

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

**Combined Financial Statements and
Additional Information
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)
With Report of Independent Auditors**

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
June 30, 2012
(With Comparative Totals for 2011)

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REPORT OF INDEPENDENT AUDITORS

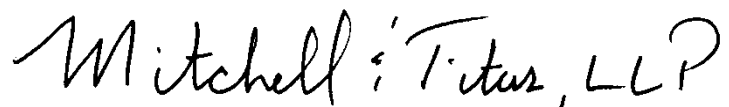
The Board of Directors
NAACP Legal Defense and Educational Fund, Inc.

We have audited the accompanying combined statement of financial position of NAACP Legal Defense and Educational Fund, Inc. and Affiliate (the Fund) as of June 30, 2012, and the related combined statements of activities and of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year summarized comparative information has been derived from the Fund's 2011 financial statements, and in our report dated October 26, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of NAACP Legal Defense and Educational Fund, Inc. and Affiliate as of June 30, 2012, and the changes in their combined net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statement of financial position, combining statement of activities, and the combined statement of functional expenses are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

A handwritten signature in black ink that reads "Mitchell & Titus, LLP".

October 25, 2012

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

Combined Statement of Financial Position

As of June 30, 2012

(With Comparative Figures for 2011)

| | 2012 | 2011 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 6,500,317 | \$ 2,868,018 |
| Accounts receivable | 86,678 | 73,938 |
| Contributions receivable | 3,045,129 | 4,532,992 |
| Amounts held in escrow | 3,423 | 3,425 |
| Investments | 21,813,148 | 22,854,747 |
| Other assets | 283,403 | 300,827 |
| Property and equipment, net | 2,576,975 | 2,651,575 |
| Assets held in trust by others | 1,422,782 | 1,475,992 |
| Total assets | \$ 35,731,855 | \$ 34,761,514 |
| LIABILITIES AND NET ASSETS | | |
| <i>Liabilities</i> | | |
| Accounts payable and accrued expenses | \$ 1,347,662 | \$ 1,274,829 |
| Accrued pension liability | 2,483,045 | 1,048,929 |
| Court awards and fees pending distribution | 3,423 | 3,425 |
| Total liabilities | 3,834,130 | 2,327,183 |
| <i>Net assets</i> | | |
| <i>Unrestricted</i> | | |
| Available for operations | 33,548 | 561,130 |
| Invested in property and equipment | 2,576,975 | 2,651,575 |
| Total unrestricted | 2,610,523 | 3,212,705 |
| Temporarily restricted | 11,021,160 | 10,793,458 |
| Permanently restricted | 18,266,042 | 18,428,168 |
| Total net assets | 31,897,725 | 32,434,331 |
| Total liabilities and net assets | \$ 35,731,855 | \$ 34,761,514 |

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

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Combined Statement of Activities
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

| | 2012 | | | Total | 2011 Total |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| REVENUE, GAINS, AND OTHER SUPPORT | | | | | |
| Contributions | \$ 5,992,925 | \$ 6,033,781 | \$ - | \$ 12,026,706 | \$ 6,623,560 |
| Combined Federal campaign | 271,758 | 3,256 | - | 275,014 | 249,866 |
| Bequests | 268,749 | 2,445 | - | 271,194 | 1,704,553 |
| Special events, net of direct donor benefits of \$268,156 and \$356,530, respectively | 2,061,487 | 54,050 | - | 2,115,537 | 2,715,251 |
| Court costs and attorney fees awarded | 1,522,459 | - | - | 1,522,459 | 70,419 |
| Investment income, net of fees of \$54,531 and \$55,004 , respectively | - | 592,925 | - | 592,925 | 644,334 |
| Net (depreciation) appreciation in fair value of investments | (359) | (526,696) | (53,210) | (580,265) | 1,966,401 |
| Net assets released from restrictions | 6,040,975 | (5,932,059) | (108,916) | - | - |
| Total revenue, gains, and other support | <u>16,157,994</u> | <u>227,702</u> | <u>(162,126)</u> | <u>16,223,570</u> | <u>13,974,384</u> |
| EXPENSES | | | | | |
| <i>Program services</i> | | | | | |
| Legal | 9,398,400 | - | - | 9,398,400 | 6,672,595 |
| Public information | 1,939,910 | - | - | 1,939,910 | 2,159,677 |
| Herbert Lehman education | 520,112 | - | - | 520,112 | 526,120.00 |
| Earl Warren legal training | 73,896 | - | - | 73,896 | 70,499 |
| Total program services | <u>11,932,318</u> | <u>-</u> | <u>-</u> | <u>11,932,318</u> | <u>9,428,891</u> |
| <i>Supporting services</i> | | | | | |
| Fundraising | 2,179,983 | - | - | 2,179,983 | 2,245,974 |
| Management and general | 1,448,800 | - | - | 1,448,800 | 1,341,634 |
| Total supporting services | <u>3,628,783</u> | <u>-</u> | <u>-</u> | <u>3,628,783</u> | <u>3,587,608</u> |
| Total expenses | <u>15,561,101</u> | <u>-</u> | <u>-</u> | <u>15,561,101</u> | <u>13,016,499</u> |
| Change in net assets before other credits (charges) | 596,893 | 227,702 | (162,126) | 662,469 | 957,885 |
| OTHER CREDIT (CHARGE) | | | | | |
| (Charge) credit for pension benefit other than net periodic pension cost | (1,199,075) | - | - | (1,199,075) | 707,999 |
| Changes in net assets | (602,182) | 227,702 | (162,126) | (536,606) | 1,665,884 |
| Net assets, beginning of year | 3,212,705 | 10,793,458 | 18,428,168 | 32,434,331 | 30,768,447 |
| Net assets, end of year | <u>\$ 2,610,523</u> | <u>\$ 11,021,160</u> | <u>\$ 18,266,042</u> | <u>\$ 31,897,725</u> | <u>\$ 32,434,331</u> |

