

**NATIONAL URBAN LEAGUE, INC.**

**Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
With Independent Auditor's Report**



**MITCHELL TITUS**  
ACHIEVING EXCELLENCE TOGETHER

**NATIONAL URBAN LEAGUE, INC.**  
Years Ended December 31, 2018 and 2017

**TABLE OF CONTENTS**

	<b><u>Page(s)</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1-2
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities (2018)	4
Consolidated Statement of Activities (2017)	5
Consolidated Statements of Cash Flows	6
Consolidated Statement of Functional Expenses (2018)	7
Consolidated Statement of Functional Expenses (2017)	8
Notes to Consolidated Financial Statements	9-40



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
National Urban League, Inc.

We have audited the accompanying consolidated financial statements of the National Urban League, Inc. (the League or NUL), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, cash flows, and functional expenses for the years 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

80 Pine Street  
New York, NY 10005  
T +1 212 709 4500  
F +1 212 709 4680  
[mitchelltitus.com](http://mitchelltitus.com)



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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Urban League, Inc. at December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

As discussed in Note 2 to the consolidated financial statements, in 2018, the League adopted ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, and ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

*Mitchell Titus, LLP*

August 26, 2019

**NATIONAL URBAN LEAGUE, INC.**  
Consolidated Statements of Financial Position  
As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,018,989	\$ 13,467,139
Grants and pledges receivable, net	13,585,689	17,981,750
Franchise fees receivable, net	816,604	830,315
Prepaid expenses and other assets	568,718	511,882
Investments	19,314,874	23,142,455
Interest rate swap agreement	38,616	17,056
Property and equipment, net	<u>12,836,474</u>	<u>14,545,433</u>
<b>Total assets</b>	<u><u>\$ 59,179,964</u></u>	<u><u>\$ 70,496,030</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<i>Liabilities</i>		
Line of credit	\$ 1,500,000	\$ 1,500,000
Accounts payable and accrued expenses	4,222,414	6,000,799
Accrued payroll and vacation benefits	536,154	502,676
Accrued defined contribution costs	725,009	590,578
Contract advances and other deposits	220,708	316,105
Deferred rent credit	1,543,258	2,090,382
Bonds payable (net of debt issuance cost of \$130,734 in 2018 and \$136,501 in 2017)	3,976,355	4,085,098
Accrued pension benefit costs	<u>6,657,207</u>	<u>5,864,046</u>
Total liabilities	<u>19,381,105</u>	<u>20,949,684</u>
<i>Net assets (deficit)</i>		
Without donor restrictions		
Undesignated	5,283,647	6,356,568
Pension related	<u>(10,207,828)</u>	<u>(9,714,413)</u>
Total without donor restrictions	(4,924,181)	(3,357,845)
With donor restrictions	<u>44,723,040</u>	<u>52,904,191</u>
Total net assets	<u>39,798,859</u>	<u>49,546,346</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 59,179,964</u></u>	<u><u>\$ 70,496,030</u></u>

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

**NATIONAL URBAN LEAGUE, INC.**  
Consolidated Statements of Activities  
For the Year Ended December 31, 2018

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>			
<i>Revenue, gains, and other support</i>			
Government grants and contracts	\$ 21,498,708	\$ -	\$ 21,498,708
Donated materials and services	7,754,079	-	7,754,079
Contributions	7,139,071	10,419,295	17,558,366
Legacies and bequests	42,314	-	42,314
Special events	1,513,529	-	1,513,529
Program service fees	6,834,751	-	6,834,751
Franchise fees	907,500	-	907,500
Net investment return designated for current operations	1,129,890	-	1,129,890
Sale of publications	4,464	-	4,464
Other	831,010	-	831,010
<i>Net assets released from restrictions</i>			
Satisfaction of restrictions	16,802,184	(16,802,184)	-
Total revenue, gains, and other support	<u>64,457,500</u>	<u>(6,382,889)</u>	<u>58,074,611</u>
<i>Operating expenses</i>			
<i>Program services</i>			
Economic empowerment	27,675,253	-	27,675,253
Education and youth empowerment	5,580,760	-	5,580,760
Civic engagement and leadership empowerment	15,561,133	-	15,561,133
Technical assistance to affiliates	2,672,040	-	2,672,040
Health and quality of life empowerment	1,030,588	-	1,030,588
Civil rights and racial justice empowerment	319,068	-	319,068
Urban empowerment	410,823	-	410,823
Total program services	<u>53,249,665</u>	<u>-</u>	<u>53,249,665</u>
<i>Supporting services</i>			
Management and general	8,372,237	-	8,372,237
Fundraising	3,930,079	-	3,930,079
Total expenses	<u>65,551,981</u>	<u>-</u>	<u>65,551,981</u>
Changes in net assets from operations	<u>(1,094,481)</u>	<u>(6,382,889)</u>	<u>(7,477,370)</u>
<b>NON-OPERATING ACTIVITIES</b>			
Net investment return net of amount designated for current operations	-	(1,798,262)	(1,798,262)
Gain in fair value of interest rate swap obligation	21,560	-	21,560
Pension-related changes other than net periodic pension costs	(493,415)	-	(493,415)
Total non-operating activities	<u>(471,855)</u>	<u>(1,798,262)</u>	<u>(2,270,117)</u>
Changes in net assets	(1,566,336)	(8,181,151)	(9,747,487)
Net assets (deficit), beginning of year	<u>(3,357,845)</u>	<u>52,904,191</u>	<u>49,546,346</u>
<b>Net assets (deficit), end of year</b>	<u>\$ (4,924,181)</u>	<u>\$ 44,723,040</u>	<u>\$ 39,798,859</u>

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

**NATIONAL URBAN LEAGUE, INC.**  
Consolidated Statements of Activities  
For the Year Ended December 31, 2017

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>			
<i>Revenue, gains, and other support</i>			
Government grants and contracts	\$ 25,267,190	\$ -	\$ 25,267,190
Donated materials and services	7,359,216	-	7,359,216
Contributions	7,213,578	15,791,843	23,005,421
Legacies and bequests	362,729	-	362,729
Special events	1,764,858	-	1,764,858
Program service fees	6,875,617	-	6,875,617
Franchise fees	904,000	-	904,000
Net investment return designated for current operations	1,016,709	-	1,016,709
Sale of publications	14,148	-	14,148
Other	472,688	-	472,688
<i>Net assets released from restrictions</i>			
Satisfaction of restrictions	14,582,289	(14,582,289)	-
Total revenue, gains, and other support	<u>65,833,022</u>	<u>1,209,554</u>	<u>67,042,576</u>
<i>Operating expenses</i>			
<i>Program services</i>			
Economic empowerment	30,276,633	-	30,276,633
Education and youth empowerment	5,789,296	-	5,789,296
Civic engagement and leadership empowerment	13,987,694	-	13,987,694
Technical assistance to affiliates	2,537,076	-	2,537,076
Health and quality of life empowerment	1,056,080	-	1,056,080
Civil rights and racial justice empowerment	356,795	-	356,795
Urban empowerment	425,337	-	425,337
Total program services	<u>54,428,911</u>	<u>-</u>	<u>54,428,911</u>
<i>Supporting services</i>			
Management and general	6,944,065	-	6,944,065
Fundraising	4,205,527	-	4,205,527
Total expenses	<u>65,578,503</u>	<u>-</u>	<u>65,578,503</u>
Changes in net assets from operations	<u>254,519</u>	<u>1,209,554</u>	<u>1,464,073</u>
<b>NON-OPERATING ACTIVITIES</b>			
Net investment return net of amount designated for current operations	-	1,819,356	1,819,356
Gain in fair value of interest rate swap obligation	17,056	-	17,056
Pension-related changes other than net periodic pension costs	41,955	-	41,955
Total non-operating activities	<u>59,011</u>	<u>1,819,356</u>	<u>1,878,367</u>
Changes in net assets	313,530	3,028,910	3,342,440
Net assets (deficit), beginning of year	<u>(3,671,375)</u>	<u>49,875,281</u>	<u>46,203,906</u>
<b>Net assets (deficit), end of year</b>	<u>\$ (3,357,845)</u>	<u>\$ 52,904,191</u>	<u>\$ 49,546,346</u>

