

Southern Poverty Law Center, Inc.

OCTOBER 31, 2017

FINANCIAL STATEMENTS

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

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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 financial statements of Southern Poverty Law Center, Inc. (the Center), which comprise the statement of financial position as of October 31, 2017, the related statement of activities, cash flows, and functional expenses for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Southern Poverty Law Center, Inc. as of October 31, 2017, and the changes in net assets and its 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 11, 2017

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2017

OPERATING FUND

ASSETS:

Cash and cash equivalents	\$ 10,658,720
Contributions receivable	4,212,547
Other receivables	1,352,185
Inventories	604,224
Prepaid expenses	2,205,760
Investments of gift annuity program	9,952,690
Other investments	1,414,507
Land, buildings, and equipment, net	<u>13,921,699</u>
 Total operating fund assets	 <u><u>\$ 44,322,332</u></u>

LIABILITIES AND NET ASSETS:

Accounts payable and accrued liabilities	\$ 5,093,220
Gift annuity	7,118,474
Long-term debt	<u>15,000,000</u>
Total operating fund liabilities	<u>27,211,694</u>
 Unrestricted net assets - operating fund	 13,488,321
Temporarily restricted net assets - operating fund	<u>3,622,317</u>
Total operating fund net assets	<u>17,110,638</u>
 Total operating fund liabilities and net assets	 <u><u>\$ 44,322,332</u></u>

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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2017

ENDOWMENT FUND

ASSETS:

Investments	\$ 432,723,955
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NET ASSETS:

Unrestricted net assets - endowment fund	\$ 429,152,056
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Permanently restricted net assets - endowment fund	3,571,899
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Total endowment fund net assets	\$ 432,723,955
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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2017

TOTALS

ASSETS:

Total operating fund (including land, buildings, and equipment)	\$ 44,322,332
Total endowment fund	<u>432,723,955</u>
Total assets	<u><u>\$ 477,046,287</u></u>

LIABILITIES AND NET ASSETS:

Total operating fund liabilities	\$ 27,211,694
Total liabilities	<u>27,211,694</u>

Unrestricted net assets:

Operating fund	13,488,321
Endowment fund	<u>429,152,056</u>
Total unrestricted net assets	<u>442,640,377</u>

Temporarily restricted net assets:

Operating fund	<u>3,622,317</u>
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Permanently restricted net assets:

Endowment fund	<u>3,571,899</u>
Total net assets	<u>449,834,593</u>

Total liabilities and net assets	<u><u>\$ 477,046,287</u></u>
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The accompanying notes are an integral part of these financial statements.

SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2017

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:

Operating fund support and revenue:

Public support:

Contributions	\$ 119,653,501
Grants	10,069,577
Total public support	<u>129,723,078</u>

Revenue:

Investment income (excluding endowment)	1,301,960
Other	1,065,965
Total revenue	<u>2,367,925</u>

Total operating fund support and revenue	<u>132,091,003</u>
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Net assets released from temporary restrictions	<u>1,372,395</u>
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Total public support, revenue, and net assets released from restriction	<u>133,463,398</u>
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Operating fund expenses:

Program services:

Legal services	19,680,973
Public education	21,200,520
Total program services	<u>40,881,493</u>

Supporting services:

Management and general	7,417,746
Development	11,031,618
Total supporting services	<u>18,449,364</u>

Total operating fund expenses	<u>59,330,857</u>
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Changes in unrestricted net assets from operating fund	<u>74,132,541</u>
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM
OPERATING FUND:

Operating fund support and revenue:

Contributions and grants	2,459,538
Net assets released from temporary restrictions	<u>(1,372,395)</u>
Changes in temporarily restricted net assets from operating fund	<u>1,087,143</u>

CHANGES IN NET ASSETS FROM OPERATING FUND	75,219,684
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TRANSFER TO ENDOWMENT FUND	(67,220,177)
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NET ASSETS AT BEGINNING OF YEAR	<u>9,111,131</u>
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NET ASSETS AT END OF YEAR	<u>\$ 17,110,638</u>
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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2017

