

Certified Public Accountants
& Consultants



**Southern Poverty Law Center, Inc.
and SPLC Action Fund
October 31, 2019**
Consolidated Financial Statements

Southern Poverty Law Center, Inc.

Index

| | <u>Page</u> |
|---|--------------------|
| Independent auditor's report | 1 - 2 |
| Consolidated statement of financial position | 3 - 5 |
| Consolidated statement of activities | 6 - 8 |
| Consolidated statement of cash flows | 9 |
| Consolidated statement of functional expenses | 10 |
| Notes to consolidated financial statements | 11 - 19 |

Independent Auditor's Report

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

Report on the Consolidated 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, 2019, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free 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.

Emphasis of Matter

As discussed in Note 13 to the consolidated financial statements, in 2019 the Center adopted new accounting guidance related to presentation of consolidated financial statements for not-for-profit entities, the recognition of revenue from contracts with customers, and accounting guidance for contributions. Prior year disclosures have also been revised to reflect the retrospective application of adopting these changes in accounting. Our audit opinion is not modified with respect to this matter.

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, 2019, 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 16, 2019

Southern Poverty Law Center, Inc.
Consolidated Statement of Financial Position
October 31, 2019

Operating and Action Funds

Assets

| | |
|---|-----------------------------|
| Cash and cash equivalents | \$ 5,391,373 |
| Contributions receivable | 6,346,104 |
| Other receivables | 1,330,002 |
| Inventories | 348,609 |
| Prepaid expenses | 2,174,567 |
| Investments of gift annuity program | 10,790,206 |
| Other investments | 437,425 |
| Land, buildings, and equipment, net | 14,231,004 |
| Total operating and action funds assets | <u><u>\$ 41,049,290</u></u> |

Liabilities and Net Assets

| | |
|--|-----------------------------|
| Accounts payable and accrued liabilities | \$ 3,756,003 |
| Gift annuity | 7,515,102 |
| Long-term debt | 15,000,000 |
| Total operating and action funds liabilities | <u>26,271,105</u> |
| Net assets without donor restrictions - operating and action funds | 9,593,376 |
| Net assets with donor restrictions - operating fund | <u>5,184,809</u> |
| Total operating and action funds net assets | <u>14,778,185</u> |
| Total operating and action funds liabilities and net assets | <u><u>\$ 41,049,290</u></u> |

Continued on next page.

Southern Poverty Law Center, Inc.
Consolidated Statement of Financial Position
October 31, 2019

Endowment Fund

Assets

| | |
|-------------|-----------------------|
| Investments | <u>\$ 529,801,832</u> |
|-------------|-----------------------|

Net Assets

| | |
|--|-----------------------|
| Net assets without donor restrictions - endowment fund | \$ 526,229,933 |
| Net assets with donor restrictions - endowment fund | <u>3,571,899</u> |
| Total endowment fund net assets | <u>\$ 529,801,832</u> |

Continued on next page.

Southern Poverty Law Center, Inc.
Consolidated Statement of Financial Position
October 31, 2019

Totals

Assets

| | |
|---|------------------------------|
| Total operating and action funds (including land, buildings, and equipment) | \$ 41,049,290 |
| Total endowment fund | <u>529,801,832</u> |
| Total assets | <u><u>\$ 570,851,122</u></u> |

Liabilities and Net Assets

| | |
|--|-------------------|
| Total operating and action funds liabilities | \$ 26,271,105 |
| Total liabilities | <u>26,271,105</u> |

Net assets without donor restrictions

| | |
|---|--------------------|
| Operating and action funds | 9,593,376 |
| Endowment fund | <u>526,229,933</u> |
| Total net assets without donor restrictions | <u>535,823,309</u> |

Net assets with donor restrictions

| | |
|--|------------------------------|
| Operating fund | 5,184,809 |
| Endowment fund | <u>3,571,899</u> |
| Total net assets with donor restrictions | <u>8,756,708</u> |
| Total net assets | <u>544,580,017</u> |
| Total liabilities and net assets | <u><u>\$ 570,851,122</u></u> |