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

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

Combined Statement of Cash Flows

For the Year Ended June 30, 2012

(With Comparative Figures for 2011)

| | 2012 | 2011 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ (536,606) | \$ 1,665,884 |
| <i>Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities</i> | | |
| Depreciation and amortization | 352,151 | 395,610 |
| Donated securities | (38,040) | (147,455) |
| Donated property and equipment | (83,000) | - |
| Net depreciation (appreciation) in fair value of investments | 580,265 | (1,966,401) |
| (Increase) decrease in accounts receivable | (12,740) | 59,006 |
| Decrease (increase) in contributions receivable | 1,487,863 | (2,229,975) |
| Decrease in other assets | 17,424 | 16,726 |
| Increase (decrease) in accrued pension liability | 1,434,116 | (319,583) |
| Decrease in amounts held in escrow | 2 | 27,059 |
| Increase in accounts payable and accrued expenses | 72,833 | 111,188 |
| Decrease in court awards and fees pending distribution | (2) | (27,059) |
| Permanently restricted public support received | - | (27,691) |
| | 3,274,266 | (2,442,691) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 3,360,971 | 19,843,342 |
| Purchases of investments | (2,808,387) | (19,534,698) |
| Purchases of property and equipment | (194,551) | (118,012) |
| | 358,033 | 190,632 |
| CASH FLOWS FROM FINANCING ACTIVITY | | |
| Permanently restricted public support received | - | 27,691 |
| | 3,632,299 | (2,224,368) |
| Net increase (decrease) in cash and cash equivalents | | |
| Cash and cash equivalents, beginning of year | 2,868,018 | 5,092,386 |
| Cash and cash equivalents, end of year | \$ 6,500,317 | \$ 2,868,018 |
| SUPPLEMENTAL DISCLOSURE | | |
| In-kind contributions of goods and services expensed by the Fund | \$ 121,040 | \$ 147,455 |

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

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

NOTE 1 ORGANIZATION

Organization and Principles of Combination

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

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 to meet the dire need of minority clients for skilled and knowledgeable attorneys.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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 combined 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 Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

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

Reclassifications

Certain accounts in the 2011 financial statements were reclassified to conform to the 2012 presentation.

Net Asset Classification

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

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

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

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

Cash and Cash Equivalents

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

Contributions and Revenue Recognition

Contributions, which include unconditional promises to give, are recognized as revenue in the period received at fair value. The fair value of long-term contributions receivables is measured based on the present value of future cash flows, with consideration of 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 Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

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. Expirations 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, 2012 and 2011, no allowance for doubtful accounts was deemed required.

In-kind Contributions

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

Investments

The Fund's investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). See Note 6 for further discussion and disclosures related to fair value measurements.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

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

Investments *(continued)*

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:* Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market that the Plan has the ability to access at the measurement date.

- Level 2:* Fair value is based on 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:* Fair value is based on prices or valuation techniques that require inputs that are both significant to the fair value measurements and unobservable. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the investment and are based on the best available information, some of which may be internally developed.

The 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 and sold as well as held during the year.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

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

New Accounting Pronouncements

Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, amended certain of the disclosures required under ASC 820. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances, and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed for reporting periods beginning after December 15, 2010, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. Since ASU 2010-06 only affects fair value measurement disclosures, the adoption of ASU 2010-06 did not affect the Fund’s combined financial position or changes in net assets.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amended ASC 820, *Fair Value Measurement*, to converge the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures, although certain of these new disclosures will not be required for non-public entities. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Fund’s management is currently evaluating the effect that ASU 2011-04’s provisions will have on the Fund’s financial statements.

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

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

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 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, 2012.

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

Split-Interest Agreement

The Fund's interest in charitable remainder annuity trusts held by outside trustees is recognized in the accompanying combined statement of financial position as assets held in trust by others at the estimated present value of amounts to be received upon termination of the trusts of \$59,404 in 2012 and \$59,162 in 2011. Annual adjustments to present value amounts are recognized as gains or losses in the permanently restricted net asset class.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

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

Court Costs and Attorney Fees Awarded

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

Defined Benefit Pension Plan

LDF's defined benefit pension Plan is presented on a funded-status basis, recognizing in the combined statement of activities the net gain or loss and net prior service cost or credit for the year, in addition to the net transition asset or obligation recognized as a component of net periodic benefit cost for the period. Any amounts not yet recognized as components of net periodic benefit cost are presented in the combined 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.

