

Certified Public Accountants  
& Consultants



**Southern Poverty Law Center, Inc.  
and SPLC Action Fund  
October 31, 2018**  
Consolidated Financial Statements

**Southern Poverty Law Center, Inc.**

**Index**

	<b><u>Page</u></b>
Independent auditor's report	1
Consolidated statement of financial position	2 - 4
Consolidated statement of activities	5 - 7
Consolidated statement of cash flows	8
Consolidated statement of functional expenses	9
Notes to financial statements	10 - 19

## **Independent Auditor's Report**

The Board of Directors  
Southern Poverty Law Center, Inc.  
Montgomery, Alabama

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Southern Poverty Law Center, Inc. (the Center) and affiliate, which comprise the consolidated statement of financial position as of October 31, 2018, the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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 Southern Poverty Law Center, Inc. and affiliate, as of October 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Jackson Thornton & Co. PC*

Montgomery, Alabama  
December 10, 2018

**Southern Poverty Law Center, Inc.**  
**Consolidated Statement of Financial Position**  
**October 31, 2018**

**Operating and Action Funds**

**Assets**

Cash and cash equivalents	\$ 9,325,818
Contributions receivable	8,234,650
Other receivables	2,813,021
Inventories	442,299
Prepaid expenses	2,067,884
Investments of gift annuity program	10,038,544
Other investments	458,548
Land, buildings, and equipment, net	14,148,098
Total operating and action funds assets	<u><u>\$ 47,528,862</u></u>

**Liabilities and Net Assets**

Accounts payable and accrued liabilities	\$ 3,307,941
Gift annuity	7,453,231
Long-term debt	15,000,000
Total operating and action funds liabilities	<u>25,761,172</u>
Unrestricted net assets - operating and action funds	16,314,994
Temporarily restricted net assets - operating fund	<u>5,452,696</u>
Total operating and action funds net assets	<u>21,767,690</u>
Total operating and action funds liabilities and net assets	<u><u>\$ 47,528,862</u></u>

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**Southern Poverty Law Center, Inc.**  
**Consolidated Statement of Financial Position**  
**October 31, 2018**

**Endowment Fund**

**Assets**

Investments	<u>\$ 471,046,606</u>
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**Net Assets**

Unrestricted net assets - endowment fund	\$ 467,474,707
Permanently restricted net assets - endowment fund	<u>3,571,899</u>
Total endowment fund net assets	<u>\$ 471,046,606</u>

Continued on next page.

**Southern Poverty Law Center, Inc.**  
**Consolidated Statement of Financial Position**  
**October 31, 2018**

**Totals**

**Assets**

Total operating and action funds (including land, buildings, and equipment)	\$ 47,528,862
Total endowment fund	<u>471,046,606</u>
Total assets	<u><u>\$ 518,575,468</u></u>

**Liabilities and Net Assets**

Total operating and action funds liabilities	<u>\$ 25,761,172</u>
Total liabilities	<u>25,761,172</u>

Unrestricted net assets

Operating and action funds	16,314,994
Endowment fund	<u>467,474,707</u>
Total unrestricted net assets	<u>483,789,701</u>

Temporarily restricted net assets

Operating fund	<u>5,452,696</u>
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Permanently restricted net assets

Endowment fund	<u>3,571,899</u>
Total net assets	<u>492,814,296</u>
Total liabilities and net assets	<u><u>\$ 518,575,468</u></u>

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

**Southern Poverty Law Center, Inc.  
Consolidated Statement of Activities  
For the Year Ended October 31, 2018**

**Operating and Action Funds**

**Changes in Unrestricted Net Assets from Operating and Action Funds**

Operating and action fund support and revenue

Public support

Contributions	\$ 103,121,371
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Grants	4,231,901
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Total public support	<u>107,353,272</u>
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Revenue

Investment income (excluding endowment)	302,926
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Other	394,498
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Total revenue	<u>697,424</u>
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Total operating and action funds support and revenue	<u>108,050,696</u>
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Net assets released from temporary restrictions	<u>2,642,497</u>
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Total public support, revenue, and net assets released from restriction	<u>110,693,193</u>
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Operating and action funds expenses

