



NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT YEAR ENDED DECEMBER 31, 2011 *(With Comparative Totals for 2010)*



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INDEPENDENT AUDITORS' REPORT

Board of Directors
National Association for the
Advancement of Colored People

We have audited the accompanying consolidated statement of financial position of the National Association for the Advancement of Colored People and Affiliates (NAACP) as of December 31, 2011, and the related consolidated statement of activities, and consolidated statement of cash flows for the year then ended. These consolidated financial statements are the responsibility of the NAACP's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year's summarized comparative information has been derived from the NAACP's 2010 consolidated financial statements. Those statements were audited by other auditors whose report dated July 29, 2011, expressed an unqualified opinion on those consolidated statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 NAACP's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the NAACP and Financially Interrelated Entities as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The statement of functional expense on page 21 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Bert Smith & Co.

Washington, D.C.
August 31, 2012

**NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF
COLORED PEOPLE AND AFFILIATES**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011
(With Comparative Totals for 2010)

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,384,085	\$ 2,214,468
Investments	4,654,628	4,638,301
Accounts Receivable	4,334,827	4,140,886
Other Current Assets	103,323	97,610
Total Current Assets	12,476,863	11,091,265
FIXED ASSETS		
Property and Equipment, net	985,121	595,891
Land	454,550	454,550
Total Fixed Assets, net	1,439,671	1,050,441
OTHER ASSETS		
Other Assets	15,583	15,583
Total Other Assets	15,583	15,583
TOTAL ASSETS	\$13,932,117	\$12,157,289
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,983,844	\$ 2,362,764
Line of Credit	1,500,844	-
Pension Benefits	3,292,004	1,557,667
Total Liabilities	6,776,672	3,920,431
NET ASSETS		
Unrestricted:		
Unrestricted	1,230,797	4,349,713
Board Designated Net Assets	3,081,799	2,954,030
Accumulated Deficit	(4,357,922)	(4,688,253)
Total Unrestricted (Deficit)	(45,326)	2,615,490
Temporarily Restricted		
Total Net Assets	7,200,751	5,621,368
TOTAL LIABILITIES AND NET ASSETS	\$13,932,117	\$12,157,289

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

**NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF
COLORED PEOPLE AND AFFILIATES**
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
REVENUE AND OTHER SUPPORT				
Grants and Contributions	\$ 10,339,212	\$ 9,513,188	\$19,852,400	\$19,752,713
Legacies and Bequests	238,593	126,472	365,065	291,213
Membership	2,847,951	-	2,847,951	3,088,155
Convention	2,842,119	100,000	2,942,119	2,827,838
Image Awards	3,361,516	-	3,361,516	2,210,530
Leadership 500	495,155	5,000	500,155	357,025
Legal	1,900,000	113,162	2,013,162	90,348
Freedom Funds	1,234,786	-	1,234,786	1,238,865
Regional Conferences	25,000	-	25,000	-
Interest and Dividend Income	7,030	160,358	167,388	161,206
Return on Investment	-	-	-	292,164
Disaster Relief	-	21,363	21,363	198,883
Subscriptions	14,432	-	14,432	66,033
Advertising	114,000	-	114,000	27,098
Other revenue	154,153	10,200	164,353	287,622
<i>Net Assets Released from Restriction</i>	<u>8,446,884</u>	<u>(8,446,884)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>\$ 32,020,831</u>	<u>\$ 1,602,859</u>	<u>\$33,623,690</u>	<u>\$30,889,693</u>