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

**NATIONAL URBAN LEAGUE, INC.**  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (9,747,487)	\$ 3,342,440
<i>Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities</i>		
Pension-related changes other than net periodic pension costs	493,415	(41,955)
Depreciation	1,590,864	661,951
Amortization - tenant improvements	(392,564)	(26,805)
Amortization of debt issuance costs	5,767	1,923
Adjustment of construction in progress	645,000	-
Realized loss on write-off of fixed assets	34,493	3,593
Provision of deferred rent credit	(154,560)	(252,368)
Realized gain on sales of investments	(875,461)	(1,049,624)
Provision of uncollectible receivables	231,510	32,140
Unrealized depreciation/(appreciation) of investments	2,151,916	(1,239,483)
Unrealized gain on interest rate swap agreement	(21,560)	(17,056)
<i>Changes in operating assets and liabilities</i>		
Change in grants and pledges receivable	4,314,551	(2,321,907)
Change in franchise fees receivable	(136,289)	(131,773)
Change in prepaid expenses and other assets	(56,836)	338,614
Change in accounts payable and accrued expenses	(1,778,385)	400,688
Change in accrued payroll and vacation benefits	33,478	70,987
Change in deferred rent credit	-	2,271,747
Change in accrued pension benefit cost	299,746	(184,438)
Change in accrued defined contribution costs	134,431	14,595
Change in contract advances and other deposits	(95,397)	100,391
Net cash (used in) provided by operating activities	<u>(3,323,368)</u>	<u>1,973,660</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(561,398)	(9,470,562)
Sales of investments	7,436,807	6,254,165
Purchases of investments	<u>(4,885,681)</u>	<u>(6,791,181)</u>
Net cash provided by (used in) investing activities	<u>1,989,728</u>	<u>(10,007,578)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayment of revenue bonds	(114,510)	(28,401)
Payment of financing deferred costs	-	(138,424)
Proceeds from issuance of revenue bonds	-	4,250,000
Borrowing line of credit	<u>-</u>	<u>1,500,000</u>
Net cash (used in) provided by financing activities	<u>(114,510)</u>	<u>5,583,175</u>
Net decrease in cash and cash equivalents	(1,448,150)	(2,450,743)
Cash and cash equivalents, beginning of year	13,467,139	15,917,882
<b>Cash and cash equivalents, end of year</b>	<u>\$ 12,018,989</u>	<u>\$ 13,467,139</u>
<b>SUPPLEMENTAL INFORMATION</b>		
<b>Interest paid</b>	<u>\$ 208,431</u>	<u>\$ 32,524</u>

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



**NATIONAL URBAN LEAGUE, INC.**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended December 31, 2018**

	Program Services						Supporting Services				
	Economic Empowerment	Education and Youth Empowerment	Civic Engagement and Leadership Empowerment	Technical Assistance to Affiliates	Health and Quality of Life Empowerment	Civil Rights and Racial Justice Empowerment	Urban Empowerment Fund	Total	Management and General	Fundraising	Total
Salaries	\$ 2,441,169	\$ 1,009,125	\$ 2,220,520	\$ 961,995	\$ 370,775	\$ 138,680	\$ 225,865	\$ 7,368,129	\$ 3,538,050	\$ 1,502,856	\$ 12,409,035
Payroll taxes and related benefits	830,922	333,735	751,223	317,616	113,877	33,955	39,298	2,420,626	1,160,604	517,787	4,099,017
Subcontract payments	19,687,159	2,018,182	31,000	25,577	208,500	-	30,000	22,000,418	-	-	22,000,418
Donated materials and services	1,932,081	-	5,821,998	-	-	-	-	7,754,079	-	18,000	7,772,079
Professional contract services	1,109,661	426,724	3,680,397	458,316	82,914	46,141	104,445	5,908,598	1,507,331	825,314	8,241,243
Supplies	51,009	42,067	97,712	25,319	14,961	2,243	-	233,311	76,172	28,970	338,453
Telephone	55,185	26,600	68,500	24,990	9,866	4,827	-	189,968	95,583	30,563	316,114
Occupancy	276,593	111,328	260,920	106,886	37,967	11,416	-	805,110	394,175	174,085	1,373,370
Commercial insurance	36,769	14,839	33,390	14,117	5,063	1,509	-	105,687	51,742	23,014	180,443
Postage and shipping	6,242	7,828	32,124	11,511	2,180	1,555	37	61,477	17,208	6,766	85,451
Printing, duplication, and artwork	22,310	140,306	125,780	8,675	16,873	2,600	14	316,558	30,454	16,794	363,806
Travel, conferences, and convention:	682,259	1,193,808	1,755,982	527,600	91,361	49,570	7,936	4,308,516	418,400	451,249	5,178,165
Subscription and publication	15,922	26,689	75,728	11,640	3,421	1,002	-	134,402	27,011	34,193	195,606
Furniture and equipment	99,585	41,856	91,024	39,855	15,981	6,609	-	294,910	141,715	61,186	497,811
Awards and grants	-	6,000	10,000	-	-	-	-	16,000	1,000	-	17,000
Bad debt	-	-	-	-	-	-	-	-	231,510	-	231,510
Interest expense	43,122	17,403	39,159	16,556	5,938	1,770	-	123,948	63,264	26,991	214,203
Miscellaneous	64,809	34,942	174,669	-	6,781	4,037	3,228	288,466	147,195	11,732	447,393
Depreciation and amortization	320,456	129,328	291,007	121,387	44,130	13,154	-	919,462	470,823	200,579	1,590,864
<b>Total expenses</b>	<b>\$ 27,675,253</b>	<b>\$ 5,580,760</b>	<b>\$ 15,561,133</b>	<b>\$ 2,672,040</b>	<b>\$ 1,030,588</b>	<b>\$ 319,068</b>	<b>\$ 410,823</b>	<b>\$ 53,249,665</b>	<b>\$ 8,372,237</b>	<b>\$ 3,930,079</b>	<b>\$ 65,551,981</b>

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

**NATIONAL URBAN LEAGUE, INC.**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended December 31, 2017**

	Program Services						Supporting Services				
	Economic Empowerment	Education and Youth Empowerment	Civic Engagement and Leadership Empowerment	Technical Assistance to Affiliates	Health and Quality of Life Empowerment	Civil Rights and Racial Justice Empowerment	Urban Empowerment Fund	Total	Management and General	Fundraising	Total
Salaries	\$ 2,481,419	\$ 974,256	\$ 1,945,671	\$ 831,380	\$ 346,589	\$ 145,076	\$ 225,000	\$ 6,949,391	\$ 3,160,099	\$ 1,530,181	\$ 11,639,671
Payroll taxes and related benefits	840,149	326,305	660,226	277,191	109,866	41,276	38,924	2,293,937	1,056,821	525,996	3,876,754
Subcontract payments	21,336,654	2,500,509	40,000	40,872	117,350	-	30,000	24,065,385	25,000	-	24,090,385
Donated materials and services	1,259,004	-	6,100,212	-	-	-	-	7,359,216	-	18,000	7,377,216
Professional contract services	2,278,145	738,716	2,437,879	452,799	172,178	62,014	107,656	6,249,387	704,291	1,003,521	7,957,199
Supplies	53,779	44,756	69,243	23,321	7,018	2,715	-	200,832	64,684	27,052	292,568
Telephone	44,681	21,280	53,474	20,243	8,996	5,565	815	155,054	71,245	23,976	250,275
Occupancy	579,503	260,047	530,754	220,906	84,506	32,895	-	1,708,611	874,854	418,855	3,002,320
Commercial insurance	54,074	16,824	33,776	14,181	5,655	2,112	-	126,622	53,813	26,909	207,344
Postage and shipping	8,315	9,456	29,407	10,595	2,868	2,010	-	62,651	23,417	49,436	135,504
Printing, duplication, and artwork	32,240	104,305	92,634	8,324	7,886	3,314	-	248,703	25,960	48,652	323,315
Travel, conferences, and convention	723,456	542,208	1,612,743	515,806	109,124	38,801	19,523	3,561,661	373,935	342,976	4,278,572
Subscription and publication	15,516	18,466	72,999	6,711	2,051	1,066	-	116,809	10,150	28,981	155,940
Furniture and equipment	104,827	41,534	73,347	41,792	13,919	6,517	-	281,936	139,532	56,207	477,675
Awards and grants	303	437	15,000	-	-	-	-	15,740	1,000	-	16,740
Bad debt	-	-	-	-	-	-	-	-	32,140	-	32,140
Interest expense	7,357	2,831	5,727	2,404	959	358	-	19,636	9,819	4,992	34,447
Miscellaneous	305,089	132,694	103,982	24,107	48,593	6,160	3,419	624,044	141,059	3,384	768,487
Depreciation and amortization	152,122	54,672	110,620	46,444	18,522	6,916	-	389,296	176,246	96,409	661,951
<b>Total expenses</b>	<b>\$ 30,276,633</b>	<b>\$ 5,789,296</b>	<b>\$ 13,987,694</b>	<b>\$ 2,537,076</b>	<b>\$ 1,056,080</b>	<b>\$ 356,795</b>	<b>\$ 425,337</b>	<b>\$ 54,428,911</b>	<b>\$ 6,944,065</b>	<b>\$ 4,205,527</b>	<b>\$ 65,578,503</b>