ENDOWMENT FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM ENDOWMENT FUND:

Endowment fund revenue:

Investment income	\$ 46,882,681
Total endowment fund revenue	<u>46,882,681</u>

Endowment fund expense:

Supporting services:

Management and general	662,864
Total endowment fund expense	<u>662,864</u>

Changes in unrestricted net assets from endowment fund	<u>46,219,817</u>
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CHANGES IN NET ASSETS FROM ENDOWMENT FUND	46,219,817
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TRANSFER FROM OPERATING FUND	67,220,177
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NET ASSETS AT BEGINNING OF YEAR	<u>319,283,961</u>
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NET ASSETS AT END OF YEAR	<u><u>\$ 432,723,955</u></u>
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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2017

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:

Changes in unrestricted net assets from operating fund	\$ 74,132,541
Changes in unrestricted net assets from endowment fund	46,219,817
Changes in unrestricted net assets	<u>120,352,358</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:

Changes in temporarily restricted net assets from operating fund	<u>1,087,143</u>
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TOTAL CHANGES IN NET ASSETS 121,439,501

NET ASSETS AT BEGINNING OF YEAR 328,395,092

NET ASSETS AT END OF YEAR \$ 449,834,593

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

SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
OPERATING ACTIVITIES:			
Cash received for public support	\$ 131,235,244		\$131,235,244
Cash received for services and materials	185,560		185,560
Cash received from other sources	873,057		873,057
Cash payments for operating expenses	(33,519,364)	\$ (662,864)	(34,182,228)
Cash payments for employee salaries and benefits	(23,780,877)		(23,780,877)
Interest and dividend income	635,627	551,939	1,187,566
Net cash from (used for) operating activities	<u>75,629,247</u>	<u>(110,925)</u>	<u>75,518,322</u>
INVESTING ACTIVITIES:			
Purchase of investments	(2,084,207)	(126,924,552)	(129,008,759)
Proceeds from sale of investments	1,484,908	59,815,300	61,300,208
Purchase of property and equipment	(1,622,606)		(1,622,606)
Net cash from (used for) investing activities	<u>(2,221,905)</u>	<u>(67,109,252)</u>	<u>(69,331,157)</u>
FINANCING ACTIVITIES:			
Operation transfers in (out)	(67,220,177)	67,220,177	
Payments made to gift annuity plan	(848,621)		(848,621)
Cash received for new gift annuities	1,857,701		1,857,701
Net cash from (used for) financing activities	<u>(66,211,097)</u>	<u>67,220,177</u>	<u>1,009,080</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,196,245		7,196,245
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,462,475</u>		<u>3,462,475</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,658,720</u>	<u>\$ -</u>	<u>\$ 10,658,720</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Change in net assets	<u>\$ 75,219,684</u>	<u>\$ 46,219,817</u>	<u>\$121,439,501</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Depreciation	1,487,475		1,487,475
Present value adjustment to annuities	(243,426)		(243,426)
Increase in receivables, inventory, and prepaid expenses	(1,827,417)		(1,827,417)
Increase in accounts payable and accrued liabilities	1,659,264		1,659,264
Net realized gain on sale of investments	(104,570)	(2,042,307)	(2,146,877)
Net unrealized gain on investments	(561,763)	(44,288,435)	(44,850,198)
Total adjustments	<u>409,563</u>	<u>(46,330,742)</u>	<u>(45,921,179)</u>
Net cash from (used for) operating activities	<u>\$ 75,629,247</u>	<u>\$ (110,925)</u>	<u>\$ 75,518,322</u>

