortgage	(82,283)	(3,517,170)
Net cash used in financing activities	<u>(82,283)</u>	<u>(1,068,457)</u>
Net increase in cash and cash equivalents	4,137,341	296,368
Cash and cash equivalents, beginning of year	<u>18,022,723</u>	<u>17,726,355</u>
Cash and cash equivalents, end of year	<u>\$ 22,160,064</u>	<u>\$ 18,022,723</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	<u>\$ 96,231</u>	<u>\$ 98,889</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, 2019

NOTE 1 ORGANIZATION AND OPERATIONS

The accompanying consolidated financial statements include the financial position, changes in net assets, functional expenses 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, and administration of criminal justice, and to increase educational opportunities through scholarships. Primary revenue sources 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, 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 accounting principles generally accepted 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 two net asset classes: without donor restrictions and with donor restrictions.

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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions: 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.

Net assets subject to donor-imposed stipulations also include amounts 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 receivable is measured based on the present value of future cash flows, with consideration given to the donor's credit risk and expectation about possible variations in the amount and/or timing of the cash flows and other specific factors.

Contribution revenue is reported as increases in net assets without donor restrictions unless its use is limited by donor-imposed restrictions. Expiration of 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 donor restrictions. Donor-restricted contributions received during the year whose restrictions have been met within the year are recorded as contributions without donor restrictions.

Unexpended contributions with purpose restrictions are credited with investment income.

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, 2019

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

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, 2019 and 2018, no allowance for doubtful accounts was deemed required.

In-kind Contributions

In-kind contributions represent 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.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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

Investments *(continued)*

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

U.S. Government and agency obligations, mutual funds, common stock and exchange-traded funds – 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 that incorporate certain other observable inputs including recent trading activity for comparable securities and broker quoted prices.

Common collective trust – Determined using the net asset value (NAV) as a practical expedient. The NAV is determined 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 months' notice. The common collective trust had no unfunded commitments at June 30, 2019 or 2018, respectively.

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

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 appreciation includes the Fund's gains and losses on investments bought, sold, and held during the year.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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

Investment Income and Investment Management Fees

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 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 appreciation in the fair value of investments is reflected in changes to net assets without donor restrictions and net assets with donor restrictions. Investment management fees of \$153,387 and \$149,294 have been incurred for the years ended June 30, 2019 and 2018, 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, three to 15 years for the furniture and equipment, and three years for 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.

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 difference between cost and cash flows. Management determined that no long-lived assets were impaired at June 30, 2019 and 2018.

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. Assets held in trust are reflected as Level 3 investments in the Fair Value hierarchy table in Note 6. Distributions from the trusts are recorded as investment income and changes to the perpetual trusts' values are reported in the net asset with donor restrictions class.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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

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 \$57,753 and \$57,465 at June 30, 2019 and 2018, respectively. Annual adjustments to fair value amounts are recognized as net appreciation in net assets with donor restrictions class 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. As discussed in Note 10, 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. Starting on January 1, 2017, LDF began matching up to 4% of qualified employees' salary and making quarterly contributions to this plan.

Income Tax Status

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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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

Income Tax Status *(continued)*

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, 2019, 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 2016.

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 took 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.

Summarized Financial Information

The amounts shown for the year ended June 30, 2018, in the accompanying consolidated financial statements were derived from the June 30, 2018 audited consolidated financial statements and are summarized totals that were included to provide a basis for comparison with 2019. Accordingly, the 2018 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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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

Accounting Pronouncements Adopted in the Current Year

In 2019, the Fund adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires an amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources.