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

Southern Poverty Law Center, Inc.
Consolidated Statement of Activities
For the Year Ended October 31, 2019

Operating and Action Funds

Changes in Net Assets Without Donor Restrictions from Operating and Action Funds

Operating and action fund support and revenue

Public support

| | |
|---------------|---------------|
| Contributions | \$ 94,864,036 |
|---------------|---------------|

| | |
|--------|-----------|
| Grants | 1,735,470 |
|--------|-----------|

| | |
|----------------------|-------------------|
| Total public support | <u>96,599,506</u> |
|----------------------|-------------------|

Revenue

| | |
|--|-----------|
| Investment income (excluding endowment), net | 1,313,572 |
|--|-----------|

| | |
|-------|---------|
| Other | 865,994 |
|-------|---------|

| | |
|---------------|------------------|
| Total revenue | <u>2,179,566</u> |
|---------------|------------------|

| | |
|--|-------------------|
| Total operating and action funds support and revenue | <u>98,779,072</u> |
|--|-------------------|

| | |
|---------------------------------------|------------------|
| Net assets released from restrictions | <u>2,500,264</u> |
|---------------------------------------|------------------|

| | |
|--|--------------------|
| Total public support, revenue, and net assets released from restrictions | <u>101,279,336</u> |
|--|--------------------|

Operating and action funds expenses

Program services

| | |
|----------------|------------|
| Legal services | 35,660,793 |
|----------------|------------|

| | |
|------------------|-------------------|
| Public education | <u>27,493,905</u> |
|------------------|-------------------|

| | |
|------------------------|-------------------|
| Total program services | <u>63,154,698</u> |
|------------------------|-------------------|

Supporting services

| | |
|------------------------|------------|
| Management and general | 12,913,311 |
|------------------------|------------|

| | |
|-------------|-------------------|
| Development | <u>11,878,435</u> |
|-------------|-------------------|

| | |
|---------------------------|-------------------|
| Total supporting services | <u>24,791,746</u> |
|---------------------------|-------------------|

| | |
|---|-------------------|
| Total operating and action funds expenses | <u>87,946,444</u> |
|---|-------------------|

| | |
|---|-------------------|
| Changes in net assets without donor restrictions from operating and action fund | <u>13,332,892</u> |
|---|-------------------|

Changes in Net Assets With Donor Restrictions Operating and Action Funds

Operating and action funds support and revenue

| | |
|--------------------------|-----------|
| Contributions and grants | 2,232,377 |
|--------------------------|-----------|

| | |
|---------------------------------------|--------------------|
| Net assets released from restrictions | <u>(2,500,264)</u> |
|---------------------------------------|--------------------|

| | |
|---|------------------|
| Changes in net assets with donor restrictions from operating and action funds | <u>(267,887)</u> |
|---|------------------|

| | |
|--|-------------------|
| Changes in Net Assets from Operating and Action Funds | 13,065,005 |
|--|-------------------|

| | |
|-----------------------------------|---------------------|
| Transfer to Endowment Fund | (20,054,510) |
|-----------------------------------|---------------------|

| | |
|--|-------------------|
| Net Assets at Beginning of Year | <u>21,767,690</u> |
|--|-------------------|

| | |
|----------------------------------|-----------------------------|
| Net Assets at End of Year | <u><u>\$ 14,778,185</u></u> |
|----------------------------------|-----------------------------|

Continued on next page.