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

**NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF
COLORED PEOPLE AND AFFILIATES**
CONSOLIDATED STATEMENT OF ACTIVITIES *(Continued)*
YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2011</u>	<u>2010</u>
EXPENSES				
Program Services:				
Membership Services	\$ 1,519,643	\$ -	\$1,519,643	\$1,398,962
Field Operations	4,084,471	-	4,084,471	4,065,849
Convention	3,432,223	-	3,432,223	2,744,050
Image Awards	2,325,838	-	2,325,838	1,906,451
Leadership 500 Summit	525,587	-	525,587	369,025
ACT-SO	1,051,690	-	1,051,690	841,677
Civic Engagement	338,850	-	338,850	1,115,114
Legal Programs and Fellows	1,969,694	-	1,969,694	1,475,097
Direct Issue Education	2,845,055	-	2,845,055	3,041,090
Redistricting Project	52,563	-	52,563	729,274
Research and Policy	1,143,211	-	1,143,211	1,254,581
Education	582,217	-	582,217	570,330
Health	877,284	-	877,284	467,653
Economic Development	1,830,033	-	1,830,033	327,100
Disaster Relief	764	-	764	234,066
Climate Justice	294,033	-	294,033	218,835
Criminal Justice	841,260	-	841,260	580,900
Human Rights/Voting Rights	551,979	-	551,979	-
Total Program Services	<u>24,266,395</u>	<u>-</u>	<u>24,266,395</u>	<u>21,340,054</u>
Support Services:				
Fundraising	3,544,382	-	3,544,382	3,486,061
Management and General	3,775,193	-	3,775,193	4,132,680
Selling Expense	276,893	-	276,893	296,262
Total Support Services	<u>7,596,468</u>	<u>-</u>	<u>7,596,468</u>	<u>7,915,003</u>
Net Investment Losses	24,282	222,130	246,412	-
Cost of Sales – Crisis	861,511	-	861,511	841,556
TOTAL EXPENSES	<u>32,748,656</u>	<u>222,130</u>	<u>32,970,786</u>	<u>30,096,613</u>
Revenue and Support Over Expenses				
Before Pension-related Changes	(727,825)	1,380,729	652,904	793,080
Change in Defined Pension Plan				
Obligation	<u>(1,734,337)</u>	<u>-</u>	<u>(1,734,337)</u>	<u>(375,047)</u>
Change in Net Assets/Accumulated				
Deficit	(2,462,162)	1,380,729	(1,081,433)	418,033
Net Assets/(Deficit), Beginning of Year	2,416,836	5,820,022	8,236,858	7,818,825
Net Assets/(Deficit), End of Year	<u>\$ (45,326)</u>	<u>\$ 7,200,751</u>	<u>\$7,155,425</u>	<u>\$8,236,838</u>

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

**NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF
COLORED PEOPLE AND AFFILIATES**
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,081,433)	\$ 418,033
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	211,459	219,792
Unrealized loss (gain) on investments	246,412	(250,629)
Change in assets and liabilities:		
Decrease (Increase) in accounts receivable	(193,941)	(1,441,660)
(Increase) in other assets, net	(5,713)	(926)
(Decrease) Increase in accounts payable and accrued expenses	(378,920)	1,228,556
Increase in pension benefits	1,734,337	375,047
(Decrease) in deferred revenue	-	(206,101)
Net Cash Provided by Operating Activities	532,201	342,112
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase/transfer of investments	(2,213,335)	(3,711,883)
Sale of investments	2,118,547	3,750,258
Reinvestment of Interest and Dividends	(167,951)	(161,207)
Purchase of property and equipment	(600,689)	(87,801)
Net Cash Used in Investing Activities	(863,428)	(210,633)
 CASH FLOW FROM FINANCING ACTIVITIES		
Advances on loan management account	1,500,844	-
Net Cash Provided by Financing Activities	1,500,844	-
 Net Increase in Cash and Cash Equivalents	1,169,617	131,479
Cash and Cash Equivalents – Beginning of Year	2,214,468	2,082,989
Cash and Cash Equivalents – End of Year	\$ 3,384,085	\$ 2,214,468
 Supplemental Data		
Cash paid for Interest	\$ 4,688	\$ -

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

**NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF
COLORED PEOPLE AND AFFILIATES**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- ***Organization***

The National Association for the Advancement of Colored People (“the NAACP”) is a national, multiracial, not-for-profit organization founded in February 1909 and incorporated in 1911. The NAACP was organized to eliminate social injustices, including racial discrimination, by assisting in legal cases and initiating legal action to enforce the principles of law.

The NAACP’s principle objectives are to improve the political, educational, social and economic status of minority groups; eliminate racial prejudices; keep the public aware of the adverse effects of racial discrimination; and taking all lawful actions to eliminate such discrimination. The NAACP performs its objectives nationwide through a network that includes seven (7) regions, representing over 2,000 branches (units), including approximately 400 youth council chapters. The financial statements of NAACP do not include the operations of the units and youth council chapters which maintain their own separate accounts.

The NAACP receives funding from grants, contributions, memberships and vendor fees.

- ***Principles of Consolidation***

These consolidated financial statements include the accounts of the National Association for the Advancement of Colored People and Affiliates (*hereafter referred to as the “NAACP”*). The accompanying consolidated statements consist of the National Association for the Advancement of Colored People, NAACP Special Contributions Fund and Crisis Publishing Company, Inc. See Note 2 for further description of the affiliates. All intercompany transactions and balances have been eliminated in the consolidation.

- ***Basis of Accounting***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

- ***Basis of Presentation***

The NAACP financial statements follow accounting standards of not-for-profit entities in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities – Presentation*. Under those standards, NAACP is required to report information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

... *Unrestricted Net Assets* – unrestricted resources available to support operations that can be utilized at the discretion of the Board of Directors and management and also includes temporarily restricted resources which become available for use by the NAACP in accordance with the intention of donors.