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides clarifying guidance on accounting for the grants and contracts of nonprofit organizations as they relate to the new revenue standard (ASU 2014-09, *Revenue from Contracts with Customers*). The ASU also aims to minimize diversity in the classification of grants and contracts that exists under current guidance with regards to exchange transactions and unconditional and conditional contributions. The ASU is to be applied on a modified prospective basis and is effective for contributions received for annual periods beginning after December 15, 2018. The ASU is effective for contributions made for annual periods beginning after December 15, 2019. LDF is currently evaluating the impact of the adoption of this ASU on its consolidated financial statements and accompanying notes.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the NAV practical expedient provided by ASC 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate NAV per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the NAV practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. LDF adopted ASU 2015-07 for its fiscal year ended June 30, 2018, and has applied the amendment to all periods presented.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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

Recent Accounting Pronouncements *(continued)*

In February 2017, the FASB issued ASU No. 2017-02, *Leases* (Topic 842), which provides guidance that will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU No. 2017-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The FASB recently approved deferring the adoption date of ASU No. 2017-02 for non-public entities. The ASU is now effective for annual periods beginning after December 15, 2020, with early adoption permitted. LDF is currently evaluating the impact of adopting ASU No. 2017-02.

Reclassifications

In accordance with ASU 2016-14, certain prior-year balances in the components of temporarily and permanently restricted net assets have been reclassified to conform with the current-year presentation. In addition, Board-designated net assets had previously been included as temporarily restricted net assets. This has been corrected in the table below.

<u>Net Asset Classification as of July 1, 2018</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
<i>As previously presented</i>			
Unrestricted	\$ 17,322,403	\$ -	\$ 17,322,403
Temporary restricted	-	30,857,948	30,857,948
Permanently restricted	-	18,503,985	18,503,955
Board-designated	2,616,123	(2,616,123)	-
Net assets reclassified	\$ 19,938,526	\$ 46,745,810	\$ 66,684,336

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, 2019 and 2018, approximately 97% of the Fund's cash and cash equivalents were held by two financial institutions.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 4 CONTRIBUTIONS AND COURT COST RECEIVABLE, NET

Contributions and court cost receivable, net as of June 30, 2019 and 2018, were due as follows:

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 10,085,100	\$ 6,396,301
One to five years	<u>8,138,189</u>	<u>3,850,000</u>
	18,223,289	10,246,301
Fair value adjustment	<u>(281,814)</u>	<u>(129,388)</u>
	<u>\$ 17,941,475</u>	<u>\$ 10,116,913</u>

Those receivables that are due in more than one year are recorded at their fair value, using discount rates ranging from 2.5% to 3% per year for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 INVESTMENTS

Investments as of June 30, 2019 and 2018, were as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Interest-bearing cash and cash equivalents	\$ 2,437,126	\$ 2,437,126	\$ 937,646	\$ 937,646
U.S. Government and agency obligations	1,528,425	1,503,645	1,844,685	1,950,651
Common stocks	5,085,002	4,749,866	5,295,723	4,457,124
Corporate bonds	5,071,719	5,046,590	2,478,837	2,505,448
Exchange-traded funds	14,580,985	13,979,976	15,268,626	14,429,682
Mutual funds	<u>643,743</u>	<u>506,815</u>	<u>1,004,920</u>	<u>881,479</u>
	<u>\$ 29,347,000</u>	<u>\$ 28,224,018</u>	<u>\$ 26,830,437</u>	<u>\$ 25,162,030</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of June 30, 2019				
Interest-bearing cash and cash equivalents	<u>\$ 17,991,660</u>	<u>\$ 17,991,660</u>	<u>\$ -</u>	<u>\$ -</u>
Investments				
Interest-bearing cash and cash equivalents	2,437,126	2,437,126	-	-
U.S. Government and agency obligations	1,528,425	-	1,528,425	-
Common stocks	5,085,002	5,085,002	-	-
Corporate bonds	5,071,719	-	5,071,719	-
Mutual funds - equities	643,743	643,743	-	-
<i>Exchange-traded funds</i>				
Equities	10,385,640	10,385,640	-	-
Fixed income	3,327,900	3,327,900	-	-
Real estate	487,580	487,580	-	-
Commodities	379,865	379,865	-	-
Total investments	<u>\$ 29,347,000</u>	<u>\$ 22,746,856</u>	<u>\$ 6,600,144</u>	<u>\$ -</u>
Assets held in trust by others	<u>\$ 1,610,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,610,484</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 6 FAIR VALUE MEASUREMENTS (continued)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
As of June 30, 2018				
Interest-bearing cash and cash equivalents	<u>\$ 13,428,416</u>	<u>\$ 13,428,416</u>	<u>\$ -</u>	<u>\$ -</u>
Investments				
Interest-bearing cash and cash equivalents	937,646	937,646	-	-
U.S. Government and agency obligations	1,844,685	-	1,844,685	-
Common stocks	5,295,723	5,295,723	-	-
Corporate bonds	2,478,837	-	2,478,837	-
Mutual funds – equities	1,004,920	1,004,920	-	-
<i>Exchange-traded funds</i>				
Equities	7,904,219	7,904,219	-	-
Fixed income	4,508,697	4,508,697	-	-
Real estate	810,239	810,239	-	-
Hedge funds	1,532,508	1,532,508	-	-
Commodities	512,963	512,963	-	-
Total investments	<u>\$ 26,830,437</u>	<u>\$ 22,506,915</u>	<u>\$ 4,323,522</u>	<u>\$ -</u>
Assets held in trust by others	<u>\$ 1,617,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,617,223</u>