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

SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2017

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	
OPERATING FUND:							
Salaries and related expenses	\$ 11,043,365	\$ 7,007,074	\$ 18,050,439	\$ 2,418,616	\$ 3,400,430	\$ 5,819,046	\$ 23,869,485
Contract labor	97,860	88,153	186,013	33,794	52,312	86,106	272,119
Legal case expense	2,867,206		2,867,206				2,867,206
Professional services and fees	593,459	189,222	782,681	1,583,869	80,736	1,664,605	2,447,286
Office equipment and supplies	501,325	594,662	1,095,987	206,485	268,673	475,158	1,571,145
Rent	657,365	24,804	682,169	49,319	5,020	54,339	736,508
Utilities, telephone, and maintenance	507,412	519,289	1,026,701	168,201	206,914	375,115	1,401,816
Library expense	129,695	47,375	177,070	6,667	19,470	26,137	203,207
Insurance	39,835	172,404	212,239	156,214	32,301	188,515	400,754
Investigation and support	144,027	421,203	565,230				565,230
Staff development and training	492,706	236,225	728,931	97,538	80,455	177,993	906,924
Travel and related expense	193,193	260,326	453,519	52,130	46,360	98,490	552,009
Postage	602,032	1,187,262	1,789,294	1,034,796	1,844,604	2,879,400	4,668,694
Printing	398,010	784,473	1,182,483	574,563	1,084,394	1,658,957	2,841,440
Lettershop expense	188,311	373,508	561,819	278,428	1,284,115	1,562,543	2,124,362
Other development costs	278,579	2,081,005	2,359,584	489,711	1,938,614	2,428,325	4,787,909
Educational publications	391,471	2,861,296	3,252,767		422,545	422,545	3,675,312
Other educational projects	166,008	3,665,568	3,831,576				3,831,576
Interest expense				120,400		120,400	120,400
Depreciation expense	389,114	686,671	1,075,785	147,015	264,675	411,690	1,487,475
Total operating expenses	19,680,973	21,200,520	40,881,493	7,417,746	11,031,618	18,449,364	59,330,857
ENDOWMENT FUND:							
Investment expense				662,864		662,864	662,864
Total expenses	\$ 19,680,973	\$ 21,200,520	\$ 40,881,493	\$ 8,080,610	\$ 11,031,618	\$ 19,112,228	\$ 59,993,721

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

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 1 - ORGANIZATION:

The Southern Poverty Law Center, Inc. (the Center) is a nonprofit organization that is 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, the Center works toward the day when the ideals of equal justice and equal opportunity will be a reality.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation - The financial statements of the Center 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 Center 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 Center reports its financial position and activities in two separate fund groups.

The operating fund accounts for the resources over which management has discretionary control to use in carrying on the general operations of the Center.

The endowment fund contains assets 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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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.

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. Because the Center uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on the Center's ability to redeem these investments on a timely basis rather than on the inputs used.

As of October 31, 2017, alternative investments comprise 79% of the reported fair value of the investment portfolio. The fair value for alternative investments is estimated by the individual investment manager of the fund taking into account such factors as the financial condition of each investee, economic and market conditions affecting their operations, any changes in management, the length of time since the initial investment, recent arm's-length transactions involving the securities of the investee, the value of similar securities issued by companies in the same or similar businesses and the limited marketability of the portfolio. Management believes the estimated fair values of the Center's alternative investments are reasonably stated at October 31, 2017.

Certain alternative investments allow redemptions quarterly or annually and require as much as 180 days notice to liquidate, while other investments are committed to for the life of the fund. Because of the liquidation restrictions and the inherent uncertainty of valuation of the alternative investments, the fair values estimated by the individual investment manager, in the absence of readily ascertainable market values, may not necessarily represent the amount that could be realized from sales or other dispositions of investments, and the differences may be material.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

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

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Cash and cash funds - The Center's operating fund maintains its cash in bank deposit accounts with two banks in amounts that exceed federally insured limits. The Center's operating and endowment funds maintain 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 Center has not experienced any losses in such accounts. The Center 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.