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

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 1 ORGANIZATION**

National Urban League, Inc. (the League or NUL) is a non-profit organization incorporated in the State of New York in 1910. The League is substantially funded through grants and contracts awarded by government agencies, foundations, and corporations.

The Urban Empowerment Fund (UEF) is a tax-exempt community development financial institution that was incorporated in July 2011. The League obtained a controlling financial interest in UEF in March 2013. UEF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a publicly supported organization as described in IRC Sections 509(a)(1) and 170(b)(A)(vi). UEF received its determination letter from the Internal Revenue Service dated November 7, 2013. The net assets of UEF are not available for distribution to NUL.

The Urban League Empowerment Center, LLC (ULEC) is in business solely to (a) own a leasehold interest in the property located at 121 West 125<sup>th</sup> Street, New York, New York, (b) hold, manage, maintain, operate, improve, develop, construct, exchange, lease, sublease, convey, encumber, subdivide into condominium units, finance and otherwise use the leasehold interest and its rights in the underlying property and (c) do any and all other acts that may be necessary or incidental to carry on the business of ULEC. The League is the sole managing member of ULEC.

The League is exempt from Federal income taxes under Section 501(c)(3) of the IRC and has been classified as a publicly supported organization as described in IRC Sections 509(a)(1) and 170(b)(A)(vi).

The League, a non-partisan, civil rights, and community-based movement, serves over two million people each year, providing direct services, research, and policy advocacy to assist individuals and communities attain their fullest potential. The League's network of 90 professionally staffed affiliates in 37 states and the District of Columbia work principally with African Americans and other disadvantaged urban communities to diligently close equality gaps for people at all economic levels and stages of life, thereby creating an opportunity for citizens to give back as volunteers. In pursuit of its mission—helping African Americans and other underserved urban residents to secure economic self-reliance, parity, power, and civil rights—the League's five-point approach to empowerment consists of:

*Economic Empowerment* invests in the financial literacy and employability of adults through job training, homeownership counseling, and entrepreneurship support.

*Education and Youth Empowerment* ensures that all children receive an education by providing access to early childhood literacy, afterschool programs, and college preparation.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 1 ORGANIZATION** *(continued)*

*Civic Engagement and Leadership Empowerment* encourages all people to take an active role in improving their quality of life through participation in community service projects, and public policy initiatives.

*Health and Quality of Life Empowerment* encourages all people to take an active role in improving their wellness and quality of life through participation in preventative measures, health literacy programs, community service projects, and public policy initiatives.

*Civil Rights and Racial Justice Empowerment* guarantees equal participation in all facets of American society through proactive public policies and community-based programs.

*Technical Assistance to Affiliates*—NUL’s affiliates offer services in 36 states and the District of Columbia to over 350 communities across the country. These professionally staffed offices fulfill NUL’s services: where people and their neighborhoods grow, change, and are strengthened. The League’s Affiliate Services Department’s goal is to provide information and training to affiliate CEOs, boards of directors, staff, and volunteers to increase their understanding of the League’s mission, and to enhance their professional skills and effectiveness.

UEF is a Community Development Financial Institution (CDFI) with a focus on providing financial products (loans) and services to minority business enterprises (MBEs) that are located primarily in select urban League affiliate markets. The mission of UEF is to help MBEs gain access to capital, survive, prosper, grow, create jobs, and generate individual and community wealth. UEF works to achieve its mission by focusing on the development of MBEs, which requires a comprehensive set of services to address the primary barriers that inhibit their growth. These services include:

- Providing business advisory services to address the business knowledge deficits (competence)
- Offering a range of small business loan products ranging from \$50,000-\$250,000 (capital)
- Providing policy advocacy to improve the business climate for MBEs (customers)

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred.

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

Consolidated Financial Statement Presentation

In accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), the consolidated financial statements include the accounts of the League, UEF, and ULEC. All material intercompany transactions have been eliminated during consolidation.

NUL is required to report information regarding its financial position and activities according to two net asset classes: net assets without donor restrictions and net assets with donor restrictions as applicable, which are defined as:

*Net Assets Without Donor Restrictions*—Net assets without donor restrictions are available for us at the discretion of the board of Trustees (the Board) and/or management for general operating purposes. From time to time, the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management’s discretion. For example, the Board has designated a portion of net assets without donor restrictions as a quasi-endowment (an amount to be treated by management as if it were part of the donor restricted endowment) for the securing NUL’s long-term financial viability. Not subject to donor-imposed restrictions.

See Note 17 for more information on the composition of net assets without donor restrictions.

*Net Assets With Donor Restrictions*—Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and /or purpose restrictions.

NUL reports gifts of cash and other assets as revenue with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting NUL to expend the income generated by the assets in accordance with the provisions of additional donor imposed stipulations or a Board approved spending policy.

See Notes 14 and 15 for more information on the composition of net assets with donor restrictions and the release of restrictions, respectively. Subject to donor-imposed stipulations that may be fulfilled by an action of the League to satisfy the stipulations or become unrestricted at the date specified by the donor.

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

Cash and Cash Equivalents

For purposes of the consolidated financial statement presentation, the League considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents at December 31, 2018 and 2017 were \$2,059,577 and \$3,267,823, respectively, and consisted of money market funds and certificates of deposit.

The League maintains its cash and cash equivalent balances in financial institutions, which occasionally exceed the Federal Deposit Insurance Corporation limit and subject the League to concentration of credit risk. However, the League monitors this risk on a regular basis.

Investments

Investments are stated at the 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 (*i.e.*, an exit price). The following is a description of the valuation methodologies used for assets measured at fair value:

*Money market funds:* Recorded at fair value, which approximates amortized cost.

*Equity securities:* Recorded at fair value based on the quoted market prices and broker prices. Consists of common stock, mutual funds and other exchange traded funds.

*Fixed-income securities:* Recorded at fair value based on the quoted market prices and broker prices. Consists of mutual funds and other exchange-traded funds.

The League's Investment Committee is responsible for determining the valuation policies and analyzing information provided by the investment custodians and issuers, which is used to determine the fair value of the League's investments. The Investment Committee is a sub-committee of the League's Board of Trustees.

The Board of Trustees has adopted a "spending formula," whereby a specified percentage of the rolling average balance of the League's long-term reserves is used to support current operations. All investment income over this amount is retained to support operational needs in future years and offset potential market declines.

The League targets a 60/40 ratio between equities and fixed-income securities for its endowment portfolio (a long-term investment).

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

Investments *(continued)*

Interest and dividend income are recognized when earned and are reflected within the net investment return as operating revenue in the consolidated statements of activities based on NUL's spending formula.

Realized gains and losses and unrealized appreciation and depreciation are reflected within the net investment returns in the consolidated statement of activities. For purposes of determining the gain or loss on sales, the cost of securities sold is based on the average costs of all shares of those securities sold.

Receivables

*Allowance for doubtful accounts*

The carrying value of grants receivable and contributions receivable is reduced by an appropriate allowance for uncollectible accounts, which approximates net realizable value. NUL determines its allowance by considering several factors, including the length of time receivables are past due, NUL's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole.