Management has analyzed the tax positions taken by these entities and has concluded that as of June 30, 2012, there were no uncertain tax positions taken or are expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying combined financial statements.

LDF and EWLTP are subject to audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that both entities are no longer subject to income tax examinations for years ended on or prior to June 30, 2008 under Federal and New York tax jurisdictions.

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

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, 2012 and 2011, approximately 97.5% and 95.0% of the Fund's cash and cash equivalents were held by three financial institutions, respectively.

NOTE 4 CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2012 and 2011 were due as follows:

| | <u>2012</u> | <u>2011</u> |
|----------------------|---------------------|---------------------|
| Less than one year | \$ 2,877,503 | \$ 4,446,897 |
| One to five years | 157,075 | 75,228 |
| More than five years | <u>10,551</u> | <u>10,867</u> |
| | <u>\$ 3,045,129</u> | <u>\$ 4,532,992</u> |

Those receivables that are due in more than one year have been discounted to their present value using discount rates ranging from 4% to 12% per year. The related discounts amounted to approximately \$31,000 and \$34,000 at June 30, 2012 and 2011, respectively.

NOTE 5 INVESTMENTS

Investments as of June 30, 2012 and 2011 were as follows:

| | <u>2012</u> | | <u>2011</u> | |
|---|---------------------|---------------------|---------------------|---------------------|
| | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Cash and cash equivalents | \$ 524,052 | \$ 524,052 | \$ 540,993 | \$ 540,993 |
| U.S. government and agency obligations | 2,815,728 | 2,739,084 | 2,766,300 | 2,612,401 |
| Common stocks | 4,889 | 5,186 | 5,265 | 4,960 |
| Corporate bonds | 599,592 | 587,216 | 1,180,884 | 1,152,868 |
| Exchange-traded funds | 17,193,130 | 17,630,706 | 17,706,451 | 17,525,662 |
| Mutual funds | <u>675,757</u> | <u>686,252</u> | <u>654,854</u> | <u>659,045</u> |
| | <u>\$21,813,148</u> | <u>\$22,172,496</u> | <u>\$22,854,747</u> | <u>\$22,495,929</u> |

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

NOTE 5 INVESTMENTS *(continued)*

The following schedule summarizes the net appreciation (depreciation in fair value of investments in the statement of activities:

| | 2012 | 2011 |
|---|--------------|--------------|
| Realized gains | \$ 98,213 | \$ 2,140,126 |
| Unrealized losses | (678,478) | (173,725) |
| Net (depreciation) appreciation in fair value of investments | \$ (580,265) | \$ 1,966,401 |

NOTE 6 FAIR VALUE MEASUREMENTS

At June 30, 2012, substantially all of the Fund's investments were held by two financial institutions.

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

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|---------------|
| As of June 30, 2012 | | | | |
| Cash equivalents | \$ 5,844,980 | \$ - | \$ - | \$ 5,844,980 |
| <i>Investments</i> | | | | |
| Cash and cash equivalents | 524,052 | - | - | 524,052 |
| U.S. government and agency obligations | 2,815,728 | - | - | 2,815,728 |
| Common stocks | 4,889 | - | - | 4,889 |
| Corporate bonds | 599,592 | - | - | 599,592 |
| Mutual funds | 675,757 | - | - | 675,757 |
| <i>Exchange-traded funds</i> | | | | |
| Equities | 10,325,012 | - | - | 10,325,012 |
| Fixed income | 4,478,142 | - | - | 4,478,142 |
| Real estate | 739,142 | - | - | 739,142 |
| Hedge funds | 1,085,868 | - | - | 1,085,868 |
| Commodities | 564,966 | - | - | 564,966 |
| Sub total | 21,813,148 | - | - | 21,813,148 |
| <i>Assets held in trust by others</i> | | | | |
| Cash equivalents | (25,369) | 1,176 | - | (24,193) |
| Mutual funds—equities | 513,562 | 42,014 | - | 555,576 |
| Mutual funds—fixed income | 304,158 | 16,214 | - | 320,372 |
| <i>Common/collective trust funds</i> | | | | |
| Equities ^(a) | - | 339,061 | - | 339,061 |
| Fixed income ^(a) | - | 160,901 | - | 160,901 |
| Real estate investment trusts | 71,065 | - | - | 71,065 |
| Subtotal | 863,416 | 559,366 | - | 1,422,782 |
| Total | \$ 28,521,544 | \$ 559,366 | \$ - | \$ 29,080,910 |

