

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

**Consolidated Financial Statements and
Supplementary Information
For the Year Ended June 30, 2014
(With Summarized Financial Information for 2013)
With Report of Independent Auditors**

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
For the Year Ended June 30, 2014
(With Summarized Financial Information for 2013)

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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying consolidated financial statements of NAACP Legal Defense and Educational Fund, Inc. and Affiliate (the Fund), which comprise the consolidated statement of financial position as of June 30, 2014, 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 U.S. generally accepted accounting principles; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NAACP Legal Defense and Educational Fund, Inc. and Affiliate at June 30, 2014, and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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 31, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 consolidated statement of financial position, consolidated 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. 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

October 30, 2014

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Consolidated Statement of Financial Position
As of June 30, 2014
(With Summarized Financial Information for 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 5,803,700	\$ 7,178,773
Accounts receivable	75,780	84,389
Contributions receivable	2,735,250	1,482,082
Amounts held in escrow	3,423	3,423
Investments	25,734,628	24,285,250
Other assets	329,955	277,065
Property and equipment, net	16,282,640	16,868,233
Assets held in trust by others	1,679,135	1,510,166
	<u>1,679,135</u>	<u>1,510,166</u>
Total assets	<u>\$ 52,644,511</u>	<u>\$ 51,689,381</u>
LIABILITIES AND NET ASSETS		
<i>Liabilities</i>		
Accounts payable and accrued expenses	\$ 1,548,379	\$ 3,064,966
Mortgage payable	3,834,522	3,939,851
Accrued pension liability	1,523,038	1,632,333
Court awards and fees pending distribution	3,423	3,423
	<u>3,423</u>	<u>3,423</u>
Total liabilities	<u>6,909,362</u>	<u>8,640,573</u>
<i>Net assets</i>		
<i>Unrestricted</i>		
Available for operations	3,201,823	2,736,707
Invested in property and equipment	12,448,118	12,928,382
	<u>12,448,118</u>	<u>12,928,382</u>
Total unrestricted	15,649,941	15,665,089
Temporarily restricted	11,572,429	9,039,909
Permanently restricted	18,512,779	18,343,810
	<u>18,512,779</u>	<u>18,343,810</u>
Total net assets	45,735,149	43,048,808
	<u>45,735,149</u>	<u>43,048,808</u>
Total liabilities and net assets	<u>\$ 52,644,511</u>	<u>\$ 51,689,381</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, 2014
(With Summarized Financial Information for 2013)

	2014			2013 Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
REVENUE, GAINS, RECLASSIFICATIONS AND OTHER SUPPORT					
Contributions	\$ 4,309,801	\$ 2,892,415	\$ -	\$ 7,202,216	\$ 5,755,005
Combined Federal campaign	236,259	1,291	-	237,550	197,840
Bequests	710,487	63,261	-	773,748	202,886
Special events, net of direct donor benefits of \$264,957 and \$274,042, respectively	1,735,062	10,000	-	1,745,062	1,588,446
Court costs and attorney fees awarded	1,746,654	100,000	-	1,846,654	55,021
Investment income, net of fees of \$92,753 and \$59,985, respectively	-	599,215	-	599,215	498,239
Gain on sale of condominium office	-	-	-	-	15,835,860
Net (depreciation) appreciation in fair value of investments	(386)	2,957,651	168,969	3,126,234	1,358,359
Net assets released from restrictions	4,091,313	(4,091,313)	-	-	-
Total revenue, gains, reclassifications and other support	<u>12,829,190</u>	<u>2,532,520</u>	<u>168,969</u>	<u>15,530,679</u>	<u>25,491,656</u>
EXPENSES					
<i>Program services</i>					
Legal	7,212,337	-	-	7,212,337	9,581,852
Public information	1,858,032	-	-	1,858,032	1,820,484
Herbert Lehman education	452,595	-	-	452,595	462,720
Earl Warren legal training	82,036	-	-	82,036	82,044
Total program services	<u>9,605,000</u>	<u>-</u>	<u>-</u>	<u>9,605,000</u>	<u>11,947,100</u>
<i>Supporting services</i>					
Fundraising	2,197,802	-	-	2,197,802	1,896,080
Management and general	1,290,839	-	-	1,290,839	1,609,341
Total supporting services	<u>3,488,641</u>	<u>-</u>	<u>-</u>	<u>3,488,641</u>	<u>3,505,421</u>
Total expenses	<u>13,093,641</u>	<u>-</u>	<u>-</u>	<u>13,093,641</u>	<u>15,452,521</u>
Change in net assets before other credit	(264,451)	2,532,520	168,969	2,437,038	10,039,135
OTHER CREDIT					
Credit for pension benefit other than net periodic pension cost	249,303	-	-	249,303	1,111,948
Changes in net assets	(15,148)	2,532,520	168,969	2,686,341	11,151,083
Net assets, beginning of year	15,665,089	9,039,909	18,343,810	43,048,808	31,897,725
Net assets, end of year	<u>\$ 15,649,941</u>	<u>\$ 11,572,429</u>	<u>\$ 18,512,779</u>	<u>\$ 45,735,149</u>	<u>\$ 43,048,808</u>