Program services

Legal services	27,197,649
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Public education	26,834,335
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Total program services	<u>54,031,984</u>
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Supporting services

Management and general	9,859,674
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Development	10,710,617
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Total supporting services	<u>20,570,291</u>
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Total operating and action funds expenses	<u>74,602,275</u>
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Changes in unrestricted net assets from operating and action fund	<u>36,090,918</u>
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**Changes in Temporarily Restricted Net Assets**

**Operating and Action Funds**

Operating and action funds support and revenue

Contributions and grants	4,472,876
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Net assets released from temporary restrictions	<u>(2,642,497)</u>
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Changes in temporarily restricted net assets from operating and action funds	<u>1,830,379</u>
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<b>Changes in Net Assets from Operating and Action Funds</b>	<b>37,921,297</b>
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<b>Transfer to Endowment Fund</b>	<b>(33,264,245)</b>
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<b>Net Assets at Beginning of Year</b>	<u>17,110,638</u>
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<b>Net Assets and End of Year</b>	<u><u>\$ 21,767,690</u></u>
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**Southern Poverty Law Center, Inc.  
Consolidated Statement of Activities  
For the Year Ended October 31, 2018**

**Endowment Fund**

**Changes in Unrestricted Net Assets from Endowment Fund**

Endowment fund revenue	
Investment income	\$ 5,844,079
Total endowment fund revenue	<u>5,844,079</u>
 Endowment fund expenses	
Supporting services	
Management and general	<u>785,673</u>
Total endowment fund expenses	<u>785,673</u>
 Changes in unrestricted net assets from endowment fund	<u>5,058,406</u>
 <b>Changes in Net Assets from Endowment Fund</b>	 5,058,406
 <b>Transfer from Operating Fund</b>	 33,264,245
 <b>Net Assets at Beginning of Year</b>	 <u>432,723,955</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 471,046,606</u></u>

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**Southern Poverty Law Center, Inc.  
Consolidated Statement of Activities  
For the Year Ended October 31, 2018**

**Totals**

**Changes in Unrestricted Net Assets**

Changes in unrestricted net assets from operating and action funds	\$ 36,090,918
Changes in unrestricted net assets from endowment fund	<u>5,058,406</u>
Changes in unrestricted net assets	41,149,324

**Changes in Temporarily Restricted Net Assets**

Changes in temporarily restricted net assets from operating and action funds	<u>1,830,379</u>
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**Total Changes in Net Assets**