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

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, 2011 | | | | |
| Cash equivalents | \$ 2,609,086 | \$ - | \$ - | \$ 2,609,086 |
| <i>Investments</i> | | | | |
| Cash equivalents | 540,993 | - | - | 540,993 |
| U.S. government and agency obligations | 2,766,300 | - | - | 2,766,300 |
| Common stock | 5,265 | - | - | 5,265 |
| Corporate bonds | 1,180,884 | - | - | 1,180,884 |
| Mutual funds-equities | 654,854 | - | - | 654,854 |
| <i>Exchange-traded funds</i> | | | | |
| Equities | 10,981,041 | - | - | 10,981,041 |
| Fixed income | 4,323,608 | - | - | 4,323,608 |
| Real estate | 670,921 | - | - | 670,921 |
| Hedge funds | 1,097,799 | - | - | 1,097,799 |
| Commodities | 633,082 | - | - | 633,082 |
| Sub total | <u>22,854,747</u> | <u>-</u> | <u>-</u> | <u>22,854,747</u> |
| <i>Assets held in trust by others</i> | | | | |
| Cash equivalents | 5,210 | 1,490 | - | 6,700 |
| Mutual funds—equities | 512,626 | 34,483 | - | 547,109 |
| Mutual funds—fixed income | 306,669 | 23,189 | - | 329,858 |
| <i>Common/collective trust funds</i> | | | | |
| Equities ^(a) | - | 374,730 | - | 374,730 |
| Fixed income ^(a) | - | 158,304 | - | 158,304 |
| Real estate investment trusts | 59,291 | - | - | 59,291 |
| Subtotal | <u>883,796</u> | <u>592,196</u> | <u>-</u> | <u>1,475,992</u> |
| Total | <u>\$ 26,337,625</u> | <u>\$ 592,196</u> | <u>\$ -</u> | <u>\$ 26,929,821</u> |

(a)The Plan invests in equity and fixed income common/collective trust funds. The investment objective of these 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 (“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 June 30, 2012 and 2011.

The assets held in trust by others comprise the perpetual trusts within the Fund’s permanently restricted net assets and are measured using Level 1 fair value inputs. Such assets presented under the Level 1 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.

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

NOTE 7 PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2012 and 2011 was as follows:

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Condominium interest | \$ 4,094,689 | \$ 4,094,689 |
| Furniture and equipment | 1,309,863 | 1,273,803 |
| | 5,404,552 | 5,368,492 |
| <i>Less: Accumulated depreciation and amortization</i> | <i>(2,827,577)</i> | <i>(2,716,917)</i> |
| | \$ 2,576,975 | \$ 2,651,575 |

Depreciation and amortization expenses were \$352,151 and \$395,610 for the years ended June 30, 2012 and 2011, respectively.

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

Temporarily restricted net assets were available for the following purposes or period at June 30, 2012 and 2011:

| | 2012 | 2011 |
|--|----------------------|----------------------|
| Unappropriated income of endowment assets | \$ 1,276,657 | \$ 4,059,447 |
| <i>Restricted as to the passage of time or purpose</i> | | |
| Restricted for periods after June 30, 2012 | 4,892,858 | 1,823,515 |
| Herbert Lehman education | 1,483,955 | 1,778,083 |
| Earl Warren legal training | 230,565 | 204,530 |
| Legal program | 3,137,125 | 2,927,883 |
| | \$ 11,021,160 | \$ 10,793,458 |

Net assets were released from donor restrictions in 2012 and 2011 by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Released from temporarily restricted net assets | | |
| Appropriation of income of endowment assets | \$ 2,764,092 | \$ 774,015 |
| <i>Purpose restriction met</i> | | |
| Legal program | 1,981,871 | 1,274,662 |
| Herbert Lehman education (including fundraising expenses of \$40,578 and \$41,573, respectively) | 560,687 | 572,822 |
| Earl Warren legal training (including fundraising expenses of \$0 and \$203, respectively) | 73,896 | 70,907 |
| Passage of time | 551,513 | 462,277 |
| | 5,932,059 | 3,154,683 |
| Released from permanent restrictions | 108,916 | 66,893 |
| | \$ 6,040,975 | \$ 3,221,576 |

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

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

Permanently restricted net assets (including perpetual trusts held by outside trustees) totaled to \$18,266,042 and \$18,428,168 at June 30, 2012 and 2011, respectively. These are categorized as follows based on the purposes for which the related investment income may be used pursuant to respective donors' stipulations:

| | 2012 | 2011 |
|-------------------------|----------------------|----------------------|
| Unrestricted | \$ 14,316,675 | \$ 14,425,591 |
| Legal program | 2,124,160 | 2,124,160 |
| Scholarships | 402,425 | 402,425 |
| <i>Perpetual trusts</i> | | |
| Scholarships | 1,363,379 | 1,416,830 |
| Unrestricted | 59,403 | 59,162 |
| | \$ 18,266,042 | \$ 18,428,168 |

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 2012 but was extended for 10 years through July 2021.

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

| Year Ending June 30 | Amount |
|----------------------------|---------------------|
| 2013 | \$ 254,602 |
| 2014 | 260,967 |
| 2015 | 267,491 |
| 2016 | 274,178 |
| 2017 | 287,900 |
| Thereafter | 1,254,581 |
| | \$ 2,599,719 |

Total rent expenses, including escalations, for the year ended June 30, 2012 and 2011, were \$165,932 and \$261,275, respectively.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

NOTE 9 COMMITMENTS AND CONTINGENCIES *(continued)*

Line of Credit Agreement

LDF maintains an annually renewable line of credit agreement with a financial institution in the amount of \$2 million. Advances drawn from the line of credit bear interest, generally at the rate of 3% above at the prime rate. As of June 30, 2012 and 2011, there was no outstanding balance. No fees are payable under the agreement.