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 Year Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 2,686,341	\$ 11,151,083
<i>Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities</i>		
Depreciation and amortization	814,291	577,719
Donated securities	(191,854)	(164,955)
Sale of property and equipment	-	2,148,240
Net appreciation in fair value of investments and assets held in trust	(3,126,234)	(1,358,359)
Decrease in accounts receivable	8,609	2,289
(Increase) decrease in contributions receivable	(1,253,168)	1,563,047
(Increase) decrease in other assets	(52,890)	6,338
Decrease in accrued pension liability	(109,295)	(850,712)
(Decrease) increase in accounts payable and accrued expenses	(1,516,587)	1,717,304
Net cash (used in) provided by operating activities	(2,740,787)	14,791,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments and assets held in trust	18,318,252	4,774,492
Purchases of investments and assets held in trust	(16,618,511)	(5,810,664)
Purchases of property and equipment	(228,698)	(17,017,217)
Net cash provided by (used in) investing activities	1,471,043	(18,053,389)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from mortgage	-	4,000,000
Repayment of mortgage	(105,329)	(60,149)
Net cash (used in) provided by financing activities	(105,329)	3,939,851
Net (decrease) increase in cash and cash equivalents	(1,375,073)	678,456
Cash and cash equivalents, beginning of year	7,178,773	6,500,317
Cash and cash equivalents, end of year	\$ 5,803,700	\$ 7,178,773
SUPPLEMENTAL DISCLOSURE		
In-kind contributions of securities and services	\$ 211,615	\$ 164,955
Cash paid for interest	\$ 130,609	\$ 86,125

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, 2014

NOTE 1 ORGANIZATION AND OPERATIONS

The accompanying consolidated financial statements include the financial position, changes in net assets and cash flows of 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, D.C. 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 U.S. (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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

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

Reclassifications

Certain accounts in the 2013 consolidated financial statements were reclassified to conform to the 2014 presentation.

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 for 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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

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

Contributions and Revenue Recognition *(continued)*

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.

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, 2014 and 2013, 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 or, if donated, at the estimated fair value on the date of the gift. 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. 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, 2014

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:* Unadjusted 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.

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, 2014

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

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. 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 \$92,753 and \$59,985 have been incurred for the years ended June 30, 2014 and 2013, 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, building improvement over 20 years 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.

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, 2014 and 2013.

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 statement of financial position as assets held in trust by others at the fair value of the Fund's share of the trust assets. Distributions from the trust are recorded as investment income and changes to the perpetual trusts' values are reported in the permanently restricted net asset class.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

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

Split-Interest Agreement

The Fund's interest in charitable remainder annuity trusts held by outside trustees is recognized in the accompanying consolidated statement 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 \$65,404 and \$59,369 at June 30, 2014 and 2013, 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, recognizing in the consolidated statement of activities the net gain or loss and net prior service cost or credit for the year, in addition to the net transition asset or obligation recognized as a component of net periodic benefit cost for the year. Any amounts not yet recognized as components of net periodic benefit cost are presented in the consolidated statement of financial position. 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. Currently, LDF does not match or make any contributions to this plan.

Income Tax

LDF and EWLTP both qualify as charitable organizations, as defined by 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, 2014

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

Income Tax *(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, 2014, 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 2011.

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, of which most provisions take effect July 1, 2014. The primary reforms of the New York Nonprofit Revitalization 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 adoption of the New York State Non-Profit Revitalization Act of 2013 did not have an effect on the Fund's consolidated financial statements or disclosures.

Summarized Financial Information

The amounts shown for the year ended June 30, 2013 in the accompanying consolidated financial statements are summarized totals that were included to provide a basis for comparison with 2014. Accordingly, the 2013 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, 2014

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, 2014 and 2013, approximately 97% of the Fund's cash and cash equivalents were held by two financial institutions.

NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2014 and 2013 were due as follows:

	2014	2013
Less than one year	\$ 2,723,356	\$ 1,194,071
One to five years	3,688	277,460
More than five years	8,206	10,551
	\$ 2,735,250	\$ 1,482,082

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, 2014 and 2013, respectively. The related discounts amounted to approximately \$31,000 for both years ended June 30, 2014 and 2013, respectively.

NOTE 5 INVESTMENTS

Investments as of June 30, 2014 and 2013 were as follows:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Cash equivalents	\$ 559,588	\$ 559,588	\$ 647,646	\$ 647,646
U.S. Government and agency obligations	2,502,627	2,517,594	2,589,748	2,625,301
Common stocks	3,010,651	2,744,688	36,969	38,621
Corporate bonds	1,225,666	1,231,311	1,285,858	1,300,380
Exchange-traded funds	17,559,092	14,768,343	18,975,372	17,807,878
Mutual funds	877,004	716,029	749,657	716,029
	\$25,734,628	\$22,537,553	\$24,285,250	\$ 23,135,855

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 6 FAIR VALUE MEASUREMENTS

At June 30, 2014, substantially all of the Fund's investments were held by two financial institutions.

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, 2014				
Cash equivalents	\$ 4,744,741	\$ -	\$ -	\$ 4,744,741
<i>Investments</i>				
Cash and cash equivalents	559,588	-	-	559,588
U.S. Government and agency obligations	2,502,627	-	-	2,502,627
Common stocks	3,010,651	-	-	3,010,651
Corporate bonds	1,225,666	-	-	1,225,666
Mutual funds	877,004	-	-	877,004
<i>Exchange-traded funds</i>				
Equities	10,624,719	-	-	10,624,719
Fixed income	4,780,898	-	-	4,780,898
Real estate	640,550	-	-	640,550
Hedge funds	1,126,796	-	-	1,126,796
Commodities	386,129	-	-	386,129
Subtotal	<u>25,734,628</u>	<u>-</u>	<u>-</u>	<u>25,734,628</u>
<i>Assets held in trust by others</i>				
Cash equivalents	11,976	2,204	-	14,180
Mutual funds—equities	605,489	-	-	605,489
Mutual funds—fixed income	22,485	-	-	22,485
Mutual funds—hedge funds	224,803	-	-	224,803
Mutual funds—commodities	66,264	-	-	66,264
<i>Common/collective trust funds</i>				
Equities ^(a)	-	500,590	-	500,590
Fixed income ^(a)	-	130,445	-	130,445
Real estate investment trusts	114,879	-	-	114,879
Subtotal	<u>1,045,896</u>	<u>633,239</u>	<u>-</u>	<u>1,679,135</u>
Total	<u>\$ 31,525,265</u>	<u>\$ 633,239</u>	<u>\$ -</u>	<u>\$ 32,158,505</u>

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

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, 2013				
Cash equivalents	\$ 6,751,760	\$ -	\$ -	\$ 6,751,760
<i>Investments</i>				
Cash and cash equivalents	647,646	-	-	647,646
U.S. Government and agency obligations	2,589,748	-	-	2,589,748
Common stocks	36,969	-	-	36,969
Corporate bonds	1,285,858	-	-	1,285,858
Mutual funds	749,657	-	-	749,657
<i>Exchange-traded funds</i>				
Equities	12,109,475	-	-	12,109,475
Fixed income	4,117,297	-	-	4,117,297
Real estate	1,176,698	-	-	1,176,698
Hedge funds	1,176,738	-	-	1,176,738
Commodities	395,164	-	-	395,164
Subtotal	<u>24,285,250</u>	<u>-</u>	<u>-</u>	<u>24,285,250</u>
<i>Assets held in trust by others</i>				
Cash equivalents	3,366	2,126	-	5,492
U.S. Government and agency obligations	50,515	-	-	50,515
Common stocks	575,688	-	-	575,688
Corporate bonds	50,070	-	-	50,070
Mutual funds—equities	-	45,763	-	45,763
Mutual funds—fixed income	149,404	11,480	-	160,884
Mutual funds—commodities	15,078	-	-	15,078
<i>Common/collective trust funds</i>				
Equities ^(a)	-	375,632	-	375,632
Fixed income ^(a)	-	158,325	-	158,325
Real estate investment trusts	72,719	-	-	72,719
Subtotal	<u>916,840</u>	<u>593,326</u>	<u>-</u>	<u>1,510,166</u>
Total	<u>\$ 31,953,850</u>	<u>\$ 593,326</u>	<u>\$ -</u>	<u>\$ 32,547,176</u>

(a)The Fund invests in equity, fixed-income, mutual fund, corporate bond, U.S. Government obligation, real estate investment trust and common/collective trust funds. The investment objective of the common collective funds is to provide total return through investments in a diversified portfolio of equity and investment-grade fixed-income securities. The net asset values (NAVs) of the funds are determined four times each month (“the valuation date”). Issuances and redemptions of the funds’ units are made on valuation dates based upon the NAV per unit. The fair value of this investment has been estimated using the NAV per share of the fund as of June 30, 2014 and 2013.