42,979,703

**Net Assets at Beginning of Year**

449,834,593

**Net Assets at End of Year**

\$ 492,814,296

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

**Southern Poverty Law Center, Inc.**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended October 31, 2018**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>Operating and Action Funds</b>	<b>Endowment Fund</b>	<b>Totals</b>
<b>Operating Activities</b>			
Cash received for public support	\$ 106,058,144		\$ 106,058,144
Cash received for services and materials	319,501		319,501
Cash received from other sources	72,019		72,019
Cash payments for operating expenses	(45,299,243)	\$ (785,673)	(46,084,916)
Cash payments for employee salaries and benefits	(29,061,786)		(29,061,786)
Interest and dividend income	598,196	1,706,075	2,304,271
Net cash from (used for) operating activities	<u>32,686,831</u>	<u>920,402</u>	<u>33,607,233</u>
<b>Investing Activities</b>			
Purchase of investments	(1,778,957)	(196,598,445)	(198,377,402)
Proceeds from sale of investments	2,333,888	162,413,798	164,747,686
Purchase of property and equipment	<u>(1,930,242)</u>		<u>(1,930,242)</u>
Net cash from (used for) investing activities	<u>(1,375,311)</u>	<u>(34,184,647)</u>	<u>(35,559,958)</u>
<b>Financing Activities</b>			
Operation transfers in (out)	(33,264,245)	33,264,245	
Payments made to gift annuitants	(838,669)		(838,669)
Cash received for new gift annuities	<u>1,458,492</u>		<u>1,458,492</u>
Net cash from (used for) financing activities	<u>(32,644,422)</u>	<u>33,264,245</u>	<u>619,823</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,332,902)		(1,332,902)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>10,658,720</u>		<u>10,658,720</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 9,325,818</u>	<u>\$ -</u>	<u>\$ 9,325,818</u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities</b>			
Change in net assets	<u>\$ 37,921,297</u>	<u>\$ 5,058,406</u>	<u>\$ 42,979,703</u>
<b>Adjustments to Reconcile Change in Net Assets To Net Cash Provided by (Used For) Operating Activities</b>			
Depreciation	1,703,843		1,703,843
Present value adjustment to annuities	(285,065)		(285,065)
Increase in receivables, inventory, and prepaid expenses	(5,183,138)		(5,183,138)
Decrease in accounts payable and accrued liabilities	(1,765,376)		(1,765,376)
Net realized gain on sale of investments	(135,007)	(8,053,820)	(8,188,827)
Net unrealized loss on investments	<u>430,277</u>	<u>3,915,816</u>	<u>4,346,093</u>
Total adjustments	<u>(5,234,466)</u>	<u>(4,138,004)</u>	<u>(9,372,470)</u>
Net cash from (used for) operating activities	<u>\$ 32,686,831</u>	<u>\$ 920,402</u>	<u>\$ 33,607,233</u>

The accompanying notes are an integral part of the financial statements.

**Southern Poverty Law Center, Inc.**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended October 31, 2018**

	Program Services			Supporting Services			Total Expenses
	Legal Services	Public Education	Total	Management and General	Development	Total	
<b>Operating and Action Funds</b>							
Salaries and related expenses	\$ 14,290,459	\$ 8,911,990	\$ 23,202,449	\$ 2,469,476	\$ 3,534,317	\$ 6,003,793	\$ 29,206,242
Contract labor	58,362	81,848	140,210	16,804	41,969	58,773	198,983
Legal case expense	5,534,355		5,534,355				5,534,355
Professional services and fees	774,551	366,879	1,141,430	3,439,766	34,489	3,474,255	4,615,685
Office equipment and supplies	614,506	661,211	1,275,717	230,368	305,727	536,095	1,811,812
Rent	900,829	98,539	999,368	57,854	10,400	68,254	1,067,622
Utilities, telephone, and maintenance	476,163	570,940	1,047,103	169,176	164,430	333,606	1,380,709
Library expense	175,819	61,452	237,271	3,759	27,161	30,920	268,191
Insurance	48,511	215,601	264,112	173,255	40,578	213,833	477,945
Investigation and support	162,642	437,315	599,957				599,957
Staff development and training	773,001	408,413	1,181,414	153,041	126,099	279,140	1,460,554
Travel and related expense	339,766	431,418	771,184	62,258	40,482	102,740	873,924
Postage	641,829	1,250,740	1,892,569	1,224,608	1,879,331	3,103,939	4,996,508
Printing	487,091	951,226	1,438,317	739,625	1,113,890	1,853,515	3,291,832
Lettershop expense	232,871	454,544	687,415	366,071	1,123,269	1,489,340	2,176,755
Other development costs	260,828	1,186,666	1,447,494	411,014	1,666,410	2,077,424	3,524,918
Educational publications	457,898	3,394,685	3,852,583		345,683	345,683	4,198,266
Other educational projects	407,225	6,602,036	7,009,261				7,009,261
Interest expense				204,913		204,913	204,913
Depreciation expense	560,943	748,832	1,309,775	137,686	256,382	394,068	1,703,843
Total operating and action funds expenses	27,197,649	26,834,335	54,031,984	9,859,674	10,710,617	20,570,291	74,602,275
<b>Endowment Fund</b>							
Investment expense				785,673		785,673	785,673
Total expenses	\$ 27,197,649	\$ 26,834,335	\$ 54,031,984	\$ 10,645,347	\$ 10,710,617	\$ 21,355,964	\$ 75,387,948

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

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 1 - Organization**

The Southern Poverty Law Center, Inc. and the SPLC Action Fund are nonprofit corporations that are dedicated to fighting hate and bigotry and to seeking justice for the most vulnerable members of our society. Using litigation, education, and other forms of advocacy, they work towards the day when the ideals of equal justice and equal opportunity will be a reality.