NOTE 10 PENSION PLAN

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

The following table provides information about the Plan as of and for the years ended June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|--|----------------------|----------------------|
| Reconciliation of benefit obligation | | |
| Obligation at beginning of year | \$ 7,096,640 | \$ 7,145,298 |
| Service cost | 107,888 | 107,756 |
| Interest cost | 373,707 | 362,476 |
| Actuarial loss (gain) | 1,227,505 | (231,747) |
| Benefit payments | <u>(300,577)</u> | <u>(287,143)</u> |
| Obligation at end of year | <u>\$ 8,505,163</u> | <u>\$ 7,096,640</u> |
| | | |
| | <u>2012</u> | <u>2011</u> |
| Reconciliation of fair value of Plan assets | | |
| Fair value of Plan assets at beginning of year | \$ 6,047,711 | \$ 5,776,786 |
| Actual return on Plan assets | 169,984 | 558,068 |
| Employer contributions | 105,000 | - |
| Benefit payments | <u>(300,577)</u> | <u>(287,143)</u> |
| Fair value of Plan assets at end of year | <u>\$ 6,022,118</u> | <u>\$ 6,047,711</u> |
| | | |
| Funded status | | |
| Funded status at end of year | <u>\$(2,483,045)</u> | <u>\$(1,048,929)</u> |

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

NOTE 10 PENSION PLAN *(continued)*

At June 30, 2012 and 2011, the funded status of the Plan is reported in the combined statement of financial position as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------|-------------|-------------|
| Accrued pension liability | \$2,483,045 | \$1,048,929 |

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

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|----------------|----------------|
| Discount rate | 4.25% | 5.50% |
| Rate of compensation increase | Not applicable | Not applicable |

Amounts recognized in net unrestricted assets consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|----------|--------------------|--------------------|
| Net loss | <u>\$4,824,813</u> | <u>\$3,625,738</u> |

Other charge (credit) in Plan assets and benefit obligations recognized in unrestricted net assets in 2012 and 2011 consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|--------------------|---------------------|
| Net loss (gain) | \$1,410,287 | \$ (457,202) |
| Amortization of net loss | <u>(211,212)</u> | <u>(250,797)</u> |
| Total charge (credit) | <u>\$1,199,075</u> | <u>\$ (707,999)</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 \$(294,066), \$0 and \$0, respectively.

**NAACP LEGAL DEFENSE AND
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Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

NOTE 10 PENSION PLAN *(continued)*

Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the Plan for 2012 and 2011:

| | 2012 | 2011 |
|--------------------------------|-------------------|-------------------|
| Service cost | \$ 107,888 | \$ 107,756 |
| Interest cost | 373,707 | 362,476 |
| Expected return on plan assets | (352,766) | (332,613) |
| Amortization of net loss | <u>211,212</u> | <u>250,797</u> |
| Net periodic benefit cost | <u>\$ 340,041</u> | <u>\$ 388,416</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:

| | 2012 | 2011 |
|---|----------------|----------------|
| Weighted-average assumptions as of June 30 | | |
| Discount rate | 4.25% | 5.50% |
| 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 for its retirement plans based on ranges of anticipated rates of return for each asset class. The Plan considers the expected rate of return to be a longer-term assessment of return expectations and does not anticipate changing this assumption annually, unless there are significant changes in economic conditions.

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

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

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

Plan Assets *(continued)*

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.

The target allocation of Plan assets and actual allocation at the end of 2012 and 2011, by asset category based on asset fair values, are as follows:

| Asset Category | 2012 Target Allocation | 2012 Actual Allocation | 2011 Actual Allocation |
|------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Cash and cash equivalents | 2.0% | 1.4% | 1.6% |
| Equities | 45.0% | 43.0% | 44.4% |
| Fixed income/debt securities | 38.0% | 42.2% | 40.7% |
| <i>Exchange-traded funds</i> | | | |
| Real estate | 3.0% | 5.0% | 4.6% |
| Hedge funds | 9.0% | 4.4% | 4.3% |
| Commodities | 3.0% | 4.0% | 4.4% |
| | 100.0% | 100.0% | 100.0% |

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

NOTE 10 PENSION PLAN *(continued)*

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

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Investments | | |
| Cash equivalents | \$ 82,422 | \$ 95,995 |
| U.S. government and agency obligations | 811,385 | 821,475 |
| Corporate bonds | 636,949 | 534,274 |
| <i>Exchange-traded funds</i> | | |
| Equities | 2,540,556 | 2,680,140 |
| Fixed income | 1,044,242 | 1,001,947 |
| Real estate | 293,142 | 276,475 |
| Hedge funds | 262,295 | 262,677 |
| Commodities | 235,453 | 263,841 |
| Total investments | 5,906,444 | 5,936,824 |
| Accrued interest on investments | 12,639 | 13,147 |
| Notes receivable from loan participants | 103,035 | 97,740 |
| Total Plan assets | \$ 6,022,118 | \$ 6,047,711 |

The Plan's investments as of June 30, 2012 and 2011 are carried at fair value based on quoted market price in active markets and are all classified as Level 1 in accordance with the fair value hierarchy described in Note 2.

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

Contributions

The minimum required contributions for the Plan years beginning July 1, 2011 and July 1, 2010 are \$319,789 and \$105,000, respectively. The July 1, 2011 minimum required contribution was satisfied through cash contributions made during 2012 of \$105,000 and the application of \$217,050 of the Plan's carryover and prefunding balances. The July 1, 2010 minimum required contribution was satisfied through the application of \$105,000 of the Plan's carryover and prefunding balances.