**Southern Poverty Law Center, Inc.
Consolidated Statement of Activities
For the Year Ended October 31, 2019**

Endowment Fund

Changes in Net Assets Without Donor Restrictions from Endowment Fund

| | |
|--|-------------------|
| Endowment fund revenue | |
| Investment income, net | \$ 38,700,716 |
| Total endowment fund revenue | <u>38,700,716</u> |
| Changes in net assets without donor restrictions from endowment fund | <u>38,700,716</u> |

Changes in Net Assets from Endowment Fund 38,700,716

Transfer from Operating Fund 20,054,510

Net Assets at Beginning of Year 471,046,606

Net Assets at End of Year \$ 529,801,832

Continued on next page.

**Southern Poverty Law Center, Inc.
Consolidated Statement of Activities
For the Year Ended October 31, 2019**

Totals

Changes in Net Assets Without Donor Restrictions

| | |
|--|-------------------|
| Changes in net assets without donor restrictions from operating and action funds | \$ 13,332,892 |
| Changes in net assets without donor restrictions from endowment fund | <u>38,700,716</u> |
| Changes in net assets without donor restrictions | 52,033,608 |

Changes in Net Assets With Donor Restrictions

| | |
|---|------------------|
| Changes in net assets with donor restrictions from operating and action funds | <u>(267,887)</u> |
|---|------------------|

| | |
|------------------------------------|------------|
| Total Changes in Net Assets | 51,765,721 |
|------------------------------------|------------|

| | |
|--|--------------------|
| Net Assets at Beginning of Year | <u>492,814,296</u> |
|--|--------------------|

| | |
|----------------------------------|------------------------------|
| Net Assets at End of Year | <u><u>\$ 544,580,017</u></u> |
|----------------------------------|------------------------------|

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

Southern Poverty Law Center, Inc.
Consolidated Statement of Cash Flows
For the Year Ended October 31, 2019
Increase (Decrease) in Cash and Cash Equivalents

| | <u>Operating and Action Funds</u> | <u>Endowment Fund</u> | <u>Totals</u> |
|---|---------------------------------------|---------------------------|---------------------|
| Operating Activities | | | |
| Cash received for public support | \$ 102,375,114 | | \$ 102,375,114 |
| Cash received for services and materials | 514,859 | | 514,859 |
| Cash received from other sources | 328,083 | | 328,083 |
| Cash payments for operating expenses | (49,603,498) | \$ (925,206) | (50,528,704) |
| Cash payments for employee salaries and benefits | (36,053,739) | | (36,053,739) |
| Interest and dividend income | 474,322 | 2,049,639 | 2,523,961 |
| Net cash from (used for) operating activities | <u>18,035,141</u> | <u>1,124,433</u> | <u>19,159,574</u> |
| Investing Activities | | | |
| Purchase of investments | (1,060,218) | (215,289,582) | (216,349,800) |
| Proceeds from sale of investments | 1,168,929 | 194,110,639 | 195,279,568 |
| Purchase of property and equipment | (1,913,992) | | (1,913,992) |
| Net cash from (used for) investing activities | <u>(1,805,281)</u> | <u>(21,178,943)</u> | <u>(22,984,224)</u> |
| Financing Activities | | | |
| Operation transfers in (out) | (20,054,510) | 20,054,510 | |
| Payments made to gift annuitants | (879,298) | | (879,298) |
| Cash received for new gift annuities | 769,503 | | 769,503 |
| Net cash from (used for) financing activities | <u>(20,164,305)</u> | <u>20,054,510</u> | <u>(109,795)</u> |
| Net Decrease in Cash and Cash Equivalents | (3,934,445) | | (3,934,445) |
| Cash and Cash Equivalents at Beginning of Year | 9,325,818 | | 9,325,818 |
| Cash and Cash Equivalents at End of Year | <u>\$ 5,391,373</u> | <u>\$ -</u> | <u>\$ 5,391,373</u> |