Receivables outstanding longer than the payment terms are considered past due. NUL writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received.

*Grants and pledges receivable*

Grants and pledges receivable consist of amounts due from government agencies and unconditional promises received from donors, respectively. Grants receivable is recorded at its net realizable value. Unconditional promises are valued at fair value. Fair values are measured based on the present value of future cash flows, with consideration given to expectations about possible variations in the amount and/or timing of the cash flows and other specific factors that would be considered by market participants. Fair value measurements also include consideration of donors' credit risk.

Franchise fees are annual fees charged to the League's affiliates. The League has agreements with several affiliates for payment of fees in arrears. The agreements provide for installment payments over periods varying from one to five years.

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

Property and Equipment

Building, furniture and fixtures, equipment, and leasehold improvements are stated at cost, less accumulated depreciation or amortization computed by the straight-line method over the lease term or the following useful lives:

	<u>Years</u>
Building	40
Leasehold improvements	5–20
Furniture and fixtures	10
Equipment	3–7
Computer software	5–7

The League capitalizes all expenditures for property and equipment in excess of \$1,000. Donated property and equipment are recorded at their estimated fair value on the date of donation in accordance with the League’s capitalization policies.

Beginning in 2013 and continuing through 2018, the League incurred and paid expenses related to the “future home” for its New York office. The League classified these expenses, which were considered pre-construction costs, as construction in progress within property and equipment on the consolidated statements of financial position.

Impairment Loss of Long-Lived Assets

NUL’s management reviews its investment in long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property is not recoverable. Recoverability is measured by comparing the carrying amount of the property to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the property. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There was no impairment loss recognized in 2018 and 2017.

Operating Lease

NUL occupies its space facilities under an operating lease agreement. Rent waivers are accounted for as deferred rent credits that are amortized against lease payments on a straight-line basis over the life of the lease.



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

Pension Costs

The League is required to disclose the over- or under-funded status of its defined benefits plan as an asset or liability in its consolidated statements of financial position, and also to recognize changes in the funded status of the plan in unrestricted net assets as a non-operating activity in the year that the changes occur. As of December 31, 2018 and 2017, the under-funded status of the plan is a deficit of the fair value of plan assets over the projected benefit obligation, which amounted to \$6,657,207 and \$5,864,046, respectively.

Revenue Recognition

*Contributions*

Unconditional contributions are recognized as revenue when received and recorded as without donor restriction or with donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), donor restricted net assets are reclassified to without donor restriction net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Gifts and grants that have donor imposed conditions as to a specified or unspecified future event are not recognized until such conditions have been met. Conditional grants that have not been recorded as of December 31, 2018, because such conditions have not been met totaled approximately \$3,373,089.

*Government Grants*

Federal, state, and other grant awards received for specific purposes are recognized as support to the extent of the related expenses incurred in compliance with the specific grant terms. The unexpended funds are reported as contract advances.

*Program Service Fees*

Program service fees are recorded as earned income generated from different conference activities that occur during the year.

*Franchise Fees*

Franchise fees are recorded as earned annual fees when billed and are based on the budget size of each affiliate.

Credit and Financial Risk

Substantially all the pledges receivable are derived from individual, corporate, or foundation donors. All of these receivables are made on an unsecured basis.

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

Credit and Financial Risk *(continued)*

The League maintains its cash and cash equivalents in bank deposit and money market accounts, which may exceed federally insured limits. The League believes it is not exposed to any significant credit risk on cash balances.

The League's investments are exposed to numerous risks such as interest rate, market, and credit. Due to this level of risk and the level of uncertainty related to changes in the value of such investments, it is reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Donated Materials and Services

Donated materials and services that meet the requirements for recognition are recorded as revenue and expenses in the accompanying consolidated statements of activities at their fair values. Donated materials and services were in the form of donated media services. The fair values of the donated media are determined based on consideration of cash payments typically made by buyers for similar advertising and media, standard discounts given for similarly placed media, the media type and placement and other considerations.

In-kind contributions are the value of non-cash contributions provided by affiliates. They are often required in the provisions of public grants. They may be in the form of real and personal property, as well as the value of goods and services that directly benefit a project. For the League, in-kind contributions consist mainly of the cost associated with the supervision of program participants that is not directly charged to a project and the costs of materials and training spaces.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited and are determined by management in accordance with grant provisions. The expenses that are allocated include depreciation, interest, occupancy, office and other expenses, which are allocated based on salaries.

Advertising Expense

The League recognizes advertising expense at the time of invoice and payment terms. Advertising may be for multiple future dates and used as both video and print advertising. The vendor (in most cases) will invoice the League for the cost of all runnings of a specific advertisement. Advertising expenses of \$482,006 and \$46,726 in 2018 and 2017, respectively, are reported as part of the professional contract services expense in the consolidated statements of functional expenses.

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

Measure of Operations

The League uses a “change in net assets from operations” as the measure of net assets that are available to support services in future periods. Measure of operations excludes gains or losses on sales of fixed assets, and the results of the League’s endowment spending policy (both positive and negative).

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The League is exempt from Federal income taxes under Section 509(a)(1) and is classified as a Section 501(c)(3) of the IRC. Accordingly, no provision for Federal or state income taxes has been made in the accompanying consolidated financial statements.

UEF is exempt from Federal income taxes under Section 509(a)(1) and classified as a Section 501(c)(3) of the IRC. Accordingly, no provision for Federal or state income taxes has been made in the accompanying consolidated financial statements. UEF is subject to routine audits by taxing jurisdictions. UEF’s initial filing year was 2013. There are no audits for any tax periods are currently in progress.

Management has analyzed the tax positions taken by the League and has concluded that as of December 31, 2018 and 2017, there are no uncertain tax positions taken or are to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying consolidated financial statements.

The League is subject to routine audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that the League is no longer subject to such income tax examinations for years prior to 2015.

Debt Issuance Costs

Debt issuance costs related to the revenue bonds are presented in the consolidated statements of financial position as a reduction to the carrying value of long-term debt and are amortized over the period the revenue bonds are outstanding using the straight-line method, which approximates the effective interest method (see Note 8 – Long-Term Debt).

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

Interest Rate Swap Agreement

The interest rate swap agreement is stated at fair value. Its fair value is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also expands the footnote disclosure requirements related to contracts with customers. The guidance was effective for the League's 2018 financial statements and required changes have been reflected herein. In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU requires an entity to recognize all lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The effective date of the ASU for the League is January 1, 2019. The League is currently evaluating the impact of the adoption of the ASU on the League's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU amends the requirements for the presentation of the financial statements and notes. In particular, it enhances the qualitative and quantitative disclosures of the net asset classes, investment return, expenses, liquidity and availability of resources, and operating cash flows. The guidance was effective for the League's 2018 consolidated financial statements and have been reflected herein.

In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The purpose of the guidance was to clarify guidance on several specific cash flow issues to avoid diversity in practice. During 2018, the League adopted this ASU and there was no material impact to the financial results.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The purpose of this guidance is to clarify cash flow presentation of restricted cash to reduce the significant diversity in practice. The League does not maintain restricted cash; therefore, there is no impact to the financial results.

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

New Accounting Pronouncements *(continued)*

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The new guidance improves the presentation of net periodic pension cost and net periodic postretirement benefit costs. This ASU applies to all employers, including not-for-profit entities that offer their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. During 2018, the League adopted this ASU. The impact of the adoption is reflected in the 2018 consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is in response to the diversity and difficulty with regards to distinguishing contributions from exchange transactions and unconditional from conditional contributions. The effective date of the ASU for the League is January 1, 2019. The League is currently evaluating the impact of the adoption of the ASU on the League's consolidated financial statements.