The following table presents the fair value reconciliation of Level 3 assets measured at fair value on a recurring basis during the year ended June 30, 2019:

Assets held as of July 1, 2018	\$ 1,617,233
Investment return, net	<u>(6,749)</u>
Assets held as of June 30, 2019	<u>\$ 1,610,484</u>

The following table presents the fair value reconciliation of Level 3 assets measured at fair value on a recurring basis during the year ended June 30, 2018:

Assets held as of July 1, 2017	\$ 1,566,008
Investment return, net	<u>51,225</u>
Assets held as of June 30, 2018	<u>\$ 1,617,233</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 7 PROPERTY AND EQUIPMENT, NET

The composition of property and equipment at June 30, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Condominium interest	\$ 16,003,179	\$ 16,141,320
Furniture and equipment	1,111,217	1,101,065
Computer equipment	745,952	631,683
Telephone	140,588	140,588
Website	160,686	171,986
Leasehold improvements	<u>682,132</u>	<u>14,563</u>
	18,983,148	18,201,205
Less: Accumulated depreciation and amortization	<u>(4,561,524)</u>	<u>(3,813,966)</u>
	<u>\$ 14,282,230</u>	<u>\$ 14,387,239</u>

Depreciation and amortization expenses were \$856,905 and \$813,603 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 DONOR-RESTRICTED NET ASSETS

Net assets with donor restrictions (including perpetual trusts held by outside trustees) totaled \$59,822,327 and \$46,745,810 at June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>
<i>Purpose restricted funds</i>		
Funds to be maintained in perpetuity	\$ 14,403,739	\$ 14,307,167
Funds for attorney salaries	3,913,357	-
Funds for legal programs	2,124,160	2,124,160
Funds for scholarships	455,425	455,425
<i>Perpetual trusts</i>		
Scholarships	1,552,731	1,559,951
Other	<u>57,753</u>	<u>57,282</u>
Subtotal	<u>22,507,165</u>	<u>18,503,985</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 8 DONOR-RESTRICTED NET ASSETS *(continued)*

	<u>2019</u>	<u>2018</u>
<i>Unappropriated income of endowment assets</i>		
General fund	\$ 4,340,456	\$ 4,410,187
Herbert Lehman Education	836,885	908,824
Earl Warren Legal Training	<u>327,828</u>	<u>250,088</u>
Subtotal	<u>5,505,169</u>	<u>5,569,099</u>
<i>Restricted as to the passage of time or purpose</i>		
Restricted for periods after June 30, 2019	18,097,758	12,195,669
Herbert Lehman Education	369,053	203,709
Thurgood Marshall Institute	392,447	1,237,447
Legal programs	<u>12,950,735</u>	<u>9,035,901</u>
Subtotal	<u>31,809,993</u>	<u>22,672,726</u>
Total	<u>\$ 59,822,327</u>	<u>\$ 46,745,810</u>