... *Temporarily Restricted Net Assets* – net assets that are subject to donor-imposed stipulations that will be met either by actions of the NAACP and/or the passage of time.

... *Permanently Restricted Net Assets* – net assets subject to donor-imposed stipulations that are to be maintained permanently by the NAACP. Generally, the donors of these permit the NAACP to use all or part of the income derived from related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2011.

The accompanying consolidated financial statements include the accounts of all wholly-owned subsidiaries and affiliates (See Note 2).

- ***Cash and Cash Equivalents***

NAACP considers all funds in the bank and on hand, along with highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

- ***Investments***

Investments are reported at fair value in the consolidated statement of financial position. Investment income includes interest and dividend income, realized and unrealized gains and losses, and are recognized as revenue and reported in the consolidated statement of activities and changes in net assets. The investment accounts consist of temporarily restricted funds and Board designated funds.

- ***Fair Value Measurements***

The NAACP follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 provides a framework for measuring fair value under accounting principles generally accepted in the United States of America, and applies to all financial instruments that are being measured and reported on a fair value basis. FASB ASC 820 sets out a fair value hierarchy and defines fair value 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. The fair value hierarchy is defined as follows:

Level 1: Inputs that reflect unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimates.

The NAACP assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. There were no transfers among Levels 1, 2 and 3 during the fiscal year. FASB ASC 820 requires the use of observable market data if such data is available without undue cost and effort.

- **Fixed Assets**

Land, property and equipment are recorded at cost or if donated, at the fair market value of the donated assets. The NAACP capitalizes property and equipment over \$5,000 and depreciates them on a straight-line basis over their estimated useful lives.

The estimated useful lives used in computing depreciation are as follows:

Buildings and Improvement	15-30 Years
Computer Equipment	3-5 Years
Furniture and Equipment	5-7 Years
Software	3 Years

- **Donated Property**

Gifts of land, buildings, and equipment are reported as unrestricted support unless restricted by the donor. Assets donated with explicit restriction as to use and cash contributions that must be used to acquire property and equipment are reported as restricted contributions. The NAACP reports expirations of donor stipulations when the donated or acquired assets are placed in service, by reclassifying the temporarily restricted net assets to unrestricted net assets.

- **Conference Revenues and Expenses**

Revenue and expenses for the National Convention are recognized when the conference takes place. Conference fees received in advance are recorded as deferred convention revenue. Expenses paid in advance are recorded as prepaid expenses.

- **Revenue Recognition**

Contributions and grants, including promises to give, are considered revenue when earned and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions and applicable grants are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction or conditional promise. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restricted.

Promises to give are carried at fair value, and are written off when deemed uncollectible based on the NAACP's experience with the donors and their ability to pay.

Grant funds received but unexpended are reflected as either deferred revenue or temporarily restricted depending on the specific terms of the grant.

- **Risk and Uncertainties**

Investments securities are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks and values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

- ***Other Transactions***

The NAACP at times receives funds from donors during the year on behalf of various units. These funds and related disbursements are not considered as revenue or expenditures of the NAACP and are therefore, not reflected as such in the consolidated financial statements. These amounts totaled \$684,839 during the year ended December 31, 2011, and there were no balances owed to the units at year end.

- ***Income Tax Status***

The NAACP and SCF are qualifying nonprofit organizations as defined in §501(c)(3) sections of the Internal Revenue Code, and therefore are exempt for federal and state income taxes. Crisis Publishing Company, Inc., NAACP's for-profit subsidiary, has net operating loss carryforwards to offset current and future taxable income. Thus, no provisions have been made for taxes in the financial statements.

ASC 740, *Income Taxes* requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to position as taken or expected to be taken in a tax return. As of December 31, 2011, management has assessed its various tax positions and it believes there are no liabilities for uncertain tax positions.

The tax returns are subject to examination by the Internal Revenue Service, generally three years after they are filed.

- ***Contributed Services***

Contributions of donated services are recorded at their fair value if they create or enhance non-financial assets or that require specialized skills and would typically need to be purchased if not provided by donation. Included in professional fees and contributions are pro-bono services provided to the NAACP by law firms, retailer, and a construction firm. The fair value of these services has been estimated by the entities to be \$291,330, and are included in facility expenses, special events and professional fees in the statement of functional expenses.

In addition, volunteers, including the members of the Board of Directors, have made significant contributions of time to the NAACP's policy-making, program and support functions. These contributed services do not meet the above criteria for recognition of contributed services and, accordingly, are not included in the accompanying consolidated financial statements.

- ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

- ***Comparative Financial Data***

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. The 2010 fiscal year amounts are not intended to present all information necessary for fair presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the NAACP's consolidated financial statements for the year ended December 31, 2010, from which the summarized information was derived.

• **Reclassifications**

Certain accounts and amounts reported in the 2010 consolidated financial statements have been reclassified to conform to the 2011 consolidated financial statement presentation.

NOTE 2 AFFILIATES

NAACP Special Contribution Fund (SCF)

The SCF shares common management with the NAACP. The SCF is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes. The SCF engages in transactions with the NAACP, resulting in intercompany receivables and payables. The financial statements of the SCF are reflected in the accompanying consolidated financial statements.

Crisis Publishing Company, Inc. (CRISIS)

Crisis Publishing Company, Inc. (CRISIS), a for-profit corporation, is wholly-owned by the National Association for the Advancement of Colored People, which publishes *The Crisis*, a quarterly magazine. The financial statements of Crisis Publishing Company, Inc. are reflected in the accompanying consolidated financial statements.

NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the NAACP to concentrations of credit risk consist of cash and cash equivalents, and investments held at a creditworthy financial institution.

At December 31, 2011, the NAACP had deposits of \$3,702,190 in non-interest bearing transaction accounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC). The NAACP also has balances in interest-bearing accounts, which are insured up to the FDIC limit of \$250,000. There were no uninsured balances at December 31, 2011.

NOTE 4 INVESTMENTS

Investments are stated at fair value and consist of the following at December 31, 2011:

Corporate Bonds	\$ 752,913
Merrill Lynch Bank Deposit Program	112,114
Government Securities	1,026,849
Equities	1,206,167
Mutual Funds	1,544,427
Investment Loan	12,158
	<u>\$4,654,628</u>

The following schedule summarizes the NAACP's investment return for the year ended December 31, 2011.

Net Realized and Unrealized Loss	\$ (246,412)
Interest and Dividends	167,388
Total	<u>\$ (79,024)</u>

NOTE 5 FAIR VALUE MEASUREMENTS

At December 31, 2011, the NAACP financial instruments included cash and cash equivalents, receivables, accounts payable, accrued expenses and other liabilities. The carrying amounts reported in the accompanying consolidated statements of financial position for these financial instruments approximate their fair values.

The following table sets forth by level, with the fair value hierarchy, the NAACP's investments at fair value as of December 31, 2011.

	Quoted Prices in Active Markets for Identifiable Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	(Level 1)	(Level 2)	(Level 3)	
Certificate of Deposit	\$ -	\$ 54,474	\$ -	\$ 54,474
Corporate Bonds	752,913	-	-	752,913
Merrill Lynch Bank Deposit Program	-	112,114	-	112,114
Government Securities	1,026,849	-	-	1,026,849
Equities	1,206,167	-	-	1,206,167
Mutual Funds	1,544,427	-	-	1,544,427
Investment Loan	-	-	12,158	12,158
Total	<u>4,530,356</u>	<u>112,144</u>	<u>12,158</u>	<u>4,654,628</u>
Investments Totals	<u>\$ 4,530,356</u>	<u>\$ 166,588</u>	<u>\$ 12,158</u>	<u>\$ 4,709,102</u>

The following table represents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31, 2011:

	Total
Beginning balances at December 31, 2010	\$ -
Purchases	10,000
Net Realized and Unrealized Gains (Losses) included in Change in Net Assets	<u>2,158</u>
Ending balances at December 31, 2011	<u>\$ 12,158</u>

Fair values for corporate bonds, government securities, equities and mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions and are classified as Level 1.

Investments in certificates of deposits and bank deposits program are comprised of domestic and global institutional pooled (commingled) funds which are classified as Level 2, based on multiple sources of information. These sources may include market data for assets from market data for assets from markets that are not active and/or quoted market prices for the same or similar assets in active markets. To estimate the fair value, the NAACP used an industry standard valuation model which is based on a market approach.

Investment loan is comprised of endowment notes for which there is no readily determinable fair value and is classified as Level 3, as the valuation is based on significant unobservable inputs. These unobservable inputs are based upon the best available information in the circumstances.

NOTE 6 ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from donors, employees and sponsors as of December 31, 2011:

	<u>Total</u>
Corporate	\$ 1,315,799
Foundation	1,871,897
Individual	919,204
Convention	18,000
Image Awards	200,000
Employee Advances	9,927
Total Accounts Receivable	<u>\$ 4,334,827</u>

All funds are expected to be collected in less than one year. Accordingly, based on management's evaluation of collectability and risk, an allowance for doubtful accounts has not been recorded.