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

NOTE 10 PENSION PLAN *(continued)*

Expected Future Benefit Payments

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

| | |
|-----------|------------|
| 2013 | \$ 348,604 |
| 2014 | 354,868 |
| 2015 | 358,486 |
| 2016 | 377,127 |
| 2017 | 376,810 |
| 2018-2022 | 2,271,865 |

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, 2012 and 2011, LDF held in escrow \$3,423 and \$3,425, respectively, for members of the class and participating attorneys. The escrow amounts are invested in checking or money market accounts.

NOTE 12 IN-KIND CONTRIBUTIONS

In fiscal years ended June 30, 2012 and 2011, the Fund received the following in-kind contributions, which were recognized as contributions in the accompanying combined statement of activities at fair value on the date of receipt:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Marketable securities (recorded as investments) | \$ 38,040 | \$ 147,455 |
| Property and equipment | 83,000 | - |
| Total in-kind contributions | <u>\$ 121,040</u> | <u>\$ 147,455</u> |

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

Notes to Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

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. LDF'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 as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) the original value of subsequent gifts to the permanent endowment; and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is characterized as temporarily restricted. It should be noted, however, that under NYPMIFA, the Fund is entitled to appropriate for expenditure endowment funds, whether here characterized as "permanently restricted" or "temporarily restricted," except where inconsistent with the intent of the donor expressed in the gift instrument.

In accordance with state law, the Fund considers the following factors in making a determination to appropriate or calculate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund;
2. The purposes of the Fund and the endowment fund;
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 Combined Financial Statements

June 30, 2012

(With Comparative Information for 2011)

NOTE 13 ENDOWMENTS *(continued)*

The changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Year ended June 30, 2012 | | | | |
| Endowment net assets at beginning of year | \$ - | \$ 6,039,978 | \$ 18,428,168 | \$ 24,468,146 |
| <i>Investment return</i> | | | | |
| Investment income | - | 591,779 | - | 591,779 |
| Net realized/unrealized depreciation in value of investments | - | (526,696) | (53,210) | (579,906) |
| Appropriation for expenditure | - | (3,037,631) | (108,916) | (3,146,547) |
| Endowment net assets at end of year | <u>\$ -</u> | <u>\$ 3,067,430</u> | <u>\$ 18,266,042</u> | <u>\$ 21,333,472</u> |
| | | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Year ended June 30, 2011 | | | | |
| Endowment net assets at beginning of year | \$ - | \$ 4,545,338 | \$ 18,284,636 | \$ 22,829,974 |
| <i>Investment return</i> | | | | |
| Investment income | - | 514,648 | - | 514,648 |
| Net realized/unrealized depreciation in value of investments | - | 1,901,295 | 182,734 | 2,084,029 |
| Contributions | - | - | 27,691 | 27,691 |
| Appropriation for expenditure | - | (921,303) | (66,893) | (988,196) |
| Endowment net assets at end of year | <u>\$ -</u> | <u>\$ 6,039,978</u> | <u>\$ 18,428,168</u> | <u>\$ 24,468,146</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, 2012 and 2011.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

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

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 to preserve 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.

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 market 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.

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Notes to Combined Financial Statements
June 30, 2012
(With Comparative Information for 2011)

NOTE 14 SUBSEQUENT EVENTS

The Fund evaluated events subsequent to June 30, 2012, through October 25, 2012, the date the combined financial statements were available to be issued, and determined that there were no subsequent events that required disclosure, except for the following:

In August 2012, LDF entered into an agreement to sell its condominium offices at 99 Hudson Street in New York City. LDF also entered into an agreement to purchase an office condominium. Management anticipates closing both deals by October 31, 2012.

SUPPLEMENTAL INFORMATION

**NAACP LEGAL DEFENSE AND
EDUCATIONAL FUND, INC. AND AFFILIATE**
Combining Statement of Financial Position
As of June 30, 2012

| | NAACP Legal Defense and Educational Fund, Inc. | Earl Warren Legal Training Program, Inc. | Total |
|--|---|---|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 6,474,906 | \$ 25,411 | \$ 6,500,317 |
| Accounts receivable | 86,678 | - | 86,678 |
| Contributions receivable | 3,045,129 | - | 3,045,129 |
| Amounts held in escrow | 3,423 | - | 3,423 |
| Investments | 21,238,528 | 574,620 | 21,813,148 |
| Other assets | 283,403 | - | 283,403 |
| Intercompany receivable (payable) | 71 | (71) | - |
| Property and equipment, net | 2,543,945 | 33,030 | 2,576,975 |
| Assets held in trust by others | 1,422,782 | - | 1,422,782 |
| Total assets | \$ 35,098,865 | \$ 632,990 | \$ 35,731,855 |
| LIABILITIES AND NET ASSETS | | | |
| <i>Liabilities</i> | | | |
| Accounts payable and accrued expenses | \$ 1,347,662 | \$ - | \$ 1,347,662 |
| Accrued pension liability | 2,483,045 | - | 2,483,045 |
| Court awards and fees pending distribution | 3,423 | - | 3,423 |
| Total liabilities | 3,834,130 | - | 3,834,130 |
| <i>Net assets</i> | | | |
| <i>Unrestricted</i> | | | |
| Available for operations | 33,548 | - | 33,548 |
| Invested in property and equipment | 2,543,945 | 33,030 | 2,576,975 |
| Total unrestricted | 2,577,493 | 33,030 | 2,610,523 |
| Temporarily restricted | 10,823,625 | 197,535 | 11,021,160 |
| Permanently restricted | 17,863,617 | 402,425 | 18,266,042 |
| Total net assets | 31,264,735 | 632,990 | 31,897,725 |
| Total liabilities and net assets | \$ 35,098,865 | \$ 632,990 | \$ 35,731,855 |