Net assets were released from donor restrictions in 2019 and 2018 by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	<u>2019</u>	<u>2018</u>
<i>Released from temporarily restricted net assets due to appropriation of income from endowment assets</i>		
General and legal programs	\$ 871,800	\$ 969,767
Herbert Lehman scholarship program	163,894	171,713
Earl Warren scholarship program	<u>29,900</u>	<u>28,900</u>
	1,065,594	1,170,380
<i>Purpose restrictions met</i>		
Legal programs	4,742,661	1,585,323
Thurgood Marshall Institute	901,200	2,594,326
Herbert Lehman education (including fundraising expenses of \$54,390 and \$66,301, respectively)	265,857	289,129
Earl Warren legal training (including fundraising expenses of \$22 and \$567, respectively)	21,160	22,367
Passage of time	<u>2,237,837</u>	<u>3,591,655</u>
	<u>\$ 9,234,309</u>	<u>\$ 9,253,180</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 9 COMMITMENTS AND CONTINGENCIES

Lease Agreement

LDF entered a new 10-year lease of office space in Washington, DC under a non-cancelable operating lease on July 23, 2018. The term of the lease is October 1, 2018 to October 30, 2028.

Future minimum lease payments as of June 30, 2019, are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 539,755
2021	741,263
2022	770,914
2023	801,751
2024	833,821
Thereafter	<u>4,014,011</u>
	<u>\$ 7,701,515</u>

Total rent expense, including escalations, for the years ended June 30, 2019 and 2018 was \$572,840 and \$330,383, respectively.

NOTE 10 PENSION PLAN

LDF sponsors a contributory, defined-contribution plan for all full-time employees. Employer contributions were \$200,000 and \$343,401 for the years ended June 30, 2019 and 2018, respectively. These costs are included in personnel costs.

LDF also 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
<i>Reconciliation of projected benefit obligations</i>		
Obligations, beginning of year	\$ 7,912,843	\$ 9,076,123
Service cost	100,000	142,450
Interest cost	309,117	306,708
Actuarial gain	(119,659)	(669,029)
Benefit payments	<u>(479,444)</u>	<u>(943,409)</u>
Obligations, end of year	<u>\$ 7,722,857</u>	<u>\$ 7,912,843</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 10 PENSION PLAN *(continued)*

	<u>2019</u>	<u>2018</u>
<i>Reconciliation of fair value of Plan assets</i>		
Fair value of Plan assets, beginning of year	\$ 7,451,805	\$ 5,576,062
Actual return on Plan assets	804,518	220,312
Employer contributions	200,000	2,592,000
Benefit payments	<u>(501,944)</u>	<u>(936,569)</u>
Fair value of Plan assets, end of year	<u>\$ 7,954,380</u>	<u>\$ 7,451,805</u>
<i>Funded status</i>		
Funded status, end of year	<u>\$ 231,523</u>	<u>\$ (461,037)</u>

At June 30, 2019 and 2018, the funded status of the Plan is reported in the consolidated statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
(Prepaid pension asset) accrued pension liability	<u>\$ (231,523)</u>	<u>\$ 461,037</u>

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

	<u>2019</u>	<u>2018</u>
Discount rate	3.50%	4.00%

Amounts recognized in net assets without donor restrictions consisted of the following:

	<u>2019</u>	<u>2018</u>
Cumulative loss at measurement date	<u>\$ 1,896,357</u>	<u>\$ 2,804,950</u>

Other credit in Plan assets and benefit obligations recognized in net assets without donor restrictions in 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Net loss	\$ 633,502	\$ 568,394
Amortization of net loss	<u>275,091</u>	<u>384,336</u>
Total credit	<u>\$ 908,593</u>	<u>\$ 952,730</u>

The estimated net gain (loss) for the Plan that will be amortized from accumulated change in net assets without donor restrictions into net periodic pension cost over the next fiscal year amount to \$275,091.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 10 PENSION PLAN *(continued)*

Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the Plan for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 100,000	\$ 142,450
Interest cost	309,117	306,708
Expected return on plan assets	(290,675)	(327,788)
Amortization of net loss	<u>275,091</u>	<u>384,336</u>
Net periodic benefit cost	<u>\$ 393,533</u>	<u>\$ 505,706</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>2019</u>	<u>2018</u>
Weighted-average assumptions, as of June 30		
Discount rate	3.50%	4.00%
Expected return on Plan assets	4.00%	6.00%

As of June 30, 2019 and 2018, the Mortality Table and Projection Scale was changed from Society of Actuaries RP-2014 tables with projection scale MP-2016 to Society of Actuaries RP-2014 adjusted from 2006 tables with projection scale MP-2018.

