

SOUTHERN POVERTY LAW CENTER, INC.

OCTOBER 31, 2011

FINANCIAL STATEMENTS

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

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MONTGOMERY, ALABAMA

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Southern Poverty Law Center, Inc. (the Center) as of October 31, 2011 and the related statements of activities, cash flows, and functional expenses for the year then ended. The financial statements are the responsibility of the Center's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Poverty Law Center, Inc. as of October 31, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Jackson Thornton & Co. PC

Montgomery, Alabama
January 3, 2012

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2011

OPERATING FUND

ASSETS:

Cash and cash equivalents	\$ 7,649,689
Contributions receivable	2,818,056
Other receivables	626,370
Inventory	400,146
Prepaid expenses	769,823
Investments of gift annuity program and pooled income fund	7,975,252
Other investments	346,419
Land, buildings, and equipment, net	<u>16,167,280</u>
Total operating fund assets	<u>\$ 36,753,035</u>

LIABILITIES AND NET ASSETS:

Accounts payable and accrued liabilities	\$ 1,764,244
Gift annuity and pooled income fund liability	5,648,834
Long-term debt	<u>15,000,000</u>
Total operating fund liabilities	<u>22,413,078</u>
Unrestricted net assets - operating fund	12,567,898
Temporarily restricted net assets - operating fund	<u>1,772,059</u>
Total net assets - operating fund	<u>14,339,957</u>
Total operating fund liabilities and net assets	<u>\$ 36,753,035</u>

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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2011

ENDOWMENT FUND

ASSETS:

Investments	<u>\$ 223,794,607</u>
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NET ASSETS:

Unrestricted net assets - endowment fund	\$ 221,822,708
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Permanently restricted net assets - endowment fund	<u>1,971,899</u>
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Total endowment fund net assets	<u>\$ 223,794,607</u>
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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2011

TOTALS

ASSETS:

Total operating fund (including land, buildings, and equipment)	\$ 36,753,035
Total endowment fund	<u>223,794,607</u>
Total assets	<u>\$ 260,547,642</u>

LIABILITIES AND NET ASSETS:

Total operating fund liabilities	\$ 22,413,078
Total liabilities	<u>22,413,078</u>

Unrestricted net assets:

Operating fund	12,567,898
Endowment fund	<u>221,822,708</u>
Total unrestricted net assets	<u>234,390,606</u>

Temporarily restricted net assets:

Operating fund	<u>1,772,059</u>
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Permanently restricted net assets:

Endowment fund	<u>1,971,899</u>
Total net assets	<u>238,134,564</u>

Total liabilities and net assets	<u>\$ 260,547,642</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, 2011

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:

Operating fund support and revenue:

Public support:

Contributions	\$ 33,019,522
Grants	1,801,648
Total public support	<u>34,821,170</u>

Revenue:

Investment income (excluding endowment)	282,722
Other	325,603
Total revenue	<u>608,325</u>

Total operating fund support and revenue	<u>35,429,495</u>
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Net assets released from temporary restrictions	<u>1,208,988</u>
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Total support, revenue, and net assets released from restriction	<u>36,638,483</u>
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Operating fund expenses:

Program services:

Legal services	10,984,964
Public education	12,525,692
Total program services	<u>23,510,656</u>

Supporting services:

Management and general	4,139,247
Development	6,501,730
Total supporting services	<u>10,640,977</u>

Total operating fund expenses	<u>34,151,633</u>
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Changes in unrestricted net assets from operating fund	2,486,850
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM
OPERATING FUND:

Operating fund support and revenue:

Contributions	569,392
Net assets released from temporary restrictions	<u>(1,208,988)</u>
Changes in temporarily restricted net assets from operating fund	<u>(639,596)</u>

CHANGES IN NET ASSETS FROM OPERATING FUND	1,847,254
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NET ASSETS AT BEGINNING OF YEAR	<u>12,492,703</u>
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NET ASSETS AT END OF YEAR	<u>\$ 14,339,957</u>
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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2011