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

Southern Poverty Law Center, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended October 31, 2019

| | Program Services | | | Supporting Services | | | Total Expenses |
|---|----------------------|----------------------|----------------------|------------------------|----------------------|----------------------|----------------------|
| | Legal Services | Public Education | Total | Management and General | Development | Total | |
| Operating and Action Funds | | | | | | | |
| Salaries and related expenses | \$ 18,875,339 | \$ 9,441,629 | \$ 28,316,968 | \$ 3,349,317 | \$ 3,663,257 | \$ 7,012,574 | \$ 35,329,542 |
| Contract labor | 99,542 | 93,367 | 192,909 | 20,042 | 26,411 | 46,453 | 239,362 |
| Legal case expense | 6,124,129 | | 6,124,129 | | | | 6,124,129 |
| Professional services and fees | 1,531,966 | 728,630 | 2,260,596 | 4,128,826 | 85,008 | 4,213,834 | 6,474,430 |
| Office equipment and supplies | 699,578 | 743,346 | 1,442,924 | 296,311 | 288,602 | 584,913 | 2,027,837 |
| Rent | 1,015,951 | 229,578 | 1,245,529 | 93,666 | 42,988 | 136,654 | 1,382,183 |
| Utilities, telephone, and maintenance | 546,742 | 573,373 | 1,120,115 | 199,404 | 190,155 | 389,559 | 1,509,674 |
| Library expense | 231,091 | 83,651 | 314,742 | 6,773 | 29,388 | 36,161 | 350,903 |
| Insurance | 113,703 | 445,688 | 559,391 | 334,631 | 87,110 | 421,741 | 981,132 |
| Investigation and support | 167,439 | 452,707 | 620,146 | | | | 620,146 |
| Staff development and training | 1,254,075 | 520,508 | 1,774,583 | 244,378 | 176,593 | 420,971 | 2,195,554 |
| Travel and related expense | 471,268 | 410,997 | 882,265 | 118,527 | 73,827 | 192,354 | 1,074,619 |
| Postage | 743,855 | 1,423,199 | 2,167,054 | 1,248,213 | 1,870,880 | 3,119,093 | 5,286,147 |
| Printing | 444,477 | 874,816 | 1,319,293 | 711,923 | 1,037,043 | 1,748,966 | 3,068,259 |
| Lettershop expense | 304,907 | 593,828 | 898,735 | 461,855 | 1,313,318 | 1,775,173 | 2,673,908 |
| Other development costs | 321,417 | 691,899 | 1,013,316 | 1,517,460 | 1,963,408 | 3,480,868 | 4,494,184 |
| Educational publications | 688,473 | 3,734,276 | 4,422,749 | | 717,467 | 717,467 | 5,140,216 |
| Other educational projects | 1,420,025 | 5,484,962 | 6,904,987 | | | | 6,904,987 |
| Interest expense | 65,847 | 94,235 | 160,082 | 27,601 | 50,463 | 78,064 | 238,146 |
| Depreciation expense | 540,969 | 873,216 | 1,414,185 | 154,384 | 262,517 | 416,901 | 1,831,086 |
| Total operating and action funds expenses | <u>\$ 35,660,793</u> | <u>\$ 27,493,905</u> | <u>\$ 63,154,698</u> | <u>\$ 12,913,311</u> | <u>\$ 11,878,435</u> | <u>\$ 24,791,746</u> | <u>\$ 87,946,444</u> |

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

Southern Poverty Law Center, Inc.
Notes to Consolidated Financial Statements
October 31, 2019

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 consolidated 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 two classes of net assets based on the existence or absence of donor-imposed restrictions.

Net assets with donor restrictions - Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity. Assets maintained in perpetuity are invested in the Center's endowment fund. The donors of these assets permit the Center to use the income earned for operations.

Net assets without donor restrictions - Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. Certain net assets classified as without donor restrictions 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.

Southern Poverty Law Center, Inc.
Notes to Consolidated Financial Statements
October 31, 2019

Note 2 - Summary of Significant Accounting Policies (continued)

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. 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 consolidated statement of financial position and the consolidated statement of activities.