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. LDF has currently implemented a liability driven investment for the Plan.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 10 PENSION PLAN *(continued)*

Plan Assets *(continued)*

The Plan's investment strategies are to invest prudently for the sole purpose of providing benefits to participants. The target is to create an investment portfolio that will mirror the increases and decreases in the Plan's liabilities, and 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 target allocation of Plan assets and actual allocation at the end of 2019 and 2018, by asset category based on asset fair values, are as follows:

<u>Asset Category</u>	<u>2019 Target Allocation</u>	<u>2019 Actual Allocation</u>	<u>2018 Actual Allocation</u>
Cash and cash equivalents	2.5%	2.4%	3.3%
Fixed income	21.75%	21.6%	71.0%
Mutual funds	75.75%	76.0%	25.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

	<u>2019</u>	<u>2018</u>
<i>Investments</i>		
Cash and cash equivalents	\$ 90,684	\$ 248,990
<i>Exchange-traded funds</i>		
Fixed income	<u>7,886,196</u>	<u>7,232,952</u>
Total investments	7,976,880	7,481,942
Accrued expenses	<u>(22,500)</u>	<u>(30,137)</u>
Total Plan net assets	<u>\$ 7,954,380</u>	<u>\$ 7,451,805</u>

The Plan's investments as of June 30, 2019 and 2018, are carried at fair value based on quoted market prices in active markets and on national security exchanges, when available, or using valuation models which incorporate certain observable inputs including recent trading activity for comparable securities and brokers quoted prices. The Plan's investments are all classified as Level 1 and Level 2 in accordance with the fair value hierarchy described in Note 2.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 10 PENSION PLAN *(continued)*

Contributions

The level of contributions necessary to provide for benefits under the Plan is determined in accordance with generally accepted actuarial principles. LDF's policy is to make contributions to the Plan to satisfy ERISA's minimum funding requirements. However, during 2018, LDF made a significant contribution to the Plan in order to improve its funded status. No minimum required contributions were required or the Plan years beginning July 1, 2018 and 2017, respectively. Cash contributions in the amount of \$200,000 were made during 2019.

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>
2020	\$ 510,000
2021	440,000
2022	450,000
2023	450,000
2024	460,000
2025-2029	2,150,000

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, 2019 and 2018, LDF held in escrow \$3,425 in both years for members of the class and participating attorneys. The escrow amounts are invested in interest-bearing cash accounts.

NOTE 12 IN-KIND CONTRIBUTIONS

In fiscal years ended June 30, 2019 and 2018, 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>2019</u>	<u>2018</u>
Legal services	<u>\$ 1,210,905</u>	<u>\$ 1,356,478</u>
Total in-kind contributions	<u>\$ 1,210,905</u>	<u>\$ 1,356,478</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

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 and board-designated funds are classified and reported as without donor restrictions.

Interpretation of Relevant Law

On September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA), a modified version of the Uniform Prudent Management of Institutional Funds Act, which superseded the 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 net assets with donor restrictions 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 gifts to the permanent endowment are characterized as net assets with donor restriction. It should be noted, however, that under NYPMIFA, the Fund is entitled to appropriate for expenditure endowment funds, even if they are characterized as donor-restricted, and are a part of the endowment's corpus, 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;
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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 13 ENDOWMENTS *(continued)*