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

Combining Statement of Activities
For the Year Ended June 30, 2012

| | NAACP Legal Defense and Educational Fund, Inc. | Earl Warren Legal Training Program, Inc. | Total |
|---|---|---|----------------------|
| REVENUES, GAINS, AND OTHER SUPPORT | | | |
| Contributions | \$ 11,942,906 | \$ 83,800 | \$ 12,026,706 |
| Combined Federal campaign | 271,758 | 3,256 | 275,014 |
| Bequests | 271,194 | - | 271,194 |
| Special events, net of direct donor benefits of \$268,156 | 2,115,537 | - | 2,115,537 |
| Court costs and attorney fees awarded | 1,522,459 | - | 1,522,459 |
| Investment income, net of fees of \$54,531 | 575,585 | 17,340 | 592,925 |
| Net depreciation in fair value of investments | (575,800) | (4,465) | (580,265) |
| Total revenue, gains, and other support | <u>16,123,639</u> | <u>99,931</u> | <u>16,223,570</u> |
| EXPENSES | | | |
| <i>Program services</i> | | | |
| Legal | 9,398,400 | - | 9,398,400 |
| Public information | 1,939,910 | - | 1,939,910 |
| Herbert Lehman education | 520,112 | - | 520,112 |
| Earl Warren legal training | - | 73,896 | 73,896 |
| Total program services | <u>11,858,422</u> | <u>73,896</u> | <u>11,932,318</u> |
| <i>Supporting services</i> | | | |
| Fundraising | 2,179,983 | - | 2,179,983 |
| Management and general | 1,448,800 | - | 1,448,800 |
| Total supporting services | <u>3,628,783</u> | <u>-</u> | <u>3,628,783</u> |
| Total expense | <u>15,487,205</u> | <u>73,896</u> | <u>15,561,101</u> |
| Change in net assets before other charges | 636,434 | 26,035 | 662,469 |
| OTHER CHARGE | | | |
| Charge to pension benefit other than net periodic pension cost | (1,199,075) | - | (1,199,075) |
| Change in net assets | (562,641) | 26,035 | (536,606) |
| Net assets, beginning of year | <u>31,827,376</u> | <u>606,955</u> | <u>32,434,331</u> |
| Net assets, end of year | <u>\$ 31,264,735</u> | <u>\$ 632,990</u> | <u>\$ 31,897,725</u> |

NAACP LEGAL DEFENSE AND EDUCATIONAL FUND, INC. AND AFFILIATE
 Combined Schedule of Functional Expenses
 For the Year Ended June 30, 2012
 (With Comparative Totals for 2011)