Reclassifications

Certain prior-year amounts have been reclassified to conform with the current year presentation.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 3 INVESTMENTS**

Fair Value on a Recurring Basis

The following tables set forth, by level within the fair value hierarchy, investment assets and liabilities as of December 31, 2018 and 2017:

	<b>Assets at Fair Value as of December 31, 2018</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
<i>Cash and cash equivalents</i>			
Interest-bearing cash deposits	\$ 1,621,590	\$ 1,621,590	\$ -
Certificates of deposit	437,987	437,987	-
Total cash and cash equivalents	2,059,577	2,059,577	-
<i>Investments</i>			
Money market funds	405,119	405,119	-
Equity securities	11,996,009	11,996,009	-
Fixed-income securities	6,913,746	6,913,746	-
Total investments	19,314,874	19,314,874	-
Interest rate swap agreement	38,616	-	38,616
<b>Total assets at fair value</b>	<b>\$ 21,413,067</b>	<b>\$ 21,374,451</b>	<b>\$ 38,616</b>
<b>Assets at Fair Value as of December 31, 2017</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
<i>Cash and cash equivalents</i>			
Interest-bearing cash deposits	\$ 2,831,455	\$ 2,831,455	\$ -
Certificates of deposit	436,368	436,368	-
Total cash and cash equivalents	3,267,823	3,267,823	-
<i>Investments</i>			
Money market funds	999,479	999,479	-
Equity securities	12,347,166	12,347,166	-
Fixed-income securities	9,795,810	9,795,810	-
Total investments	23,142,455	23,142,455	-
Interest rate swap agreement	17,056	-	17,056
<b>Total assets at fair value</b>	<b>\$ 26,427,334</b>	<b>\$ 26,410,278</b>	<b>\$ 17,056</b>

There are no Level 3 investment transfers in 2018 and 2017.

The measurement of fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (*i.e.*, an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Fair value measurement establishes a three-level valuation hierarchy based upon observable and non-observable inputs.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 3 INVESTMENTS** *(continued)*

Fair Value on a Recurring Basis *(continued)*

Assets and liabilities recorded at fair value in the consolidated statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The three levels of inputs defined by ASC 820 are as follows:

*Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2:* Inputs to the valuation methodology include 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 financial instrument.

*Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The League's interest rate swap is observable at commonly quoted intervals for the full term of the swap and is, therefore, considered a Level 2 item. For the interest swap to be in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset.

The following schedule summarizes the investment return and its classification in the consolidated statements of activities:

	<u>2018</u>	<u>2017</u>
Dividends and interest income	\$ 608,083	\$ 546,958
Net realized gains on sales of investments	875,461	1,049,624
Unrealized (depreciation) appreciation of investments	<u>(2,151,916)</u>	<u>1,239,483</u>
<b>Total investment return</b>	<b><u>\$ (668,372)</u></b>	<b><u>\$ 2,836,065</u></b>
Current operations	\$ 1,129,890	\$ 1,016,709
Non-operating activity	<u>(1,798,262)</u>	<u>1,819,356</u>
<b>Total investment return</b>	<b><u>\$ (668,372)</u></b>	<b><u>\$ 2,836,065</u></b>

The dividends and interest income above are net of investment fees of \$117,718 and \$107,675 in 2018 and 2017, respectively.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 3 INVESTMENTS** *(continued)*

Fair Value on a Recurring Basis *(continued)*

Under the League's endowment spending policy in 2018 and 2017, 5% of the 12-month rolling average fair value of its long-term reserves was used to support current operations. The following schedule summarizes the classification of the investment return in the consolidated statements of activities in accordance with this policy:

	<u>2018</u>	<u>2017</u>
Gain on non-long-term reserves	\$ 13,191	\$ 11,946
Board-designated for current operations from prior-year earnings	<u>1,116,699</u>	<u>1,004,763</u>
Total designated for current operations	<u>1,129,890</u>	<u>1,016,709</u>
Investment return on long-term reserves	(681,563)	2,824,119
Board-designated for current operations from prior-year earnings	<u>(1,116,699)</u>	<u>(1,004,763)</u>
Non-operating investment return	<u>(1,798,262)</u>	<u>1,819,356</u>
<b>Total investment return</b>	<u>\$ (668,372)</u>	<u>\$ 2,836,065</u>

**NOTE 4 GRANTS AND PLEDGES RECEIVABLE**

The discount rate applied to contributions receivable in excess of one year consisted of the application of a current two-year Treasury bill rate at that time. There were no receivables due in excess of one year in 2018. Amounts due in more than one year were adjusted to fair value using present value techniques that assumed a discount rate of 1.89% in 2017. Grants and pledges receivable at December 31 are comprised of the following:

	<u>2018</u>	<u>2017</u>
<i>Grant and contract receivables</i>		
Less than one year	\$ 9,135,265	\$ 11,479,604
One to five years	-	750,000
Less: Fair value adjustment	-	(27,567)
<i>Pledges receivable</i>		
Pledges due in less than one year	<u>4,550,424</u>	<u>5,879,713</u>
	13,685,689	18,081,750
Less: Allowance for doubtful amounts	<u>(100,000)</u>	<u>(100,000)</u>
<b>Total grants and pledges receivable, net</b>	<u>\$13,585,689</u>	<u>\$17,981,750</u>



**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 5 FRANCHISE FEES RECEIVABLE**

The League has agreements with several of its affiliates for the payment of fees in arrears. The agreements provide for installment payments over periods varying from one to three years.

	<u>2018</u>	<u>2017</u>
Gross franchise fees receivable	\$ 1,866,604	\$ 1,730,315
Less: Allowance for doubtful amounts	<u>(1,050,000)</u>	<u>(900,000)</u>
<b>Net franchise fees receivable</b>	<u><u>\$ 816,604</u></u>	<u><u>\$ 830,315</u></u>

**NOTE 6 PROPERTY AND EQUIPMENT**

At December 31, 2018 and 2017, property and equipment consisted of the following:

	<u>2018</u>		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Leasehold improvements	\$ 4,047,648	\$ 1,189,901	\$ 2,857,747
Building	4,109,068	145,535	3,963,533
Furniture and fixtures	936,925	177,556	759,369
Equipment	854,240	543,137	311,103
Computer software	<u>2,328,954</u>	<u>1,479,679</u>	<u>849,275</u>
	12,276,835	3,535,808	8,741,027
Construction in progress	<u>4,095,447</u>	<u>-</u>	<u>4,095,447</u>
<b>Total</b>	<u><u>\$ 16,372,282</u></u>	<u><u>\$ 3,535,808</u></u>	<u><u>\$ 12,836,474</u></u>
	<u>2017</u>		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Net Book Value</u>
Leasehold improvements	\$ 4,036,433	\$ 290,168	\$ 3,746,265
Building	4,109,068	42,803	4,066,265
Furniture and fixtures	1,067,977	211,919	856,058
Equipment	1,594,751	1,145,775	448,976
Computer software	<u>1,979,457</u>	<u>1,209,564</u>	<u>769,893</u>
	12,787,686	2,900,229	9,887,457
Construction in progress	<u>4,657,976</u>	<u>-</u>	<u>4,657,976</u>
<b>Total</b>	<u><u>\$ 17,445,662</u></u>	<u><u>\$ 2,900,229</u></u>	<u><u>\$ 14,545,433</u></u>

Depreciation and amortization expenses for 2018 and 2017 were \$1,590,864 and \$661,951, respectively.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 7 ACCRUED PENSION BENEFITS**

The League sponsors a non-contributory defined contribution plan and a defined benefit plan covering substantially all of its employees. The defined benefit plan was frozen to new entrants in 2002.

Contributions to the defined contribution plan are based on employees' annual compensation; the expense for 2018 and 2017 was \$709,373 and \$574,927, respectively.

The defined benefit plan provides benefits based on participants' earnings and years of service. Net periodic pension costs are determined using the projected-unit credit method in accordance with the provisions of financial accounting standards.