**Note 2 - Summary of Significant Accounting Policies**

Principles of consolidation - The consolidated financial statements include the accounts of Southern Poverty Law Center, Inc. (the Center) and SPLC Action Fund (Action Fund), collectively, the Organization. The Action Fund was formed in June 2018. The Action Fund is consolidated since the Center has both an economic interest in the Action Fund and control of the Action Fund through a majority voting interest in its governing board. All material intra-entity transactions have been eliminated.

Basis of presentation - The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net asset categories - The Organization reports its financial position and activities according to three classes of net assets based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations requiring them to be maintained permanently by the Center. Contributions of permanently restricted net assets are invested in the Center's endowment fund. The donors of these assets permit the Center to use the income earned for operations.

Temporarily restricted net assets - Net assets whose use by the Center is subject to donor-imposed or legal stipulations as to timing of their availability or use for a particular purpose.

Unrestricted net assets - All other net assets not subject to donor-imposed stipulations. Certain net assets classified as unrestricted may be designated for specific purposes by action of the Board of Directors.

Fund groups - The Organization reports its financial position and activities in the following fund groups.

The operating and action funds account for the resources over which management has discretionary control to use in carrying on the general operations of the Center and the Action Fund.

The endowment fund contains assets of the Center that are segregated from the Center's operating fund and that are restricted by donors for permanent investment or designated by the Center's Board of Directors for the future support of the Center's programs and activities. Board approval is required for any expenditure from the endowment fund.

Fair value measurements - Fair value generally represents the price that would be received at the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2 - Prices that are based on other than exchange-quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 2 - Summary of Significant Accounting Policies (continued)**

Level 3 - Pricing inputs are unobservable for the asset or liability and 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 available and may require significant management judgment or estimation.

Investment valuation - In determining fair value, the Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Investments in marketable securities traded on a national securities exchange and investments in U.S. government securities are stated at fair value based on the last reported sales price on the valuation date. The Center uses net asset values reported by fund managers as a practical expedient to report the fair values of its investments held through limited partnerships and other funds.

Investment securities are exposed to various risks, such as interest rate, market, liquidity, valuation, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position and the statement of activities.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 statement of activities as net assets released from restrictions.

Gift annuities - The Center has entered into agreements with donors in which the donor contributes assets to the Center in exchange for distributions of a fixed amount for a specified period of time to the donor or other beneficiaries. The assets are contributed directly to the Center and are held as general assets of the Center, and the related annuity liability is recorded as a general obligation of the Center. The difference between the fair value of the assets received and the liability to the beneficiary is recognized in the statement of activities as a contribution in the period the annuity agreement is executed. On an annual basis, the Center uses actuarial assumptions to revalue the gift annuity liability to the beneficiaries. The change in the value of the agreements is also recognized in the statement of activities. The gift annuity liability is calculated using prevailing discount rates at the time the gifts were made, ranging from 1.2% to 9.6%, and rates based on applicable mortality tables.

Cash equivalents - For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization excludes those cash equivalents that are invested for the gift annuity program and those that are in the endowment fund investment portfolio.

Cash and cash funds - The Organization maintains its cash in bank deposit accounts in amounts that exceed federally insured limits. The Organization maintains cash funds in money market fund accounts with several brokerage firms that exceed the Securities Investor Protection Corporation (SIPC) insured limits. The SIPC covers up to \$250,000 of the money market funds with each firm. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash funds.

Inventories - Supplies and publication inventories are priced at cost using the first-in, first-out (FIFO) inventory method.