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.

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 \$12,147,345 for educational materials and activities as part of fund-raising appeals during the year ended October 31, 2017. Of those costs, \$2,457,375 was allocated to management and general expense, \$3,635,808 was allocated to development expense, and \$6,054,162 was allocated to program expense.

Income taxes - The Center is a tax-exempt organization under Internal Revenue Code Section 501(c)(3); accordingly, no provision for income taxes is made in the financial statements. 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).

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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are summarized as follows at October 31, 2017:

Unconditional promises expected to be collected in:	
Less than one year	\$ 2,951,062
One year to five years	412,172
More than five years	1,032,844
Less: Discounts to net present value	<u>(773,761)</u>
Total unconditional promises to give	3,622,317
Bequests receivable	<u>590,230</u>
Net contributions receivable	<u>\$ 4,212,547</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 FINANCIAL STATEMENTS
OCTOBER 31, 2017

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, 2017:

	QUOTED PRICES ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL I)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL II)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)	TOTAL
Operating fund:				
Cash funds	\$ 1,529,411			\$ 1,529,411
Fixed income:				
Bond mutual funds	5,430,746			5,430,746
Public equities:				
U.S. equities	4,415			4,415
Equity mutual funds	4,402,625			4,402,625
Total operating fund	11,367,197			11,367,197
Endowment fund:				
Cash funds	71,796,914			71,796,914
Fixed income:				
U.S. bond funds	10,403,557			10,403,557
U.S. treasury inflation protection securities	654,889			654,889
Equities:				
U.S. equity funds		\$ 75,049,581		75,049,581
Non-U.S. equity funds		92,570,674		92,570,674
Private equity funds			\$ 44,688,947	44,688,947
Real asset funds		15,953,306		15,953,306
Marketable alternative funds:				
Absolute return funds		8,910,788	15,985,427	24,896,215
Arbitrage funds			10,377,919	10,377,919
Long-short funds		9,628,629	14,568,969	24,197,598
Multi-strategy funds		34,705,842	27,428,513	62,134,355
Total endowment fund	82,855,360	236,818,820	113,049,775	432,723,955
Totals	\$ 94,222,557	\$ 236,818,820	\$ 113,049,775	\$ 444,091,152

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 4 - INVESTMENTS: (continued)

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)
Balance at October 31, 2016	\$ 94,698,804
Purchases and (redemptions), net	7,534,748
Realized gains and (losses), net	2,379,375
Unrealized gains and (losses), net	8,436,848
Total	\$ 113,049,775

Realized and unrealized gains and losses on the assets valued under Level III are reported in the endowment fund statement of activities in unrestricted investment return.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

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>
Endowment fund:				
Cash funds (a)	\$ 71,796,914		Daily	
Fixed income: (b)				
U.S. bond funds	10,403,557		Daily	
U.S. treasury inflation protected securities	654,889		Daily	
Public equities: (c)				
U.S. equity funds	75,049,581		Daily, bi-monthly, calendar quarter	15 - 60 days
Non-U.S. equity funds	92,570,674		Daily, monthly, calendar quarter	6 - 65 days
Private equity funds (d)	44,688,947	\$ 25,549,602		
Real asset funds (e)	15,953,306		Monthly	1 - 11 days
Marketable alternative funds: (f)				
Absolute return funds	24,896,215		Calendar quarter	60 - 65 days
Arbitrage funds	10,377,919		Calendar quarter, annually	60 - 90 days
Long-short funds	24,197,598		Calendar quarter, annually	30 - 60 days
Multi-strategy funds	<u>62,134,355</u>		Weekly, semi-monthly, calendar quarter, annually	5 - 180 days
Total endowment fund	<u>\$ 432,723,955</u>	<u>\$ 25,549,602</u>		