The following tables provide a reconciliation of benefit obligations, plan assets, and funded status of the plan:

	<u>2018</u>	<u>2017</u>
<i>Change in benefit obligations</i>		
Projected benefit obligations, beginning of year	\$ 22,310,239	\$ 21,561,776
Service cost	145,615	138,243
Interest cost	731,348	800,868
Actuarial (gain) loss	(888,152)	1,058,495
Benefit payments and settlements	<u>(1,245,694)</u>	<u>(1,249,143)</u>
Projected benefit obligations, end of year	<u>21,053,356</u>	<u>22,310,239</u>
<i>Change in plan assets</i>		
Fair value of plan assets, beginning of year	16,446,193	15,471,337
Actual return on plan assets (net of expenses)	(1,092,479)	1,365,482
Employer contributions	288,129	858,517
Benefit payments and settlements	<u>(1,245,694)</u>	<u>(1,249,143)</u>
Fair value of plan assets, end of year	<u>14,396,149</u>	<u>16,446,193</u>
<b>Funded status</b>	<u><u>\$ (6,657,207)</u></u>	<u><u>\$ (5,864,046)</u></u>

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 7 ACCRUED PENSION BENEFITS** *(continued)*

	<u>2018</u>	<u>2017</u>
<i>Reconciliation of funded status</i>		
Funded status	\$ 6,657,207	\$ 5,864,046
Actuarial (loss)	<u>(10,207,828)</u>	<u>(9,714,413)</u>
<b>Accrued benefit (gain)</b>	<u><b>\$ (3,550,621)</b></u>	<u><b>\$ (3,850,367)</b></u>
	<u>2018</u>	<u>2017</u>
<i>Amounts recognized in the consolidated statements of financial position, as of December 31</i>		
Accrued benefit gain	\$ 3,550,621	\$ 3,850,367
Actuarial loss at prior measurement date	(9,714,413)	(9,756,368)
Pension-related changes other than net periodic pension credit (costs)	<u>(493,415)</u>	<u>41,955</u>
<b>Accrued pension benefit costs</b>	<u><b>\$ (6,657,207)</b></u>	<u><b>\$ (5,864,046)</b></u>

An employer is required to recognize the funded status of a benefit plan in its statement of financial position. Additionally, the gains or losses and prior service costs or credits that arise during the period, but are not recognized as components of net periodic benefit cost, must be recognized. Additional information about certain effects on net periodic benefit cost for the next fiscal year arising from the delayed recognition of the gains or losses, and transition assets or obligations must be disclosed in the notes to the consolidated financial statements.

In addition, the League's consolidated statement of financial position as of December 31, 2018 required an additional of its liability associated with the defined benefit plan of \$493,415 (actuarial gains or losses and prior service costs or credits that arise during 2018 but are not recognized as components of net periodic benefit cost). This decrease in liability was reflected as a decrease in the accrued pension cost and resulted in a corresponding increase in unrestricted net assets. The League's consolidated statement of financial position as of December 31, 2017 required a reduction of its liability associated with the defined benefit plan of \$41,955 (actuarial gains or losses and prior service costs or credits that arise during 2017 but are not recognized as components of net periodic benefit cost). This decrease in liability was reflected as a decrease in the accrued pension cost and resulted in a corresponding increase in unrestricted net assets.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 7 ACCRUED PENSION BENEFITS** *(continued)*

The accumulated benefit obligations for the defined benefit pension plan were \$20,705,047 and \$21,867,000 at December 31, 2018 and 2017, respectively.

	<u>2018</u>	<u>2017</u>
<i>Components of net periodic pension cost</i>		
Service cost	\$ 145,615	\$ 138,243
Interest cost	731,348	800,868
Expected return on plan assets	(734,265)	(697,352)
Amortization of net obligation at transition		
Amortization of net actuarial loss	445,174	432,320
<b>Net periodic pension cost</b>	<u>\$ 587,872</u>	<u>\$ 674,079</u>

Weighted-average assumptions used to determine benefit obligations as of December 31 are as follows:

	<u>2018</u>	<u>2017</u>
<i>Additional information</i>		
Discount rate	4.00%	3.40%
Rate of compensation increase	2.00%	2.00%

Weighted-average assumptions used to determine net periodic pension cost for the year ended December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	3.40%	3.85%
Expected return on plan assets	5.75%	5.75%
Rate of compensation increase	2.00%	3.00%

The League based its expected return on plan assets on a building block approach, determining risk-free asset return assumptions, and applying a weighted-average methodology to the proportion of plan assets in each applicable asset class.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 7 ACCRUED PENSION BENEFITS** *(continued)*

The League's pension plan's weighted-average asset allocations at December 31, 2018 and 2017, by asset category, are as follows:

	<u>2018</u>	<u>2017</u>
<i>Asset category</i>		
Stocks and equity securities	53%	40%
Bonds	42	54
Insurance contracts	5	6
<b>Total</b>	<u>100%</u>	<u>100%</u>

Cash Flows

*Pension Contributions* – The League expects to contribute approximately \$478,000 to its pension plan in 2019.

*Estimated Future Pension Benefit Payments* – The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year</u>	<u>Amount</u>
2019	\$ 1,690,000
2020	1,600,000
2021	1,570,000
2022	1,540,000
2023	1,490,000
2024-2028	7,170,000

Plan Assets

The following table provides the fair value hierarchy of the Plan's assets as of December 31, 2018:

	<u>Assets at Fair Value as of December 31, 2018</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>Group pension contracts</i>				
Insurance contracts	\$ 791,297	\$ -	\$ -	\$ 791,297
<i>Investments at NAV</i>				
Pooled separate accounts	13,604,852			
<b>Total</b>	<u>\$ 14,396,149</u>			

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 7 ACCRUED PENSION BENEFITS** *(continued)*

Plan Assets *(continued)*

The following table provides the fair value hierarchy of the Plan's assets as of December 31, 2017:

	<b>Assets at Fair Value as of December 31, 2017</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<i>Group pension contracts</i>				
Insurance contracts	\$ 940,103	\$ -	\$ -	\$ 940,103
<i>Investments at NAV</i>				
Pooled separate accounts	15,506,090			
<b>Total</b>	<b>\$ 16,446,193</b>			

The following tables set forth a summary of changes in the value of the Plan's Level 3 investments for the years ended December 31, 2018 and 2017:

Group pension contracts - 2018

Balance, at December 31, 2017	\$ 940,103
Investment income	(41,128)
Payments and settlements	(107,678)
<b>Balance, at December 31, 2018</b>	<b>\$ 791,297</b>

Group pension contracts - 2017

Balance, at December 31, 2016	\$ 1,053,982
Investment income	27,148
Payments and settlements	(141,027)
<b>Balance, at December 31, 2017</b>	<b>\$ 940,103</b>

The following is a description of the valuation techniques and inputs used for each major class of investments at fair value.

*Commingled pooled separate accounts:* The League opted to use the net asset value per share, or its equivalent, as a practical expedient for fair value of the Plan's interest in pooled separate accounts. Assets within the separate accounts include various types of mutual funds, fixed maturity securities, equity securities, mortgage loans, derivatives, hedge funds, other limited partnerships interests, short-term investments, and cash and cash equivalents. There were no unfunded commitments on redemption restrictions associated with these investments.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 7 ACCRUED PENSION BENEFITS** *(continued)*

Plan Assets *(continued)*

*Group pension contracts:* Group pension contract funds are maintained at book value in investment year generations. The generations consist of “new money,” which is equal to funds received in that calendar year, investment income credited for that year, minus disbursements from the account made during that year. Each generation is associated with investments made during that year. To determine the fair value of a generation, all of the investments held in that generation must be brought to the current value. Fair value is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Once the current value of the securities in each generation is determined, the percentage of the generation attributable to the contract is determined. The value of that percentage is the fair value. The total of all of the generations equals the fair market value of the entire contract fund.

**NOTE 8 LONG-TERM DEBT**

In August 2017, Branch Banking and Trust Company (BB&T) issued \$4,250,000 in Revenue Bonds Series 2017 (2017 Bonds). The 2017 Bonds are tax exempt and bear interest, which is payable monthly at a rate of 2.4%.