Interpretation of Relevant Law *(continued)*

The changes in board-designated and endowment net assets for the years ended June 30, 2019 and 2018, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year ended June 30, 2019</u>			
Endowment net assets, beginning of year	\$ 2,616,123	\$ 22,455,851	\$ 25,071,974
<i>Investment return</i>			
Investment income	-	519,351	519,351
Net realized/unrealized appreciation in value of investments	-	352,361	352,361
Contributions	1,467,990	4,009,929	5,477,919
Appropriation for expenditures	1,005,700	(1,005,700)	-
Expenditures	(1,005,700)	-	(1,005,700)
Endowment net assets, end of year	<u>\$ 4,084,113</u>	<u>\$ 26,331,792</u>	<u>\$ 30,415,905</u>
	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year ended June 30, 2018</u>			
Endowment net assets, beginning of year	\$ -	\$ 22,329,050	\$ 22,329,050
<i>Investment return</i>			
Investment income	-	521,568	521,568
Net realized/unrealized appreciation in value of investments	-	700,100	700,100
Contributions			
Board-designated (Note 2)	2,616,123		2,616,123
Appropriation for expenditures	1,094,867	(1,094,867)	-
Expenditures	(1,094,867)	-	(1,094,867)
Endowment net assets, end of year	<u>\$ 2,616,123</u>	<u>\$ 22,455,851</u>	<u>\$ 25,071,974</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 13 ENDOWMENTS *(continued)*

Interpretation of Relevant Law *(continued)*

At June 30, 2019 and 2018, the endowment fund compositions by net asset classification are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted fund	\$ -	\$ 26,331,792	\$ 26,331,792
Board-designated	4,084,113	-	4,084,113
Endowment net assets, June 30, 2019	\$ 4,084,113	\$ 26,331,792	\$ 30,415,905

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted fund	\$ -	\$ 22,455,851	\$ 22,455,851
Board-designated	2,616,123	-	2,616,123
Endowment net assets, June 30, 2018	\$ 2,616,123	\$ 22,455,851	\$ 25,071,974

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 net assets without donor restrictions. There were no such deficiencies as of June 30, 2019 and 2018.

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. Endowment assets also include board-designated funds that LDF chooses to retain for future unspecified needs. 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% for both 2019 and 2018, 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, 2019

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% 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 mortgage loan agreement with a face value of \$4,000,000. The mortgage bore interest at 3.36% for five years and was secured by LDF's property at 40 Rector Street. Thereafter, the interest rate was adjusted and fixed for an additional five years at a rate per year equal to the United States Treasury Securities Rate plus 2.90%

On May 10, 2018, LDF entered into a new mortgage loan agreement with a face value of \$2,448,713. The mortgage bears interest at 3.97% for 10 years and is secured by LDF's property at 40 Rector Street. The mortgage note provides for monthly payments of principal and interest to Bank of America, the loan holder, through May 10, 2028, at which time the remaining principal balance plus any accrued and unpaid interest becomes due.

Future minimum principal payments as of June 30, 2019, are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 85,402
2021	89,159
2022	92,815
2023	96,620
2024	100,369
Thereafter	<u>1,881,410</u>
	<u>\$ 2,345,775</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 14 MORTGAGE NOTE PAYABLE *(continued)*

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, 2019, the Fund met this requirement.

NOTE 15 RELATED PARTIES

During fiscal year 2019, members of LDF's Board of Directors donated approximately \$4.3 million to LDF. LDF has accounted for their contributions within its consolidated financial statements. LDF's policy is to require directors to disclose affiliations and to review and authorize such transactions, as appropriate.

NOTE 16 LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

	<u>2019</u>
Cash and cash equivalents	\$ 11,967,904
Accounts receivable	17,186
Operating investments	11,798
Contributions receivable	<u>2,065,282</u>
	<u>\$ 14,062,170</u>

Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Board-designated reserve fund of \$4,084,113 could be made available if necessary, but LDF does not intend to spend from the reserve fund. This amount is not reflected in the table above.

Contributions receivable due within one year as noted in Note 4, that are not reflected in available resources above is due to such contributions being restricted by the donor

As part of LDF's liquidity management plan, cash not used is invested to offset banking fees and in excess of daily requirements is invested in short-term investments, CDs, and money market funds.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2019

NOTE 17 SUBSEQUENT EVENTS

The Fund evaluated events subsequent to June 30, 2019, through November 7, 2019, the date the consolidated financial statements were available to be issued, and determined that there were no subsequent events that required recognition or disclosure.