NOTE 7 PROPERTY AND EQUIPMENT

In August 1985, the City of Baltimore granted the NAACP land consisting of approximately 3.2189 acres and a building, which together constitutes the NAACP National Headquarters. The grant, in the form of a mortgage of \$1,110,000, was achieved through a combination of the City of Baltimore and State of Maryland grant funds.

Property and equipment consisted of the following at December 31, 2011:

	<u>Total</u>
Building	\$ 2,622,580
Furniture and Equipment	4,789,843
Leasehold Improvement	382,174
	<u>7,794,597</u>
Less: Accumulated Depreciation	<u>(6,809,476)</u>
Property and Equipment, net	<u>\$ 985,121</u>
Depreciation Expense for the Year	<u>\$ 211,459</u>

NOTE 8 DONATED PROPERTY

The NAACP has acquired real estate over the years through gifts and bequests. However, a number of these assets have not been recorded in the financial statements of the NAACP. As of December 31, 2011, the related land and buildings have assessed values totaling \$117,702 and \$452,461, respectively.

NOTE 9 LINE OF CREDIT

On November 18, 2011, the NAACP entered into a loan management account (line of credit) agreement with Bank of America to provide working capital for the organization. The maximum available credit is determined by Bank of America from time to time based on the value of the securities pledged as collateral for the credit facility. The NAACP has pledged as collateral securities accounts established at Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bank. Finance charges are accrued daily based on a variable rate. This credit facility replaces an expired line previously held with another bank. At year end, the outstanding balance totaled \$1,500,844.

NOTE 10 EMPLOYEE BENEFIT PLANS

Defined Benefit Plan

The NAACP has a defined benefit pension plan (the Plan) that covers substantially all employees of the NAACP and its Affiliates. The benefits paid to retirees are based on years of service and employee's annual earnings, averaged over the highest three consecutive years. The NAACP's funding policy is to contribute the amount necessary to meet funding requirements. Employees do not make contributions to the Plan. The NAACP reflects pension costs as they accrue based on the actuarial cost method, and funds the Plan through contributions to a separately maintained trust.

The NAACP adopted the provisions of FASB ASC 958-715, *Not-for-Profit Entities - Compensation-Retirement Benefits*. FASB ASC 958-715 requires the funding status to be recognized as an asset or liability in the statement of financial position and the measurement date to be as of the statement of financial position date. The funding status is the difference between the Plan's projected future benefit obligation and the fair value of Plan assets.

The fair value of the Plan's assets is the anticipated value of the Plan's invested funds during that same period. The majority of the Plan's assets are invested in annuity contracts and pooled separate accounts of the Plan Custodian's General Account.

The NAACP Chapter had an actuarial valuation performed to determine the Plan's funding status. The valuation, which is based on various actuary assumptions, had a measurement date as of December 31, 2011. Based on the valuation, the projected benefit obligation exceeded the fair value of the Plan's assets resulting in an unfunded status or current liability of \$3,292,004, which is an increase of \$1,734,337 from the prior fiscal year.

The following table presents the changes in benefit obligations, changes in Plan assets fair value, and the composition of accrued benefit costs in the consolidated statement of financial position for the year ended December 31, 2011:

Change in Benefit Obligations	
Benefit obligations at beginning of year	\$ 10,417,602
Service cost	480,657
Interest cost	562,363
Actuarial gain	1,030,448
Benefits paid	(260,353)
Projected benefit obligations at end of year	<u>\$ 12,230,717</u>
Change in Plan Assets	
Fair value of plan assets at beginning of year	\$ 8,859,935
Actual return on plan assets	(160,945)
Employer contributions	500,076
Benefits paid	(260,353)
Fair value of plan assets at end of year	<u>\$ 8,938,713</u>
Unfunded status at beginning of year	\$ (1,557,667)
Change in funded status	<u>(1,734,337)</u>
Unfunded status at end of year	<u>\$ (3,292,004)</u>

The amount recognized in net assets (accumulated other comprehensive income) is as follows:

Net loss	\$ 2,317,503
Prior service costs	162,141
Net amount recognized	<u>\$ 2,479,644</u>

Accumulated Benefit Obligation as of December 31, 2011	<u>\$ 10,845,736</u>
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The Pension Plan's accumulated benefit obligations compared with the projected benefit obligations and plan assets are as follows:

Projected benefit obligations	\$ 12,230,717
Accumulated benefit obligations	\$ 10,845,736
Fair value of plan assets	\$ 8,938,713

Component of Net Periodic Pension Cost and Other Amounts Recognized in Change in Net Assets

Components of Net Period Pension Cost:

Current year service cost	\$ 480,657
Interest cost	562,363
Expected return on plan assets	(624,198)
Amortization of prior service cost	62,181
Amortization of loss	-
Net periodic pension cost	<u>\$ 481,003</u>

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:

Net loss (gain)	\$ 1,815,591
Amortization of prior service costs	(62,181)
Amortization of net loss	-
Total recognized in other comprehensive income during the fiscal year other than through net periodic cost	<u>\$ 1,753,410</u>
Total recognized in net periodic pension cost and other comprehensive income during the fiscal year	<u>\$ 2,234,413</u>

Actuary Assumptions

Weighted average assumptions used to determine benefit obligations at December 31, 2011:

Discount rate	5.00%
Rate of compensation increases	3.00%

Weighted average assumptions used to determine net periodic benefit cost as of December 31, 2011:

Discount rate	5.50%
Expected long-term rate of investment return	7.00%
Rate of compensation increases	3.00%

Plan Asset Allocations

The NAACP pension plan asset weighted-average allocations at December 31, 2011, by asset category are as follows:

Equity securities	52%
Fixed income	10%
Cash	38%
	100%

Contributions

The NAACP expects to contribute \$870,000 to its pension plan in 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Amount
2012	\$ 361,258
2013	\$ 379,898
2014	\$ 471,333
2015	\$ 486,037
2016	\$ 559,439
2017 - 2021	\$ 3,438,691

Defined Contribution Pension Plan

The NAACP has a defined contribution plan which meets the requirements of Section 401(k) of the U.S. Internal Revenue Code. Each active participant may enter into a salary deferral agreement with the employer in an amount equal to not less than 1% or more than 20% of his or her compensation for the contribution period, with a maximum of \$16,500. The employer matches each participant's pre-tax contributions up to 50% on the dollar of the first 6% of the employee's compensation contributed to the plan. Employer contributions to employee accounts vest 0% up to two years of employment and 100% after two years. Employees may also borrow up to 50% against their vested account balance up to a maximum of \$50,000. The NAACP contributed \$260,553 under the Plan during the year ended December 31, 2011.

NOTE 11 COMMITMENTS AND CONTINGENCIES**Operating Leases**

The NAACP has commitments under operating leases for office space existing at various times. Rent expense for 2011 totaled \$725,426.

Minimum lease payments under non-cancelable operating leases are as follows:

Year	Amount
2012	\$ 726,391
2013	772,870
2014	596,990
2015	557,775
2016	268,458
Total	\$ 2,922,484

Contingencies

The NAACP is involved in legal actions arising in the ordinary course of its business. In the opinion of management, after consultation with internal and external legal counsel, the NAACP has adequate legal defense with respect to any of these actions and if the outcomes are unfavorable, management does not believe that they will materially affect the NAACP's results of operations or financial position.

NOTE 12 BOARD DESIGNATED FUNDS

The Board of Directors of the NAACP has designated funds to be used for future building expenditures and to maintain the financial stability of the association.

Investment Policies

The NAACP has adopted investment policies for the net assets that attempt to provide a predictable stream of funding for the programs which they support while seeking to maximize returns of investments over the long-term.

- **Board Net Asset Composition December 31, 2011**

Board Restricted Net Assets as of December 31, 2011:

Board-designated Funds	<u>\$3,081,799</u>
Changes in Board Restricted Net Assets for the Year Ended December 31, 2011	
Net Assets, Beginning of the Year	\$2,954,030
Contributions	250,000
Investment Return:	
Investment Income	98,655
Net Depreciation (realized and unrealized)	<u>(184,585)</u>
Total Investment Return	<u>(85,930)</u>
Appropriation of Endowment Assets for Expenditures	<u>(36,301)</u>
Endowment Net Assets, End of Year	<u>\$3,081,799</u>

NOTE 13 TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2011, donor temporarily restricted net assets consisted of funds for the following purposes:

Human Rights	\$ 10,608
Scholarships	1,155,508
Educational Programs	1,584,751
Economic Development	617,786
Civic Engagement	827,891
Health Programs	509,366
ACT-SO	655,173
Voting Rights	531,599
General Operations	1,150,000
Other	158,069
Total	<u>\$7,200,751</u>

NOTE 14 FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program and Supporting Services - The NAACP operations consist of the following program and supporting services:

- *Membership Services*

The National Membership Department is responsible for the growth in the number of the NAACP members through the planning, structuring and directing of campaigns through the NAACP Units, churches, donors and other organizations. The Membership Department's staff processes all new and renewed membership dues and provides direct service to individual members as well as to local adult units of the NAACP.