Long-term debt consisted of the following as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Revenue bonds (gross)	\$ 4,107,089	\$ 4,221,599
Unamortized debt issuance costs	<u>(130,734)</u>	<u>(136,501)</u>
<b>Long-term debt (net)</b>	<b><u>\$ 3,976,355</u></b>	<b><u>\$ 4,085,098</u></b>

The aggregate amounts of principal maturities for the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 118,167
2020	121,950
2021	125,844
2022	129,861
2023	134,010
2024-2042	<u>3,477,257</u>
<b>Total</b>	<b><u>\$ 4,107,089</u></b>

Interest expense, including interest rate swap interest, was \$151,126 and \$32,524 for the years ended December 31, 2018 and 2017, respectively.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 8      LONG-TERM DEBT** *(continued)*

Amortization of debt issuance costs is included as an addition to interest expense on the consolidated statements of activities. The amortization of debt issuance costs was \$5,767 and \$1,923 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 9      INTEREST RATE SWAP AGREEMENT**

The League has entered into an interest rate swap agreement with BB&T. Under the agreement, the League's original notional amount was \$4,250,000, which equated to approximately 100% of the obligation under the 2017 Bonds. The notional amount at December 31, 2018 and 2017 was \$4,107,089 and \$4,221,599, respectively. Under the terms of the agreement, the floating rate was swapped into a fixed rate of 3.03%, with a termination date of September 1, 2025. This mechanism is intended to allow the League to realize the potential benefit of a lower fixed rate. At December 31, 2018 and 2017, the agreement's estimated fair value was in an asset position of \$38,616 and \$17,056, respectively.

The League's intent is to reduce overall interest expense while maintaining an acceptance level of risk exposure to increases in interest rates. The League follows the Derivatives and Hedging Topic of the FASB ASC, which requires the League to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for the change in fair value (*i.e.*, gain or loss) of the derivative instrument is recognized in the statement of activities.

Activity for the year ended December 31, 2018, for the interest rate swap agreement, is as follows:

Fair value of interest rate swap asset, beginning of year	\$ 17,056
Unrealized gain on interest rate swap	<u>21,560</u>
<b>Fair value of interest rate swap asset, end of year</b>	<b><u>\$ 38,616</u></b>

Activity for the year ended December 31, 2017, for the interest rate swap agreement, is as follows:

Fair value of interest rate swap asset, beginning of year	\$ -
Unrealized gain on interest rate swap	<u>17,056</u>
<b>Fair value of interest rate swap asset, end of year</b>	<b><u>\$ 17,056</u></b>



**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 10 LINE OF CREDIT**

In August 2017, the League entered into a loan agreement (the Agreement) with BB&T, whereby the Bank provided the League with a revolving line of credit in the amount of \$2,000,000. The Loan bears an interest rate of 3.25%. The line of credit is secured by all personal property of League, as defined in the loan agreement.

The loan balance at December 31, 2018 and 2017 amounted to \$1,500,000. Interest expense in 2018 and 2017 amounted to \$57,305 and \$0.

The League is in compliance with the terms of the Agreement.

**NOTE 11 DONATED SERVICES AND MATERIALS**

NUL received total donated materials and services valued at \$7,754,079 and \$7,359,216 in 2018 and 2017, respectively. Included in the donated materials and services are \$5,821,998 and \$6,096,656 for its television airtime in 2018 and 2017, respectively; \$1,932,081 and \$1,259,004 from affiliates for donated time for programmatic initiatives for 2018 and 2017, respectively; and, \$0 and \$3,556 for other donated materials for 2018 and 2017, respectively.

**NOTE 12 SPECIAL EVENTS**

The League sponsored one special event: The Equal Opportunity Day Dinner in November.

For the years ended December 31, 2018 and 2017, total revenue and expenses related to the events were as follows:

	<u>2018</u>	<u>2017</u>
Special event-revenues (gross)	\$ 1,513,529	\$ 1,764,858
Special event-expenses (gross)	<u>(500,043)</u>	<u>(538,807)</u>
<b>Net special event-revenue</b>	<b><u>\$ 1,013,486</u></b>	<b><u>\$ 1,226,051</u></b>

Special events revenue and expenses are shown on the consolidated statements of activities as gross amounts.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 13      COMMITMENTS AND CONTINGENCIES**

Operating Lease

NUL leased their New York office space, 120 Wall Street, under a 20-year lease agreement expired in 2017, which provided for waivers of rent payments from April 15, 1997 to September 30, 1998.

The New York office, 120 Wall Street, rental expense for the year ended December 31, 2017 was \$1,211,903.

In December 2016, NUL entered into a new lease for the New York office space, 80 Pine Street, from January 2017 until December 2021. The balance of \$463,688 and \$618,248 in deferred rent credits represents the unamortized balance of the rent waivers as of December 31, 2018 and 2017, respectively.

For the New York office, 80 Pine Street, the annual future minimum rental payments and income under the lease and sublease with United Negro College Fund are as follows:

<u>Year</u>	<u>Rental Expense</u>	<u>Sublease Income</u>
2019	\$ 1,545,615	\$ 135,000
2020	1,545,615	135,000
2021	1,545,615	135,000

The New York office, 80 Pine Street, net rental expense for the years ended December 31, 2018 and 2017 was \$998,490 and \$1,272,840, respectively.

Under the operating lease's terms for the New York office space, NUL is reimbursed by the landlord for certain amount of leasehold improvement costs incurred during 2017. The costs are amortized over the term of lease. As of December 31, 2018 and 2017, \$1,079,570 and \$1,472,134, respectively, are reflected as a lease incentive obligation in the accompanying consolidated statements of financial position. Such amounts will be amortized as a reduction of rent expense over the term of lease.

NUL leased its Washington, DC office space under a 10-year lease agreement which was terminated in 2017.

The Washington, DC net office rental expense for the year ended December 31, 2017 was \$165,382.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 13 COMMITMENTS AND CONTINGENCIES** *(continued)*

Contingencies

NUL is involved in several legal proceedings arising from the ordinary course of its business. Management believes that these legal proceedings will not have a material adverse effect on NUL's financial position, changes in net assets, or cash flows.

**NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods as follow:

	<u>2018</u>	<u>2017</u>
<i>Subject to expenditures for a specific purpose</i>		
Economic Empowerment	\$ 3,491,794	\$ 5,875,598
Building Fund	10,504,998	11,268,999
Education and Youth Empowerment	5,200,293	7,321,022
Civic Engagement/Leadership Empowerment	1,239,910	687,680
Health and Quality of Life Empowerment	80,221	125,763
Urban Empowerment Fund	<u>108,345</u>	<u>72,123</u>
Total purpose restricted	20,625,561	25,351,185
<i>Subject to the passage of time</i>		
Future periods	3,693,223	5,200,490
Endowment funds	<u>406,191</u>	<u>2,354,451</u>
Subtotal	<u>24,724,975</u>	<u>32,906,126</u>
<i>Restrictions permanent in nature</i>		
Permanent Development Fund	4,956,505	4,956,505
Breakthrough Campaign	14,762,433	14,762,433
Other	<u>279,127</u>	<u>279,127</u>
Subtotal	<u>19,998,065</u>	<u>19,998,065</u>
<b>Total</b>	<u><u>\$ 44,723,040</u></u>	<u><u>\$ 52,904,191</u></u>

Amounts subject to expenditures for specific purposes will be spent on activities or items prescribed by each donor.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 14 NET ASSETS WITH DONOR RESTRICTIONS** *(continued)*

NUL's endowment consists of funds received through separate fundraising campaigns established for several purposes. Its endowment includes donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence, if any, of donor-imposed restrictions.

**NOTE 15 NET ASSETS RELEASED FROM DONOR RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passages of time or other events specified by donors and/or the board. The net assets released from restrictions are as follows:

	<u>2018</u>	<u>2017</u>
<i>Specific purpose or passage of time</i>		
Economic empowerment	\$ 6,152,728	\$ 5,307,452
Building fund	864,000	231,000
Education and Youth Empowerment	5,152,595	4,625,856
Civic Engagement/Leadership		
Empowerment	1,293,793	185,067
Health and Quality of Life Empowerment	582,538	553,116
Urban Empowerment Fund	410,823	425,377
Passage of time	2,195,707	3,254,421
Endowment funds	150,000	-
<b>Total</b>	<u>\$ 16,802,184</u>	<u>\$ 14,582,289</u>

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 16 LIQUIDITY AND AVAILABILITY OF RESOURCES**

The League's financial assets available within one year of the consolidated statements of financial position date for general expenditures, such as operating expenses, debt service and capital construction costs not financed with debt, were as follows:

	<u>2018</u>
<i>Financial assets</i>	
Cash and cash equivalents	\$ 12,018,989
Investments	19,314,874
Grants and pledges receivable, net	13,585,689
Franchise fees receivable, net	<u>816,604</u>
Total financial assets available within one year	45,736,156
<i>Liquidity resources</i>	
Bank line of credit available	<u>500,000</u>
Total financial assets and liquidity resources available within one year	46,236,156
<i>Less:</i>	
<i>Amounts unavailable for general expenditures within one year, due to</i>	
Restricted by donors with purpose restrictions	(24,724,975)
Restricted by donors in perpetuity	<u>(19,998,065)</u>
Total amounts unavailable for general expenditures within one year	<u>(44,723,040)</u>
<b>Net financial assets and liquidity resources available within one year</b>	<b><u>\$ 1,513,116</u></b>

As part of the League's liquidity management plan, the League structures its assets to be available as general expenditures, liabilities and other obligations become due. In addition, the League anticipates collecting sufficient revenue, averaging approximately \$1,628,000 monthly, to cover general expenditures not covered by donor-restricted resources.