Contributions - Contributions received are recorded as increases in net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets with donor restrictions and reported in the consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Southern Poverty Law Center, Inc.
Notes to Consolidated Financial Statements
October 31, 2019

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.

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 consolidated statement of financial position date. There were no unconditional grants outstanding at October 31, 2019.

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 \$11,241,553 for educational materials and activities as part of fund-raising appeals during the year ended October 31, 2019. Of those costs, \$2,930,354 was allocated to management and general expense, \$2,893,293 was allocated to development expense, and \$5,417,906 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 is a tax-exempt organization 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 consolidated 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 - Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise, the following:

| | |
|--------------------------|----------------------|
| Cash | \$ 5,391,373 |
| Contributions receivable | 4,441,966 |
| Other receivables | 809,458 |
| Other investments | 437,425 |
| | <u>\$ 11,080,222</u> |

Southern Poverty Law Center, Inc.
Notes to Consolidated Financial Statements
October 31, 2019

The Center's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The board-designated endowment of \$526,229,933 is subject to an annual spending rate as described in Note 11. Although the Center does not intend to spend from this Board designated endowment (other than amounts appropriated for expenditure as part of the Board's annual budget approval and appropriation) these amounts could be made available, if necessary.

The Center has an available line of credit in the amount of \$10,000,000.

Note 4 - Contributions Receivable

Contributions receivable are summarized as follows at October 31, 2019:

| | |
|--|----------------------------|
| Unconditional promises expected to be collected in | |
| Less than one year | \$ 3,280,672 |
| One year to five years | 1,625,533 |
| More than five years | 1,059,000 |
| Less discounts to net present value | <u>(780,395)</u> |
| Total unconditional promises to give | 5,184,810 |
| Bequests receivable | <u>1,161,294</u> |
| Net contributions receivable | <u><u>\$ 6,346,104</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.

Note 5 - 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, 2019:

| | |
|-----------------------|--------------------------|
| Operating Fund | |
| Cash funds | \$ 543,420 |
| Fixed income | |
| Bond mutual funds | 5,963,518 |
| Public equities | |
| Equity mutual funds | <u>4,720,693</u> |
| Total operating fund | <u><u>11,227,631</u></u> |

Southern Poverty Law Center, Inc.
Notes to Consolidated Financial Statements
October 31, 2019

Note 5 - Investments (continued)

Endowment Fund

| | |
|---|-----------------------|
| Cash funds | \$ 26,010,634 |
| Fixed income | |
| U.S. bond funds | 38,739,059 |
| Investments measured at net asset value | 465,052,139 |
| | <u>529,801,832</u> |
| Totals | <u>\$ 541,029,463</u> |

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 | \$ 105,873,868 | | Daily, monthly, calendar quarter | 15 - 60 days |
| Non-U.S. equity funds | 162,504,578 | | Daily, monthly, calendar quarter, semi-annually | 5 - 65 days |
| Private equity funds (b) | 78,637,996 | \$ 74,694,054 | | |
| Marketable alternative funds (c) | | | | |
| Absolute return funds | 20,760,346 | | Calendar quarter | 65 - 67 days |
| Arbitrage funds | 10,926,598 | | Annually | 60 - 90 days |
| Long-short funds | 26,709,061 | | Quarterly, annually | 30 - 60 days |
| Multi-strategy funds | 59,639,692 | | Weekly, monthly, semi-monthly, calendar quarter, semi-annually, annually | 5 - 180 days |
| Total endowment fund | <u>\$ 465,052,139</u> | <u>\$ 74,694,054</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) 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 5 and 180 days' notice.