- *Field Operations*

The NAACP regional and field offices are responsible for assuring that the NAACP units are viable and capable of carrying out the NAACP's mission at the local level. This effort requires providing the necessary training and information to adult volunteers, serving and strengthening stakeholder relations, and cultivating youth and college members. Youth program objectives are to inspire, motivate, and create interest in civic activities; provide young people with an understanding of pertinent issues; develop organizational skills for implementation of community-related activities; and encourage active participation in these activities.

- *Convention*

The NAACP constitution mandates an annual convention of its members, board and officers to share information and accomplishments and to establish policies and programs for the coming year.

- *Image Awards*

The NAACP Image Awards (the Awards) honor projects and individuals of all races who help promote positive images of people of color. The Awards take place annually and usually air live on network television.

- *Leadership 500 Summit*

NAACP's Leadership 500 Summit (the Summit) serves as a training ground for leadership development of mid-level professionals between the ages of 30-50 years old. The Summit helps participants gain awareness, focus, and hone their skills as they advance professionally.

- *ACT-SO*

The objective of ACT-SO is to prepare, recognize and reward African American youth who exemplify scholastic and artistic excellence. The NAACP units conduct annual competitions for students in grades 9-12 throughout the country. The top winners from local competitions then compete at the national ACT-SO finals held during the NAACP's annual convention.

- *Civic Engagement*

The NAACP Civic Engagement Program involves groups and organizations committed to educating and empowering African Americans to vote and serve their communities and participate in the political process. Literature, materials and expertise are provided to The NAACP units and coalition partners to ensure the development of successful voter empowerment.

- *Legal Programs and Fellows*

The NAACP's Legal Department includes a number of programs of national interest and engages in litigation directly and indirectly through the utilization of outside counsel. The department also has an ongoing Continuing Legal Education Program and an annual resident fellows program.

- *Direct Issue Education*

The NAACP utilizes its direct mail and communications capacity to regularly inform and educate its constituents, stakeholders, and supporters about its programs and other strategic initiatives.

- *Redistricting Project*

Recent voter redistricting and other public policy matters affecting voting rights are monitored and reviewed by the Legal Department on an ongoing basis.

- *Research and Policy*

This division was created late in 2005 to provide research and develop NAACP policy on public policy issues affecting people of color in the United States.

- *Education*

The fundamental goal of the NAACP's Education Program advocacy agenda is to provide all students access to quality education. The NAACP Education Department's resources are strategically focused on three major objectives:

- Preventing racial discrimination in educational programs and services
- Advancing educational excellence
- Promoting an equal opportunity education agenda

The education program also includes administration of educational scholarships.

- *Health*

The NAACP Health Program promotes equality in health care for African Americans and seeks to address the disparities between the quality of care received by African Americans and other groups. The National Health Director works with the National Health Committee to create and implement projects; evaluates and drafts policy statements; and represents the NAACP at conferences, workshops, and on advisory boards.

- *Economic Development*

The NAACP Economic Program recognizes the importance of the economy and economic issues in advancing an equal opportunity society and aims to address the challenging economic realities facing our country (e.g., disproportionate high unemployment, poverty and foreclosures, etc.). The Financial Freedom Center was launched in 2010 to enhance the capacity of African Americans, and other undeserved groups, by financially educating individuals to effectively manage their personal finances and credit; promoting diversity and inclusion in business hiring, career advancement and procurement; monitoring financial banking practices; and promoting community economic development.

- *Climate Justice*

This program seeks to reduce racial disparities among communities affected by natural disasters, environmental pollution, and other characteristics of global warming.

- *Criminal Justice*

The Criminal Justice program promotes alliances, legislation and initiatives that positively impact inmate recidivism, ex-felon re-enfranchisement and re-employment, and racial disparities within the criminal justice system. The program also assists with the formation of NAACP Prison membership units.

- *Human Rights*

The Human Rights project seeks to apply a human rights norm and utilize international forums to raise issues of concern to the NAACP, such as the disenfranchisement of persons with felony convictions, and the impact of global warming and environmental degradation on communities of color.

- *Voting Rights*

The Voting Rights initiative seeks to raise public awareness on the detrimental impact of new restrictions on voter registration and voter ID requirements occurring at the state level. The NAACP is analyzing these new restrictions and determining when legal action should be taken to protect the right to vote, and in other instances educating potential voters about the new requirements to ensure their right to vote is protected.

- *Fundraising*

Fundraising represents all costs that are necessary to raise funds for the NAACP, including the purchase of mailing lists, postage and direct mail campaigns.

- *Management and General*

Management and general expenses include activities on a national level that are necessary to maintain and support the NAACP, the CRISIS and SCF in a legal and financially responsible manner. This included executive services, finance and budget, administration and purchasing, human resources, information technology and legal counsel.