**NOTE 17 NET ASSETS WITHOUT DONOR RESTRICTIONS**

During 2018, the League generated an unrestricted operating loss of \$(1,094,481). The net results of these activities decreased the unrestricted undesignated net assets to \$5,283,647. The League is also required to recognize net actuarial losses of \$493,415 that came from its defined benefit pension plan during 2018 but were not recognized as components of net periodic pension cost. As a result, this caused the pension-related cost balance to be \$(10,207,828) as of December 31, 2018.

**NOTE 17      NET ASSETS WITHOUT DONOR RESTRICTIONS** *(continued)*

During 2017, the League generated an unrestricted operating surplus of \$254,519. The net results of these activities increased the unrestricted undesignated net assets to \$6,356,568. The League is also required to recognize net actuarial gains of \$41,955 that came from its defined benefit pension plan during 2017 but were not recognized as components of net periodic pension cost. As a result, this caused the pension-related cost balance to be \$(9,714,413) as of December 31, 2017.

**NOTE 18      ENDOWMENTS**

NUL's endowments consist of funds received through separate fundraising campaigns established for several purposes. Its endowment includes donor-restricted endowment funds. As required by U.S. GAAP, the net assets associated with endowment funds are classified and reported based on the existence, if any, of donor-imposed restrictions.

Interpretation of Relevant Law

On September 17, 2010, the State of New York enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA), a modified version of the Uniform Prudent Management of Institutional Funds Act, which superseded the Statement of New York Uniform Management of Institutional Funds Act. NUL's Board of Directors has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NUL classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment and (b) 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 in net assets with donor restrictions until those amounts are appropriated for expenditure by NUL. NUL considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return of income and the appreciation of investments;
- (6) Other resources of the organization; and
- (7) The investment policies of the organization.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 18 ENDOWMENTS** *(continued)*

Endowment Net Asset Composition by Type of Fund

The endowment net asset composition by type of fund are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restricted</u>	<u>Total</u>
<b>December 31, 2018</b>			
Donor-restricted endowment funds	\$ -	\$ 20,437,000	\$ 20,437,000
<b>Total funds, as of December 31, 2018</b>	<u>\$ -</u>	<u>\$ 20,437,000</u>	<u>\$ 20,437,000</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>December 31, 2017</b>			
Donor-restricted endowment funds	\$ -	\$ 22,385,260	\$ 22,385,260
<b>Total funds, as of December 31, 2017</b>	<u>\$ -</u>	<u>\$ 22,385,260</u>	<u>\$ 22,385,260</u>

Changes in endowment net assets for the fiscal year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 22,385,260	\$ 22,385,260
Contributions	-	-	-
<i>Investment return</i>			
Investment income—			
Interest and dividends	-	594,894	594,894
Net depreciation of investments	-	(1,276,455)	(1,276,455)
Released from restriction- board approval	-	(150,000)	(150,000)
<i>Board-approved appropriations</i>			
Appropriation of endowment assets to current operations	-	(1,116,699)	(1,116,699)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 20,437,000</u>	<u>\$ 20,437,000</u>

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 18**      **ENDOWMENTS** *(continued)*

Endowment Net Asset Composition by Type of Fund *(continued)*

Changes in endowment net assets for the fiscal year ended December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 32,744	\$ 20,533,160	\$ 20,565,904
Contributions	-	-	-
<i>Investment return</i>			
Investment income—			
Interest and dividends	-	535,012	535,012
Net appreciation of investments	-	2,289,107	2,289,107
Reclassification	(32,744)	32,744	-
<i>Board-approved appropriations</i>			
Appropriation of endowment assets to current operations	-	(1,004,763)	(1,004,763)
<b>Endowment net assets, end of year</b>	<u>\$ -</u>	<u>\$ 22,385,260</u>	<u>\$ 22,385,260</u>

Return Objectives and Risk Parameters

NUL has adopted investment and spending policies for endowment assets that 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 NUL must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets shall be so diversified so as to minimize the risk of large losses, unless under particular circumstances it would prove unwise. Over the long term, the entire portfolio should increase the purchasing power of the assets and be organized to take into consideration the cash flow requirements and administration of NUL. Safety should be evaluated on an overall basis rather than for each individual investment.

A long-term investment objective has been set for a real return of at least 5% per year, net of fees, over inflation as measured by the Consumer Price Index. NUL seeks a total investment rate of return in excess of the rate of return of an investment in representative indices in the target allocation of the fund. The representative indices shall be as follows: The S&P 500 Stock Index for Large Cap Domestic Equity; the Russell 2000 for the Small Cap Domestic Equity; the MSCI All Country World Ex—U.S. Index for International Equities; and the Lehman Government/Credit Bond Index for fixed-income investments.



**NOTE 18**      **ENDOWMENTS** *(continued)*

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

NUL has a policy of appropriating for distribution a percentage set each year of its endowment fund's average fair value over the prior 12 quarters through the calendar year end proceeding the fiscal year in which the distribution is planned. In establishing this policy, NUL considered the long-term expected return on its endowment. Over the long term, NUL expects the current spending policy to allow its endowment to grow at an average of 5% annually. This policy is consistent with NUL's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as providing additional real growth through market results.

From time to time, the fair value of assets associated with donor restricted-endowment funds may fall below the level that the endowment donors, in entirety or Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the League to retain as a fund of perpetual duration. Deficiencies of this nature exist for the entire endowment, which in total have an original gift of \$19,998,005, a current fair value of \$19,314,874, and a deficiency of \$683,131 as of December 31, 2018. These deficiencies resulted from unfavorable market results that occurred in the 2018 calendar year and continued appropriation for the annual spending formula that was deemed prudent by the Board of Trustees.

**NOTE 19**      **RELATED-PARTY TRANSACTIONS**

Affiliates of the League are separately incorporated, non-profit organizations. Franchise fees are paid annually based on the budget size of the affiliates for an amount not to exceed \$15,000. In 2018 and 2017, NUL recognized franchise fees of \$907,500 and \$904,000, respectively.

Subcontract payments are made by the League to affiliates for their services in carrying out specific projects. In 2018 and 2017, subcontract payments to affiliates totaled \$22,000,418 and \$24,090,385, respectively.

The League received \$1,932,081 and \$1,259,004 in donated services and materials from affiliates in 2018 and 2017, respectively.

**NATIONAL URBAN LEAGUE, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2018 and 2017

**NOTE 20      NEW MARKETS TAX CREDIT**

On August 21, 2009, an agreement was signed between the League and Stonehenge Community Development LLC. The agreement enlists the consulting assistance of the League and its national network of affiliates in performing economic impact assessments for each Qualified Low-Income Community Investment (QLICI) under Stonehenge Community Development's New Market Tax Credits authority. For each QLICI, the League is paid an economic assessment consulting fee equal to 0.50% of the amount of each QLICI. The League received \$350,354 and \$337,500 in fees for the years ended December 31, 2018 and 2017, respectively.

**NOTE 21      SUBSEQUENT EVENTS**

The League has evaluated its subsequent events (events occurring after December 31, 2018) through August 26, 2019, which is the date the consolidated financial statements were available to be issued.

Effective June 30, 2019, the UEF's Board of Directors suspended the operations of the Urban Empowerment Fund, Inc.