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

Fixed assets - All expenditures for land, buildings, and equipment and the fair value of donated property and equipment are capitalized.

Depreciation of buildings and improvements is established by using the straight-line method over the estimated lives of 10 to 40 years. Depreciation on furniture and equipment is established by using the straight-line method over the estimated useful lives of three to 10 years.

Grants payable - Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. The Organization records grants payable for all unconditional grants that have been authorized prior to year end, but remain unpaid as of the statement of financial position date. There were no unconditional grants outstanding at October 31, 2018.

Joint costs - Activities and the production of materials which combine development, education, and management functions are allocated to the program and supporting services on the basis of the content of the material, the reason for its distribution, and the audience to whom it is delivered.

The Center incurred joint costs of \$11,655,419 for educational materials and activities as part of fund-raising appeals during the year ended October 31, 2018. Of those costs, \$2,813,329 was allocated to management and general expense, \$3,282,563 was allocated to development expense, and \$5,559,527 was allocated to program expense.

Income taxes - The Center is a tax-exempt organization under Internal Revenue Code Section 501(c) (3). In addition, the Center qualifies for the charitable contribution deduction under Section 170 (b) (1) (A) and has been classified as an organization other than a private foundation under Section 509(a) (2). The Action Fund has filed an application for tax exempt status under Internal Revenue Code Section 501(c) (4). Accordingly, no provision for income taxes is made in the 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 3 - Contributions Receivable**

Contributions receivable are summarized as follows at October 31, 2018:

Unconditional promises expected to be collected in

Less than one year	\$ 2,472,679
One year to five years	2,424,139
More than five years	977,908
Less discounts to net present value	<u>(747,030)</u>
Total unconditional promises to give	5,127,696
Bequests receivable	<u>3,106,954</u>
Net contributions receivable	<u><u>\$ 8,234,650</u></u>

Management reviews contributions receivable on an annual basis and those considered uncollectible are deducted from income. Uncollectible contributions are identified on the basis of management's consideration of current relationships with corporate, individual, and foundation donors and their ability to pay. Management considers all current contributions receivable to be collectible. Therefore, no allowance for uncollectible contributions has been made.

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 4 - Investments**

The Center's investments are presented in the statement of financial position in the aggregate at fair value and include the following at October 31, 2018:

Operating fund	
Cash funds	\$ 558,564
Fixed income	
Bond mutual funds	5,656,437
Public equities	
U.S. equities	61,786
Equity mutual funds	4,220,305
Total operating fund	<u>10,497,092</u>
Endowment fund	
Cash funds	47,998,409
Fixed income	
U.S. bond funds	10,203,645
U.S. treasury inflation	
protection securities	632,710
Investments measured at	
net asset value	412,211,842
	<u>471,046,606</u>
Totals	<u>\$ 481,543,698</u>

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 4 – Investments (continued)**

The Center's investment objectives guide its asset allocation policy and are achieved by investing with external investment managers operating through a variety of investment vehicles, including separate accounts, commingled funds managed by investment companies, and limited partnerships. The table below provides additional information of investments of the Center that have components that are valued using net asset value:

	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Public equities (a)				
U.S. equity funds	\$ 91,987,663		Daily, bi-monthly, calendar quarter	15 - 60 days
Non-U.S. equity funds	121,229,383		Daily, monthly, calendar quarter	6 - 65 days
Private equity funds (b)	59,963,612	\$ 56,319,428		
Real asset funds (c)	23,640,338		Monthly	1 - 11 days
Marketable alternative funds (d)				
Absolute return funds	25,483,276		Calendar quarter	60 - 65 days
Arbitrage funds	10,716,329		Calendar quarter, annually	60 - 90 days
Long-short funds	18,982,109		Calendar quarter, annually	30 - 60 days
Multi-strategy funds	60,209,132		Weekly, semi-monthly, calendar quarter, annually	5 - 180 days
Total endowment fund	<u>\$ 412,211,842</u>	<u>\$ 56,319,428</u>		