- *Cost of Sales and Selling Expense - CRISIS*

These costs for The CRISIS magazine include printing, advertising, postage, writers, photographers and production staff.

NOTE 15 SUBSEQUENT EVENTS

On February 14, 2012, the NAACP Board approved the reclassification of accumulated debt due to the NAACP from CRISIS to additional NAACP stockholder's equity in CRISIS. The debt and equity in the 2011 financial statements have been adjusted by \$2,772,844 to reflect this reclassification.

NAACP has evaluated events subsequent to December 31, 2011 and through August 31, 2012, the date the financial statements were available to be issued, and determined that, except for the item noted in the preceding paragraph, there were no events that require adjustments to or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

**NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF
COLORED PEOPLE AND AFFILIATES**
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

EXPENSE CLASSIFICATIONS:

	<u>Personnel</u>	<u>Administrative and Office Expenses</u>	<u>Facility Expenses</u>	<u>Travel</u>	<u>Special Events</u>	<u>Consulting Fees</u>	<u>Professional Fees</u>	<u>Subtotal</u>	<u>Indirect Cost Allocation</u>	<u>Total</u>
<i>Program Services:</i>										
Membership	\$ 476,403	\$ 311,437	\$ 2,792	\$ 28,451	\$ 86,458	\$ 190,574	\$ -	\$ 1,096,115	\$ 423,528	\$ 1,519,643
Field Operations	2,335,403	192,699	81,014	251,688	306,057	264,271	622	3,431,754	652,717	4,084,471
Convention	2,709	52,075	63,697	2,193	2,744,141	19,480	-	2,884,295	547,928	3,432,223
Image Awards	582,291	85,304	83,852	8,789	1,005,117	114,392	42,068	1,921,813	404,025	2,325,838
Leadership 500 Summit	-	9,106	67	4,875	416,441	7,500	-	437,989	87,598	525,587
ACT-SO	190,509	41,990	4,019	62,297	503,417	-	71,434	873,666	178,024	1,051,690
Civic Engagement	53,496	17,457	8,332	40,354	28,763	144,096	-	292,498	46,352	338,850
Legal Programs & Fellows	289,964	17,518	582	26,486	87,707	-	1,292,187	1,714,444	255,250	1,969,694
Direct Issue Education	234,528	1,902,828	3,404	29,836	4,429	185,000	-	2,360,025	485,030	2,845,055
Redistricting Project	2,258	17,803	456	17,910	4,891	500	-	43,818	8,745	52,563
Research and Policy	620,583	98,904	200,223	27,553	3,762	-	-	951,025	192,186	1,143,211
Education	144,360	24,822	4,118	25,269	186,768	126,445	-	511,782	70,435	582,217
Health	413,346	7,896	14,850	80,295	180,796	48,569	-	745,752	131,532	877,284
Economic Development	625,156	72,981	362,165	128,907	51,989	181,276	-	1,422,474	407,559	1,830,033
Climate Justice	171,452	5,244	2,441	53,638	14,818	535	-	248,128	46,669	294,797
Criminal Justice	308,274	12,899	8,271	129,142	152,973	91,720	-	703,279	137,981	841,260
Human Rights/Voting Rights	16,724	698	-	43,758	92,840	312,500	-	466,520	85,459	551,979
Total Program Services	6,467,456	2,871,661	840,283	961,441	5,871,367	1,686,858	1,406,311	20,105,377	4,161,018	24,266,395
<i>Support Services:</i>										
Fundraising	1,177,841	1,340,834	240,273	36,230	6,928	153,229	-	2,955,335	589,047	3,544,382
Management and General	4,229,162	1,432,903	1,118,646	364,430	569,824	418,880	391,413	8,525,258	(4,750,065)	3,775,193
Selling Expenses	-	276,496	-	-	397	-	-	276,893	-	276,893
Total Support Services	5,407,003	3,050,233	1,358,919	400,660	577,149	572,109	391,413	11,757,486	(4,161,018)	7,596,468
<i>Net Investment Loss</i>	-	246,412	-	-	-	-	-	246,412	-	246,412
<i>Cost of Sales - CRISIS</i>	505,506	287,720	-	-	-	1,600	66,685	861,511	-	861,511
Total Expenses 2011	\$12,379,965	\$ 6,456,027	\$2,199,202	\$1,362,101	\$6,448,516	\$2,260,567	\$ 1,864,409	\$32,970,786	\$ -	\$32,970,786
Total Expenses 2010	\$10,719,552	\$ 7,052,828	\$1,757,485	\$1,017,071	\$6,190,305	\$2,132,014	\$ 1,227,358	\$30,096,613	\$ -	\$30,096,613

See Independent Auditors' Report.