SUPPLEMENTARY INFORMATION

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Consolidating Statement of Financial Position
June 30, 2019
(With Summarized Financial Information for 2018)

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	2019 Total	2018 Total
ASSETS				
Cash and cash equivalents	\$ 22,098,574	\$ 61,490	\$ 22,160,064	\$ 18,022,723
Accounts receivable	72,672	29	72,701	50,494
Contributions and court fees receivable	17,941,425	50	17,941,475	10,116,913
Amounts held in escrow	3,425	-	3,425	3,425
Investments	28,631,611	715,389	29,347,000	26,830,437
Other assets	578,609	-	578,609	359,866
Intercompany receivable (payable)	(6,295)	6,295	-	-
Property and equipment, net	14,282,230	-	14,282,230	14,387,239
Prepaid pension asset	244,773	-	244,773	-
Assets held in trust by others	1,610,484	-	1,610,484	1,617,233
Total assets	\$ 85,457,508	\$ 783,253	\$ 86,240,761	\$ 71,388,330
LIABILITIES AND NET ASSETS				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 2,643,102	\$ -	\$ 2,643,102	\$ 1,811,474
Mortgage payable	2,345,775	-	2,345,775	2,428,058
Accrued pension liability	-	-	-	461,037
Court awards and fees pending distribution	3,425	-	3,425	3,425
Total liabilities	4,992,302	-	4,992,302	4,703,994
<i>Net assets</i>				
<i>Without donor restrictions</i>				
Available for operations	5,405,564	-	5,405,564	5,363,222
Board designated	4,084,113	-	4,084,113	2,616,123
Invested in property and equipment	11,936,455	-	11,936,455	11,959,181
Total without donor restrictions	21,426,132	-	21,426,132	19,938,526
With donor restrictions	59,039,074	783,253	59,822,327	46,745,810
Total net assets	80,465,206	783,253	81,248,459	66,684,336
Total liabilities and net assets	\$ 85,457,508	\$ 783,253	\$ 86,240,761	\$ 71,388,330

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

Consolidating Statement of Activities

For the Year Ended June 30, 2019

(With Summarized Financial Information for 2018)

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	2019 Total	2018 Total
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 31,624,445	\$ 90,336	\$ 31,714,781	\$ 18,240,001
Combined Federal campaign	555,192	411	555,603	676,678
Bequests	1,367,200	-	1,367,200	1,194,522
Special events, net of direct benefits to donor cost of \$331,466 and \$344,094, respectively	2,433,184	-	2,433,184	2,445,337
Court costs and attorney fees awarded	454,698	-	454,698	153,302
Other income	218,564	-	218,564	-
Investment income, net of fees of \$153,387 and \$149,294, respectively	772,209	15,851	788,060	654,689
Net appreciation on investments and assets held in trust by others	408,004	22,202	430,206	859,161
Total revenue, gains, and other support	<u>37,833,496</u>	<u>128,800</u>	<u>37,962,296</u>	<u>24,223,690</u>
EXPENSES				
<i>Program services</i>				
Legal Programs	12,432,832	-	12,432,832	9,958,095
Thurgood Marshall Institute	4,239,540	-	4,239,540	3,913,644
Herbert Lehman education	375,362	-	375,362	394,540
Earl Warren legal training	-	51,038	51,038	50,700
Total program services	<u>17,047,734</u>	<u>51,038</u>	<u>17,098,772</u>	<u>14,316,979</u>
<i>Supporting services</i>				
Fundraising	4,850,938	22	4,850,960	3,732,622
Management and general	2,357,034	-	2,357,034	1,985,277
Total supporting services	<u>7,207,972</u>	<u>22</u>	<u>7,207,994</u>	<u>5,717,899</u>
Total expense	<u>24,255,706</u>	<u>51,060</u>	<u>24,306,766</u>	<u>20,034,878</u>
Changes in net assets before other credit	13,577,790	77,740	13,655,530	4,188,812
OTHER CREDIT				
Credit to pension benefit other than net periodic pension cost	908,593	-	908,593	952,730
Changes in net assets	14,486,383	77,740	14,564,123	5,141,542
Net assets, beginning of year	65,978,823	705,513	66,684,336	61,542,794
Net assets, end of year	<u><u>\$ 80,465,206</u></u>	<u><u>\$ 783,253</u></u>	<u><u>\$ 81,248,459</u></u>	<u><u>\$ 66,684,336</u></u>