The assets held in trust by others comprise the perpetual trusts within the Fund’s permanently restricted net assets and are measured using prices in quoted market that are not active. Such assets presented under the Level 2 category are those held by the trustee for the sole benefit of the Fund. The assets presented under the Level 2 category represent the Fund’s portion in another trust shared with other beneficiaries valued using prices in markets that are not active. All other investments were valued using quoted prices in active market.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 7 PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2014 and 2013 was as follows:

	2014	2013
Condominium interest	\$ 15,698,348	\$ 15,576,560
Furniture, equipment, website and leasehold improvements	<u>2,122,484</u>	<u>2,175,770</u>
	17,820,832	17,752,330
<i>Less: Accumulated depreciation and amortization</i>	<u>(1,538,192)</u>	<u>(884,097)</u>
	<u>\$ 16,282,640</u>	<u>\$ 16,868,233</u>

Depreciation and amortization expenses were \$814,291 and \$577,719 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013:

	2014	2013
Unappropriated income of endowment assets	\$ 4,032,008	\$ 2,812,164
<i>Restricted as to the passage of time or purpose</i>		
Restricted for periods after June 30, 2014	3,149,718	2,523,726
Herbert Lehman education	1,379,349	1,386,432
Earl Warren legal training	258,308	204,813
Legal program	<u>2,753,046</u>	<u>2,112,774</u>
	<u>\$ 11,572,429</u>	<u>\$ 9,039,909</u>

**NAACP LEGAL DEFENSE AND
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Notes to Consolidated Financial Statements

For the Year Ended June 30, 2014

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

Net assets were released from donor restrictions in 2014 and 2013 by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	2014	2013
Released from temporarily restricted net assets due to due to appropriation of income from endowment assets	\$ 1,898,022	\$ 26,000
<i>Purpose restrictions met</i>		
Legal program	1,264,491	2,544,734
Herbert Lehman education (including fundraising expenses of \$41,753 and \$33,890, respectively)	451,963	496,609
Earl Warren legal training (including fundraising expenses of \$110)	22,326	82,154
Passage of time	454,511	2,926,016
	4,091,313	6,075,513
Released from permanent restrictions	-	9,616
	\$ 4,091,313	\$ 6,085,129

Permanently restricted net assets (including perpetual trusts held by outside trustees) totaled \$18,512,779 and \$18,343,810 at June 30, 2014 and 2013, 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:

	2014	2013
Unrestricted	\$ 14,307,059	\$ 14,307,059
Legal program	2,124,160	2,124,160
Scholarships	402,425	402,425
<i>Perpetual trusts</i>		
Scholarships	1,613,731	1,450,797
Unrestricted	65,404	59,369
	\$ 18,512,779	\$ 18,343,810

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 9 COMMITMENTS AND CONTINGENCIES

Lease Agreement

LDF leases office space in Washington, D.C. under a non-cancelable operating lease that expired in July 2013 but was extended for 10 years through July 2021.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 267,491
2016	274,178
2017	287,900
2018	295,722
2019	303,115
Thereafter	<u>655,744</u>
	<u>\$ 2,084,150</u>

Total rent expenses, including escalations, for the years ended June 30, 2014 and 2013, were \$317,015 and \$873,149, respectively.