| Description | Program Services | | | | | Supporting Services | | | 2012 | 2011 |
|-----------------------------------|---------------------|---------------------|-------------------|------------------|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| | Legal Programs | Public Information | Herbert Lehman | Earl Warren | Subtotal | Fundraising | Mgmt. and General | Subtotal | Total Expenses | Total Expenses |
| Personnel costs | | | | | | | | | | |
| Payroll | \$ 2,972,414 | \$ 1,077,234 | \$ 86,271 | \$ 24,000 | \$ 4,159,919 | \$ 625,504 | \$ 754,752 | \$ 1,380,256 | \$ 5,540,175 | \$ 5,579,144 |
| Benefits | 921,635 | 334,013 | 28,188 | 6,000 | 1,289,836 | 193,946 | 234,021 | 427,967 | 1,717,803 | 1,620,737 |
| Temporary help | 81,294 | 865 | - | - | 82,159 | 539 | 610 | 1,149 | 83,308 | 146,745 |
| Total personnel costs | <u>3,975,343</u> | <u>1,412,112</u> | <u>114,459</u> | <u>30,000</u> | <u>5,531,914</u> | <u>819,989</u> | <u>989,383</u> | <u>1,809,372</u> | <u>7,341,286</u> | <u>7,346,626</u> |
| Legal programs | | | | | | | | | | |
| Court costs | 32,773 | - | - | - | 32,773 | - | - | - | 32,773 | 17,350 |
| Expert witness | 112,579 | - | - | - | 112,579 | - | - | - | 112,579 | 90,168 |
| Legal printing | 6,005 | - | - | - | 6,005 | - | - | - | 6,005 | 1,307 |
| Attorney conferences | 184,848 | - | - | - | 184,848 | - | - | - | 184,848 | 277,716 |
| Special research | 180,389 | - | - | - | 180,389 | - | - | - | 180,389 | 114,297 |
| Library | 189,256 | - | - | - | 189,256 | - | - | - | 189,256 | 194,535 |
| Bar association dues | 19,537 | - | - | - | 19,537 | - | - | - | 19,537 | 16,130 |
| Total legal programs | <u>725,387</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>725,387</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>725,387</u> | <u>711,503</u> |
| Other programs | | | | | | | | | | |
| Scholarships/grants | 2,158,149 | - | 335,000 | 34,100 | 2,527,249 | - | - | - | 2,527,249 | 355,400 |
| Other expenses | | | | | | | | | | |
| Photos/press release | 3,049 | 27,188 | 5,133 | - | 35,370 | 16,469 | 677 | 17,146 | 52,516 | 47,024 |
| Clipping service | - | 6,855 | - | - | 6,855 | - | - | - | 6,855 | 4,123 |
| List rental | - | - | - | - | - | 26,812 | - | 26,812 | 26,812 | 7,816 |
| Mail handling | - | - | 934 | - | 934 | 29,765 | - | 29,765 | 30,699 | 30,110 |
| Fundraising professionals | - | - | - | - | - | 548,793 | - | 548,793 | 548,793 | 526,196 |
| Insurance | 51,168 | 20,437 | 1,625 | - | 73,230 | 12,732 | 14,409 | 27,141 | 100,371 | 95,571 |
| Telephone | 130,714 | 38,110 | 3,085 | 1,200 | 173,109 | 23,865 | 27,004 | 50,869 | 223,978 | 214,873 |
| Occupancy expense | 393,805 | 44,249 | 3,518 | 2,400 | 443,972 | 27,568 | 31,199 | 58,767 | 502,739 | 506,467 |
| Bank charges | 8,849 | 3,569 | 8,251 | - | 20,669 | 18,288 | 2,516 | 20,804 | 41,473 | 34,835 |
| Storage | 62,569 | 680 | 54 | - | 63,303 | 424 | 479 | 903 | 64,206 | 57,713 |
| Mailing | 31,188 | 2,763 | 7,978 | 101 | 42,030 | 160,593 | 2,793 | 163,386 | 205,416 | 170,818 |
| Office supplies | 40,687 | 11,836 | 729 | - | 53,252 | 8,243 | 12,215 | 20,458 | 73,710 | 67,137 |
| Messenger services | 1,015 | 240 | 145 | - | 1,400 | 1,834 | 282 | 2,116 | 3,516 | 4,569 |
| Equipment repairs and maintenance | 91,477 | 33,787 | 2,009 | - | 127,273 | 81,360 | 21,753 | 103,113 | 230,386 | 281,761 |
| Utilities | 39,653 | 15,747 | 1,252 | 300 | 56,952 | 9,810 | 11,103 | 20,913 | 77,865 | 123,892 |
| Catering costs | 87,262 | 6,421 | 547 | 150 | 94,380 | 13,969 | 2,165 | 16,134 | 110,514 | 113,198 |
| Pledges receivable written off | - | - | - | - | - | - | 112,069 | 112,069 | 112,069 | 8,885 |
| Miscellaneous | 38,595 | 8,864 | 1,738 | - | 49,197 | 21,469 | 6,925 | 28,394 | 77,591 | 148,188 |
| Photocopying | 81,740 | 14,070 | 1,310 | 300 | 97,420 | 8,766 | 9,921 | 18,687 | 116,107 | 140,543 |
| Meetings and travel | 474,594 | 24,907 | 7,647 | - | 507,148 | 83,481 | 5,805 | 89,286 | 596,434 | 651,397 |
| Service bureau | 1,687 | 687 | 55 | - | 2,429 | 428 | 13,094 | 13,522 | 15,951 | 16,325 |
| IT Professionals | 168,156 | 62,830 | 6,127 | - | 237,113 | 46,222 | 43,911 | 90,133 | 327,246 | 326,070 |
| Professional fees | 636,667 | 127,210 | 6,747 | 1,675 | 772,299 | 23,351 | 90,094 | 113,445 | 885,744 | 407,273 |
| Printing | 20,439 | 5,793 | 6,080 | - | 32,312 | 151,172 | 553 | 151,725 | 184,037 | 222,576 |
| Amortization | 34,088 | 13,656 | 1,086 | - | 48,830 | 8,508 | 9,628 | 18,136 | 66,966 | 70,886 |
| Depreciation | 142,119 | 57,899 | 4,603 | 3,670 | 208,291 | 36,072 | 40,822 | 76,894 | 285,185 | 324,724 |
| Total other expenses | <u>2,539,521</u> | <u>527,798</u> | <u>70,653</u> | <u>9,796</u> | <u>3,147,768</u> | <u>1,359,994</u> | <u>459,417</u> | <u>1,819,411</u> | <u>4,967,179</u> | <u>4,602,970</u> |
| Total expenses | <u>\$ 9,398,400</u> | <u>\$ 1,939,910</u> | <u>\$ 520,112</u> | <u>\$ 73,896</u> | <u>\$ 11,932,318</u> | <u>\$ 2,179,983</u> | <u>\$ 1,448,800</u> | <u>\$ 3,628,783</u> | <u>\$ 15,561,101</u> | <u>\$ 13,016,499</u> |