- (a) Public equities include investments in publicly traded stocks of domestic and international companies.
- (b) Private equity includes investments in buyouts, venture capital, and distressed companies. These assets are invested through fund of funds investments and limited partnerships which involve multi-year commitments ranging from 10 to 13 years.
- (c) Real assets include investments in real estate and natural resources such as oil and gas, and commodities.
- (d) Marketable alternatives include investments in a variety of hedge funds which employ strategies including long-short equity, absolute return, risk arbitrage, event driven, and distressed securities. In addition to investing in exchange traded equity and debt securities, these funds may invest in private equity, commodities, and real estate, and may include the use of options, futures, and other derivative instruments, principally for the purpose of hedging risk rather than speculation. These investments are typically managed by investment companies which have restrictions that limit (1) the Center's ability to withdraw capital from such investments during a specified period of time subsequent to the initial investment, and/or (2) the amount of capital the Center may withdraw as of a particular date. Investments in marketable alternatives generally limit redemptions to monthly, quarterly, semi-annually, or longer, at fair value and require between 45 and 180 days notice.



**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

Investment return is made up of the following at October 31, 2018:

Operating fund	
Interest and dividend income	\$ 598,196
Net realized gain	135,007
Net unrealized loss	(430,277)
Total investment income	<u>\$ 302,926</u>
Endowment fund	
Interest and dividend income	\$ 1,706,075
Net realized gain	8,053,820
Net unrealized loss	(3,915,816)
Total investment income	<u>\$ 5,844,079</u>

**Note 5 - Land, Buildings, and Equipment**

At October 31, 2018, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

Land	\$ 669,682
Buildings and improvements	24,017,978
Civil rights memorial	811,738
Furniture and equipment	10,443,184
Total cost	<u>35,942,582</u>
Less accumulated depreciation	<u>21,794,484</u>
Net	<u>\$ 14,148,098</u>

**Note 6 - Long Term Debt**

The Center's office building is financed through tax-exempt variable rate demand revenue (Series 2013) bonds issued by the Montgomery Downtown Redevelopment Authority (the Authority), in the aggregate principal amount of \$15,000,000. The bonds were issued pursuant to a trust indenture (the Indenture) dated November 1, 2013. The bonds are limited obligations of the Authority and are payable solely from and secured by a pledge of payments to be made by the Authority under an Agreement of Sale (the Agreement) between the Authority and the Center. The Center is purchasing the facility under the Agreement dated as of March 1, 1999, amended November 1, 2013. Under the terms of the Agreement, the Center is required to make monthly payments to the Trustee, sufficient to pay interest on the bonds. The Series 2013 bonds were issued November 1, 2013 to refund the Series 2000 bonds.

The bonds bear interest at a variable rate and interest is due on a monthly basis. The principal on the bonds matures March 1, 2038. The bonds may be redeemed at either the option of the Center or the bondholders under certain conditions pursuant to the terms of the Indenture.

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 7 - Restricted Net Assets**

At October 31, 2018, the restricted net assets consist of the following:

Temporarily restricted net assets

Contributions restricted for future periods	\$ 1,390,230
Contributions restricted for future periods and purpose	<u>4,062,466</u>
Total temporarily restricted net assets	<u><u>\$ 5,452,696</u></u>

Permanently restricted net assets

Contributions restricted for permanent endowment	\$ 3,571,899
Total permanently restricted net assets	<u><u>\$ 3,571,899</u></u>

**Note 8 - Retirement Plan**

The Organization has a 401(k) Retirement Plan for its employees. For the year ended October 31, 2018, the plan provided a 6% employer contribution regardless of the employee contribution, and an additional 100% employer match of employee contributions up to 4% of salary. The Organization's total retirement plan expense for 2018 was \$1,781,184.

**Note 9 - Functional Allocation of Expenses**

The costs of providing the various programs and 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.