Line of Credit Agreement

LDF maintains 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, 2014 and 2013, 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. On April 16, 2009, LDF's Board of Directors approved the Plan to be frozen as of July 1, 2009.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 10 PENSION PLAN *(continued)*

The following tables provide information about the Plan as of and for the years ended June 30, 2014 and 2013:

	2014	2013
Reconciliation of accumulated benefit obligation		
Obligation, beginning of year	\$ 7,983,280	\$ 8,505,163
Service cost	102,375	107,231
Interest cost	362,805	344,452
Actuarial loss (gain)	495,985	(689,041)
Benefit payments	<u>(487,648)</u>	<u>(284,525)</u>
Obligation, end of year	<u>\$ 8,456,797</u>	<u>\$ 7,983,280</u>

	2014	2013
Reconciliation of fair value of plan assets		
Fair value of plan assets, beginning of year	\$ 6,350,947	\$ 6,022,118
Actual return on plan assets	892,251	472,838
Employer contributions	178,209	140,516
Benefit payments	<u>(487,648)</u>	<u>(284,525)</u>
Fair value of plan assets, end of year	<u>\$ 6,933,759</u>	<u>\$ 6,350,947</u>

Funded status		
Funded status, end of year	<u>\$(1,523,038)</u>	<u>\$(1,632,333)</u>

At June 30, 2014 and 2013, the funded status of the Plan is reported in the consolidated statement of financial position as follows:

	2014	2013
Accrued pension liability	<u>\$ 1,523,038</u>	<u>\$ 1,632,333</u>

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

	2014	2013
Discount rate	4.25%	4.75%
Rate of compensation increase	Not applicable	Not applicable

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 10 PENSION PLAN *(continued)*

Amounts recognized in net unrestricted assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Net loss	\$ <u>3,463,562</u>	\$ <u>3,712,865</u>

Other credit in plan assets and benefit obligations recognized in unrestricted net assets in 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Net gain	25,922	\$ 811,027
Amortization of net loss	<u>223,381</u>	<u>300,921</u>
Total credit	\$ <u>249,303</u>	\$ <u>1,111,948</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 \$207,324, \$0 and \$0, respectively.

Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the Plan for 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 102,375	\$ 107,231
Interest cost	362,805	344,452
Expected return on plan assets	(370,344)	(350,852)
Amortization of net loss	<u>223,381</u>	<u>300,921</u>
Net periodic benefit cost	\$ <u>318,217</u>	\$ <u>401,752</u>

The prior service costs have been fully recognized as a result of the Plan being 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, 2014

NOTE 10 **PENSION PLAN** *(continued)*

Net Periodic Benefit Cost *(continued)*

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

	2014	2013
Weighted-average assumptions, as of June 30		
Discount rate	4.25%	4.75%
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 investment strategies are targeted 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 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, 2014

NOTE 10 PENSION PLAN (continued)

Plan Assets (continued)

The target allocation of plan assets and actual allocation at the end of 2014 and 2013, by asset category based on asset fair values, are as follows:

<u>Asset Category</u>	<u>2014 Target Allocation</u>	<u>2014 Actual Allocation</u>	<u>2013 Actual Allocation</u>
Cash and cash equivalents	2.0%	1.4%	3.5%
Equities	45.0%	46.9%	46.7%
Fixed income/debt securities	38.0%	39.5%	37.0%
<i>Exchange-traded funds</i>			
Real estate	3.0%	3.7%	4.9%
Hedge funds	9.0%	6.4%	5.0%
Commodities	3.0%	2.1%	2.9%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

	<u>2014</u>	<u>2013</u>
Investments		
Cash equivalents	\$ 98,538	\$ 217,518
U.S. Government and agency obligations	767,692	785,760
Corporate bonds	658,827	643,139
<i>Exchange-traded funds</i>		
Equities	3,216,868	2,917,126
Fixed income	1,279,231	886,272
Real estate	253,419	304,582
Hedge funds	440,643	313,722
Commodities	143,760	179,718
Total investments	6,858,978	6,247,837
Accrued interest on investments	11,839	11,641
Notes receivable from loan participants	62,942	91,469
Total plan assets	<u>\$ 6,933,759</u>	<u>\$ 6,350,947</u>

The Plan's investments as of June 30, 2014 and 2013 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.

**NAACP LEGAL DEFENSE AND
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Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 10 **PENSION PLAN** *(continued)*

Plan Assets *(continued)*

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.

Contributions

The minimum required contributions for the Plan years beginning July 1, 2013 and July 1, 2012 are \$151,128 and \$156,128, respectively. Cash contributions of \$156,128 were made during 2014 and an additional contribution of \$182,500 will be made by March 15, 2015 to meet the minimum required contribution for the plan year beginning July 1, 2013. The July 1, 2012 minimum required contribution was satisfied through cash contributions of \$140,516 during 2013, and an additional contribution of \$22,081 was made by March 15, 2014 to meet the minimum required contribution for the plan year beginning July 1, 2012.