- (a) Cash and cash equivalents are investments in short-term cash and money market instruments. These are able to be liquidated immediately or within 30 days.
- (b) Fixed income includes investments in fixed income securities, including U.S. treasury bonds and treasury inflation-protected securities, and both domestic and international bond funds. Level I and Level II assets are able to be liquidated immediately or within 30 days.
- (c) Public equities include investments in publicly traded stocks of domestic and international companies. Level I and Level II assets are able to be liquidated immediately or within 60 days.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 4 - INVESTMENTS: (continued)

- (d) 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.
- (e) Real assets include investments in real estate and natural resources such as oil and gas, and commodities. Assets in this category are all Level II assets and are able to be liquidated within 30 days.
- (f) 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.

Investment return is made up of the following at October 31, 2017:

Operating fund:

Interest and dividend income	\$ 635,627
Net realized gain	104,570
Net unrealized gain	<u>561,763</u>

Total investment income	<u><u>\$ 1,301,960</u></u>
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Endowment fund:

Interest and dividend income	\$ 551,939
Net realized gain	2,042,307
Net unrealized gain	<u>44,288,435</u>

Total investment income	<u><u>\$ 46,882,681</u></u>
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SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT:

At October 31, 2017, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

Land	\$ 669,682
Buildings and improvements	24,715,339
Civil rights memorial	811,738
Furniture and equipment	9,694,165
Total cost	<u>35,890,924</u>
Less: Accumulated depreciation	<u>21,969,225</u>
Net	<u>\$ 13,921,699</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 FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 7 - RESTRICTED NET ASSETS:

At October 31, 2017, the restricted net assets consist of the following:

Temporarily restricted net assets:	
Contributions restricted for future periods	\$ 1,606,871
Contributions restricted for purpose	<u>2,015,446</u>
Total temporarily restricted net assets	<u>\$ 3,622,317</u>
Permanently restricted net assets:	
Contributions restricted for permanent endowment	<u>\$ 3,571,899</u>
Total permanently restricted net assets	<u>\$ 3,571,899</u>

NOTE 8 - RETIREMENT PLAN:

The Center has a 401(k) Retirement Plan for its employees. For the year ended October 31, 2017, 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 Center's total retirement plan expense for 2017 was \$1,447,469.

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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 10 - ENDOWMENT FUND:

The Center has classified its October 31, 2017 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.

Endowment net asset composition by type of fund as of October 31, 2017:

	<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	\$ 429,152,056			429,152,056
Totals	<u>\$ 429,152,056</u>	<u>\$ -</u>	<u>\$ 3,571,899</u>	<u>\$ 432,723,955</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 10 - ENDOWMENT FUND: (continued)

Change in endowment net assets for the year ended October 31, 2017:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	\$ 315,712,062		\$ 3,571,899	\$ 319,283,961
Investment return:				
Investment income, net	1,435,960	\$ 495,422		1,931,382
Net unrealized gain	44,288,435			44,288,435
Total investment return	45,724,395	495,422		46,219,817
Appropriated for expenditure	495,422	(495,422)		
Transfer to increase board- designated endowment fund	67,220,177			67,220,177
Total change in endowment funds	113,439,994			113,439,994
Endowment net assets, end of year	\$ 429,152,056	\$ -	\$ 3,571,899	\$ 432,723,955

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:

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

NOTE 10 - ENDOWMENT FUND: (continued)

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 FINANCIAL STATEMENTS
OCTOBER 31, 2017

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, 2017 are as follows:

	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL I)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL II)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)	TOTAL
Contributions receivable		\$ 4,212,547		\$ 4,212,547
Investments	\$ 94,222,557	236,818,820	\$ 113,049,775	444,091,152
Gift annuity liability		7,118,474		7,118,474
Long-term debt		15,000,000		15,000,000

NOTE 12 - SUBSEQUENT EVENTS:

The Center has evaluated subsequent events through December 11, 2017, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of October 31, 2017, 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 and interim periods within fiscal years beginning after December 15, 2018 with early adoption permitted.