Southern Poverty Law Center, Inc.
Notes to Consolidated Financial Statements
October 31, 2019

Investment return is made up of the following at October 31, 2019:

Operating Fund

| | |
|------------------------------|---------------------|
| Interest and dividend income | \$ 474,322 |
| Net realized gain | 93,452 |
| Net unrealized gain | 745,798 |
| Total investment income | <u>\$ 1,313,572</u> |

Endowment Fund

| | |
|------------------------------|----------------------|
| Interest and dividend income | \$ 2,049,639 |
| Net realized gain | 16,276,755 |
| Net unrealized gain | 21,299,528 |
| Investment fees | (925,206) |
| Total investment income | <u>\$ 38,700,716</u> |

Note 6 - Land, Buildings, and Equipment

At October 31, 2019, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

| | |
|-------------------------------|----------------------|
| Land | \$ 669,682 |
| Buildings and improvements | 23,519,807 |
| Civil rights memorial | 1,051,188 |
| Furniture and equipment | 9,984,052 |
| Total cost | 35,224,729 |
| Less accumulated depreciation | 20,993,725 |
| Net | <u>\$ 14,231,004</u> |

Note 7 - 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, 2019

Note 8 - Net Assets

At October 31, 2019, the net assets with donor restrictions consist of the following:

| | |
|---|----------------------------|
| Subject to expenditure for specified purpose | \$ 3,483,429 |
| Subject to the passage of time | 1,701,380 |
| Endowments restricted by donors in perpetuity | <u>3,571,899</u> |
| Total net assets with donor restrictions | <u><u>\$ 8,756,708</u></u> |

Note 9 - Retirement Plan

The Organization has a 401(k) Retirement Plan for its employees. For the year ended October 31, 2019, 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 2019 was \$2,204,046.

Note 10 - Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis. The functional allocation of compensation expenses is estimated for expense line items based on the amount of time each employee spends in a particular program, fundraising, or administrative role. Other expenses are allocated based on the department's allocations which are derived from the total allocations by employee from that department.

Note 11 - Endowment Fund

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

- *Net assets with donor restrictions* contain donor-imposed stipulations. Some donor-imposed stipulations 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. Some funds 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 without donor restrictions* 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 funds without donor restrictions 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, 2019

Note 11 - Endowment Fund (continued)

Change in endowment net assets for the year ended October 31, 2019:

| | Without Donor Restrictions (Board Designated) | With Donor Restrictions | Total |
|--|--|------------------------------------|----------------|
| Endowment net assets, beginning of year | \$ 467,474,707 | \$ 3,571,899 | \$ 471,046,606 |
| Investment return | 38,400,677 | 300,039 | 38,700,716 |
| Appropriated for expenditure | 300,039 | (300,039) | |
| Transfer to increase board- designated endowment fund | 20,054,510 | | 20,054,510 |
| Total change in endowment funds | 58,755,226 | | 58,755,226 |
| Endowment net assets, end of year | \$ 526,229,933 | \$ 3,571,899 | \$ 529,801,832 |

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 in perpetuity (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 retained in perpetuity is subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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.

Southern Poverty Law Center, Inc.
Notes to Consolidated Financial Statements
October 31, 2019

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.

Note 12 - Subsequent Events

The Center has evaluated subsequent events through December 16, 2019, which is the date these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of October 31, 2019, have been incorporated into these consolidated financial statements.

Note 13 - Change in Accounting Principle

In 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-For-Profit (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities* (ASU 2016-14). The Organization implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The application had no impact on total net assets or total changes in net assets. The new standards change the following aspects of the Organization's consolidated financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The consolidated financial statements include a new disclosure about liquidity and availability of resources (Note 3).
- Investment expenses have been netted against investment return on the statement of activities.
- Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities have been removed from the consolidated statement of cash flows.

In 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09) and FASB 2018-08, *Not-For-Profit (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). These two ASUs were adopted together because they both establish standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. Adopting one ASU without the other would leave the accounting for some ongoing grants and contracts unresolved. ASU 2014-09 and ASU 2018-08 were adopted retrospectively only to agreements that were not complete at October 31, 2018. The adoption of the new guidance had no impact on the Organization's revenues, receivables, and contracts.