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>
2015	\$ 355,923
2016	376,418
2017	375,561
2018	402,654
2019	407,458
2020-2024	2,464,504

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, 2014 and 2013, 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
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Notes to Consolidated Financial Statements

For the Year Ended June 30, 2014

NOTE 12 IN-KIND CONTRIBUTIONS

In fiscal years ended June 30, 2014 and 2013, 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:

	2014	2013
Marketable securities (recorded as investments)	\$ 191,854	\$ 164,955
Professional legal services	19,761	-
Total in-kind contributions	\$ 211,615	\$ 164,955

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.

**NAACP LEGAL DEFENSE AND
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Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 13 **ENDOWMENTS** *(continued)*

Interpretation of Relevant Law *(continued)*

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.

The changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended June 30, 2014				
Endowment net assets, beginning of year	\$ -	\$ 4,375,226	\$ 18,343,810	\$ 22,719,036
<i>Investment return</i>				
Investment income	-	599,215	-	599,215
Net realized/unrealized appreciation in value of investments	-	2,957,651	168,969	3,126,620
Appropriation for expenditure	-	(2,317,460)	-	(2,317,460)
Endowment net assets, end of year	\$ -	\$ 5,614,632	\$ 18,512,779	\$ 24,127,411
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Year ended June 30, 2013				
Endowment net assets, beginning of year	\$ -	\$ 3,067,430	\$ 18,266,042	\$ 21,333,472
<i>Investment return</i>				
Investment income	-	498,239	-	498,239
Net realized/unrealized appreciation in value of investments	-	1,272,596	87,384	1,359,980
Appropriation for expenditure	-	(463,039)	(9,616)	(472,655)
Endowment net assets, end of year	\$ -	\$ 4,375,226	\$ 18,343,810	\$ 22,719,036

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 13 **ENDOWMENTS** *(continued)*

Interpretation of Relevant Law *(continued)*

At June 30, 2014 and 2013, 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	\$ -	\$ -	\$ 18,512,779	\$ 18,512,779
Board-designated fund	-	5,614,632	-	5,614,632
Endowment net assets, June 30, 2014	<u>\$ -</u>	<u>\$ 5,614,632</u>	<u>\$ 18,512,779</u>	<u>\$ 24,127,411</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted fund	\$ -	\$ -	\$ 18,343,810	\$ 18,343,810
Board-designated fund	-	4,375,226	-	4,375,226
Endowment net assets, June 30, 2013	<u>\$ -</u>	<u>\$ 4,375,226</u>	<u>\$ 18,343,810</u>	<u>\$ 22,719,036</u>

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, 2014 and 2013.

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, the 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 7% annually. 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, 2014

NOTE 13 **ENDOWMENTS** *(continued)*

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowments are to be thought of as a permanent fund. As such, the investment objectives require disciplined and consistent management philosophies that accommodate all relevant, reasonable, and probable events. Therefore, a periodic review of total rate-of-return and spending rate objectives is required. Extreme positions or variations in management style are not consistent with these objectives. 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 **SALE AND PURCHASE OF CONDOMINIUM INTEREST**

On October 26, 2012, LDF sold its office condominium at 99 Hudson Street for \$18.5 million. LDF recorded a gain of \$15.8 million on the sale.

A portion of the proceeds, along with a mortgage of \$4 million (Note 15), was used to purchase an office condominium at 40 Rector Street on November 15, 2012, for approximately \$10.5 million. The condominium at 40 Rector Street was subsequently renovated to be used by LDF as its new headquarters.

NOTE 15 **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.

**NAACP LEGAL DEFENSE AND
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Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014

NOTE 15 **MORTGAGE NOTE PAYABLE** *(continued)*

Future minimum principal payments as of June 30, 2014 are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 108,973
2016	112,400
2017	116,634
2018	39,661
Thereafter	<u>3,456,854</u>
	<u>\$ 3,834,522</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, 2014, the Fund met this requirement.

NOTE 16 **SUBSEQUENT EVENTS**

The Fund evaluated events subsequent to June 30, 2014, through October 30, 2014, 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
As of June 30, 2014
(With Summarized Financial Information for 2013)