**Note 10 - Endowment Fund**

The Center has classified its endowment fund net assets as follows:

- *Permanently restricted net assets* are those which contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Center and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.
- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or their use for a particular purpose. These net assets are released from restrictions when the specified time elapses or the required actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Center and spent in accordance with the standard of prudence imposed by UPMIFA.
- *Unrestricted net assets* contain no donor-imposed restrictions and are available for the general operations of the Center. These assets may be designated by the Center for specific purposes, including functioning as endowment funds.

The Center's endowment fund includes both donor-restricted funds and unrestricted funds designated by the Board of Directors to function as general endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 10 - Endowment Fund (continued)**

Endowment net asset composition by type of fund as of October 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds			\$ 3,571,899	\$ 3,571,899
Board designated endowment funds	\$ 467,474,707			467,474,707
Totals	<u>\$ 467,474,707</u>	<u>\$ -</u>	<u>\$ 3,571,899</u>	<u>\$ 471,046,606</u>

Change in endowment net assets for the year ended October 31, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 429,152,056		\$ 3,571,899	\$ 432,723,955
Investment return				
Investment income, net	8,929,930	\$ 44,292		8,974,222
Net unrealized loss	(3,915,816)			(3,915,816)
Total investment return	<u>5,014,114</u>	<u>44,292</u>		<u>5,058,406</u>
Appropriated for expenditure	44,292	(44,292)		
Transfer to increase board- designated endowment fund	<u>33,264,245</u>			<u>33,264,245</u>
Total change in endowment funds	<u>38,322,651</u>			<u>38,322,651</u>
Endowment net assets, end of year	<u>\$ 467,474,707</u>	<u>\$ -</u>	<u>\$ 3,571,899</u>	<u>\$ 471,046,606</u>

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 10 - Endowment Fund (continued)**

Relevant law - The Board of Directors of the Center has interpreted the Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Center 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 purpose of the Center and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Center.
7. The investment policies of the Center.

Return objectives and risk parameters - The Center 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 also seeking to maintain the purchasing power of the endowment assets, including both donor-restricted and board-designated funds. Under the Center's investment policy, the endowment assets are invested in a manner that is intended to produce results that exceed the total return of a benchmark composed of 30% of the Barclays Capital Aggregate Bond Index and 70% of the Standard & Poor's 500 Index, while assuming a moderate level of investment risk. The Center expects its endowment funds, over time, to provide an average real rate of return of 5% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - The Center targets a diversified asset allocation made up of public and private equity, hedge funds, fixed income, and real assets to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy - The Center invests its endowment funds in accordance with the total return concept, emphasizing long-term expected investment performance, including income from interest, dividends, capital gains, and other distributions. The Board of Directors established a policy allowing annual distributions for operating purposes of up to 4.5% of the 12-quarter trailing average market value of the endowment; however, the actual distributions from the endowment can be made only with Board approval.

**Southern Poverty Law Center, Inc.**  
**Notes to Consolidated Financial Statements**  
**October 31, 2018**

**Note 11 - Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, other receivables, and accounts payable approximate fair value because of the short maturity of these financial instruments.

The fair value of investments is based on the quoted market values for marketable securities and estimated fair value for other investments. The carrying amount of long-term debt approximates fair value because that financial instrument bears interest at variable rates that approximate current market rates for debt with similar maturities and credit quality. The carrying amount of liabilities under split-interest agreements is based on actuarial valuation and approximates fair value.

Fair values of financial instruments at October 31, 2018 are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	NAV as a Practical Expedient (a)	Total
Contributions receivable		\$ 8,234,650		\$ 8,234,650
Investments	\$ 69,331,856		\$ 412,211,842	481,543,698
Gift annuity liability		7,453,231		7,453,231
Long-term debt		15,000,000		15,000,000

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

**Note 12 - Subsequent Events**

The Center has evaluated subsequent events through December 10, 2018, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of October 31, 2018, have been incorporated into these financial statements.

**Note 13 - Effect on New Accounting Pronouncement**

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU 2016-14 replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 with early adoption permitted. The Center is currently evaluating the impact the adoption of this guidance will have on its financial statements.