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	2014 Total	2013 Total
ASSETS				
Cash and cash equivalents	\$ 5,800,043	\$ 3,657	\$ 5,803,700	\$ 7,178,773
Accounts receivable	75,780	-	75,780	84,389
Contributions receivable	2,735,250	-	2,735,250	1,482,082
Amounts held in escrow	3,423	-	3,423	3,423
Investments	25,078,902	655,726	25,734,628	24,285,250
Other assets	329,955	-	329,955	277,065
Intercompany receivable (payable)	(1,350)	1,350	-	-
Property and equipment, net	16,264,290	18,350	16,282,640	16,868,233
Assets held in trust by others	1,679,135	-	1,679,135	1,510,166
Total assets	\$ 51,965,428	\$ 679,083	\$ 52,644,511	\$ 51,689,381
LIABILITIES AND NET ASSETS				
<i>Liabilities</i>				
Accounts payable and accrued expenses	\$ 1,548,379	\$ -	\$ 1,548,379	\$ 3,064,966
Mortgage payable	3,834,522	-	3,834,522	3,939,851
Accrued pension liability	1,523,038	-	1,523,038	1,632,333
Court awards and fees pending distribution	3,423	-	3,423	3,423
Total liabilities	6,909,362	-	6,909,362	8,640,573
<i>Net assets</i>				
<i>Unrestricted</i>				
Available for operations	3,201,823	-	3,201,823	2,736,707
Invested in property and equipment	12,429,768	18,350	12,448,118	12,928,382
Total unrestricted	15,631,591	18,350	15,649,941	15,665,089
Temporarily restricted	11,314,121	258,308	11,572,429	9,039,909
Permanently restricted	18,110,354	402,425	18,512,779	18,343,810
Total net assets	45,056,066	679,083	45,735,149	43,048,808
Total liabilities and net assets	\$ 51,965,428	\$ 679,083	\$ 52,644,511	\$ 51,689,381

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Consolidating Statement of Activities
For the Year Ended June 30, 2014
(With Summarized Financial Information for 2013)

	NAACP Legal Defense and Educational Fund, Inc.	Earl Warren Legal Training Program, Inc.	2014 Total	2013 Total
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 7,197,216	\$ 5,000	\$ 7,202,216	\$ 5,755,005
Combined Federal campaign	236,259	1,291	237,550	197,840
Bequests	773,748	-	773,748	202,886
Special events, net of direct donor benefits of \$264,957 and \$274,042, respectively	1,745,062	-	1,745,062	1,588,446
Court costs and attorney fees awarded	1,846,654	-	1,846,654	55,021
Net assets transferred to Earl Warren	(60,000)	60,000	-	-
Investment income, net of fees of \$92,753 and \$59,985, respectively	582,630	16,585	599,215	498,239
Gain on condominium interest	-	-	-	15,835,860
Net appreciation in fair value of investments	3,055,119	71,115	3,126,234	1,358,359
Total revenue, gains, and other support	<u>15,376,688</u>	<u>153,991</u>	<u>15,530,679</u>	<u>25,491,656</u>
EXPENSES				
<i>Program services</i>				
Legal	7,212,337	-	7,212,337	9,581,852
Public information	1,858,032	-	1,858,032	1,820,484
Herbert Lehman education	452,595	-	452,595	462,720
Earl Warren legal training	-	82,036	82,036	82,044
Total program services	<u>9,522,964</u>	<u>82,036</u>	<u>9,605,000</u>	<u>11,947,100</u>
<i>Supporting services</i>				
Fundraising	2,197,692	110	2,197,802	1,896,080
Management and general	1,290,839	-	1,290,839	1,609,341
Total supporting services	<u>3,488,531</u>	<u>110</u>	<u>3,488,641</u>	<u>3,505,421</u>
Total expense	<u>13,011,495</u>	<u>82,146</u>	<u>13,093,641</u>	<u>15,452,521</u>
Change in net assets before other charges	2,365,193	71,845	2,437,038	10,039,135
OTHER CHARGE				
Charge to pension benefit other than net periodic pension cost	249,303	-	249,303	1,111,948
Change in net assets	2,614,496	71,845	2,686,341	11,151,083
Net assets, beginning of year	42,441,570	607,238	43,048,808	31,897,725
Net assets, end of year	<u>\$ 45,056,066</u>	<u>\$ 679,083</u>	<u>\$ 45,735,149</u>	<u>\$ 43,048,808</u>

NAACP LEGAL DEFENSE AND EDUCATIONAL FUND, INC. AND AFFILIATE
Consolidated Schedule of Functional Expenses
For the Year Ended June 30, 2014
(With Summarized Financial Information for 2013)

Description	Program Services				Subtotal	Supporting Services			2014 Total Expenses	2013 Total Expenses
	Legal Programs	Public Information	Herbert Lehman	Earl Warren		Fundraising	Mgmt. and General	Subtotal		
Personnel costs										
Payroll	\$ 2,721,311	\$ 943,616	\$ 65,576	\$ 24,000	\$ 3,754,503	\$ 483,634	\$ 651,819	\$ 1,135,453	\$ 4,889,956	\$ 5,454,673
Benefits	994,347	281,508	20,723	6,000	1,302,578	144,282	194,457	338,739	1,641,317	1,708,358
Temporary help	69,486	1,148	-	-	70,634	627	1,036	1,663	72,297	56,894
Total personnel costs	3,785,144	1,226,272	86,299	30,000	5,127,715	628,543	847,312	1,475,855	6,603,570	7,219,925
Legal programs										
Court costs	16,386	-	-	-	16,386	-	-	-	16,386	21,349
Expert witness	113,561	-	-	-	113,561	-	-	-	113,561	11,782
Legal printing	8,409	-	-	-	8,409	-	-	-	8,409	4,425
Attorney conferences	235,049	-	-	-	235,049	-	-	-	235,049	232,488
Special research	236,596	-	-	-	236,596	-	-	-	236,596	148,664
Library	29,408	-	-	-	29,408	-	-	-	29,408	151,705
Bar association dues	14,906	-	-	-	14,906	-	-	-	14,906	20,915
Total legal programs	654,315	-	-	-	654,315	-	-	-	654,315	591,328
Other programs										
Scholarships/grants	-	-	314,000	39,000	353,000	-	-	-	353,000	1,580,003
Other expenses										
Photos/press release	27,463	19,625	-	-	47,088	16,653	641	17,294	64,382	65,910
Clipping service	-	-	-	-	-	-	-	-	-	4,648
List rental	-	-	-	-	-	12,908	-	12,908	12,908	5,974
Mail handling	-	-	-	-	-	15,691	-	15,691	15,691	11,911
Fundraising professionals	-	-	-	-	-	695,000	-	695,000	695,000	478,516
Insurance	57,960	23,406	1,552	-	82,918	12,776	16,030	28,806	111,724	113,522
Telephone	140,430	44,097	2,896	1,200	188,623	24,552	30,663	55,215	243,838	228,353
Occupancy expense	422,617	50,853	3,371	2,400	479,241	27,758	34,827	62,585	541,826	1,116,293
Bank charges	13,732	5,505	6,884	-	26,121	22,956	3,770	26,726	52,847	62,074
Storage	70,628	585	39	-	71,252	319	401	720	71,972	83,401
Mailing	25,105	1,752	622	-	27,479	107,295	1,813	109,108	136,587	142,328
Office supplies	50,551	12,697	1,936	-	65,184	13,432	12,398	25,830	91,014	83,144
Messenger services	1,601	368	-	-	1,969	2,336	215	2,551	4,520	3,040
Equipment repairs and maintenance	61,272	13,998	924	-	76,194	134,677	12,600	147,277	223,471	137,568
Utilities	36,164	14,298	948	300	51,710	7,804	9,792	17,596	69,306	133,062
Catering costs	107,373	5,083	119	-	112,575	22,568	3,005	25,573	138,148	133,967
Interest expense	68,784	27,777	1,841	-	98,402	15,162	19,024	34,186	132,588	86,125
Pledges receivable written off	-	-	-	-	-	-	-	-	-	181,964
Miscellaneous	58,664	7,957	673	-	67,294	50,616	7,910	58,526	125,820	215,254
Photocopying	67,838	16,694	1,107	300	85,939	9,112	11,433	20,545	106,484	128,482
Meetings and travel	538,413	29,014	3,063	-	570,490	58,404	8,701	67,105	637,595	625,722
Service bureau	2,050	828	55	-	2,933	452	13,038	13,490	16,423	15,800
IT professionals	167,759	60,616	9,500	-	237,875	52,979	41,515	94,494	332,369	407,848
Professional fees	418,192	127,426	1,589	1,500	548,707	20,357	99,884	120,241	668,948	925,692
Printing	17,103	363	3,985	-	21,451	153,304	249	153,553	175,004	92,948
Amortization	138,414	55,436	3,675	-	197,525	30,259	37,966	68,225	265,750	153,909
Depreciation	280,765	113,382	7,517	7,336	409,000	61,889	77,652	139,541	548,541	423,810
Total other expenses	2,772,878	631,760	52,296	13,036	3,469,970	1,569,259	443,527	2,012,786	5,482,756	6,061,265
Total expenses	\$ 7,212,337	\$ 1,858,032	\$ 452,595	\$ 82,036	\$ 9,605,000	\$ 2,197,802	\$ 1,290,839	\$ 3,488,641	\$ 13,093,641	\$ 15,452,521