ENDOWMENT FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM ENDOWMENT FUND:

Endowment fund revenue:

Investment income	\$ 7,278,466
Total endowment fund revenue	<u>7,278,466</u>

Endowment fund expense:

Supporting services:

Management and general	450,110
Total endowment fund expense	<u>450,110</u>

Changes in unrestricted net assets from endowment fund	<u>6,828,356</u>
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CHANGES IN PERMANENTLY RESTRICTED NET ASSETS
FROM ENDOWMENT FUND:

Permanently restricted contributions	<u>735,000</u>
Changes in permanently restricted net assets from endowment fund	<u>735,000</u>

CHANGES IN NET ASSETS FROM ENDOWMENT FUND	7,563,356
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NET ASSETS AT BEGINNING OF YEAR	<u>216,231,251</u>
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NET ASSETS AT END OF YEAR	<u>\$ 223,794,607</u>
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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2011

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:	
Changes in unrestricted net assets from operating fund	\$ 2,486,850
Changes in unrestricted net assets from endowment fund	<u>6,828,356</u>
Changes in unrestricted net assets	9,315,206
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Changes in temporarily restricted net assets from operating fund	(639,596)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:	
Changes in permanently restricted net assets from endowment fund	<u>735,000</u>
TOTAL CHANGES IN NET ASSETS	9,410,610
NET ASSETS AT BEGINNING OF YEAR	<u>228,723,954</u>
NET ASSETS AT END OF YEAR	<u>\$ 238,134,564</u>

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, 2011
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
OPERATING ACTIVITIES:			
Cash received for public support	\$ 35,859,703		\$ 35,859,703
Cash received for services and materials	160,423		160,423
Cash received from other sources	165,405		165,405
Cash payments for operating expenses	(18,146,902)	\$ (450,110)	(18,597,012)
Cash payments for employee salaries and benefits	(14,166,415)		(14,166,415)
Interest and dividend income	229,190	578,742	807,932
Net cash from operating activities	<u>4,101,404</u>	<u>128,632</u>	<u>4,230,036</u>
INVESTING ACTIVITIES:			
Purchase of investments	(12,294,328)	(27,919,086)	(40,213,414)
Proceeds from sale of investments	12,291,721	27,055,454	39,347,175
Purchase of property and equipment	(536,956)		(536,956)
Net cash used for investing activities	<u>(539,563)</u>	<u>(863,632)</u>	<u>(1,403,195)</u>
FINANCING ACTIVITIES:			
Proceeds from contributions restricted for investment in permanent endowment		735,000	735,000
Payments made to gift annuity plan and pooled income participants	(787,423)		(787,423)
Cash received for new gift annuities	889,767		889,767
Net cash from financing activities	<u>102,344</u>	<u>735,000</u>	<u>837,344</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,664,185		3,664,185
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,985,504</u>		<u>3,985,504</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7,649,689</u>	<u>\$ -</u>	<u>\$ 7,649,689</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Change in net assets	<u>\$ 1,847,254</u>	<u>\$ 7,563,356</u>	<u>\$ 9,410,610</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	1,118,342		1,118,342
Present value adjustment to annuities and pooled income fund payable	80,206		80,206
Contributions restricted for investment in permanent endowment		(735,000)	(735,000)
Increase in receivables, inventory, and prepaid expenses	929,633		929,633
Increase in accounts payable and accrued liabilities	179,501		179,501
Realized gain on sale of investments	(763,151)	(725,083)	(1,488,234)
Net unrealized gain / (loss) on investments	709,619	(5,974,641)	(5,265,022)
Total adjustments	<u>2,254,150</u>	<u>(7,434,724)</u>	<u>(5,180,574)</u>
Net cash from operating activities	<u>\$ 4,101,404</u>	<u>\$ 128,632</u>	<u>\$ 4,230,036</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, 2011

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	
OPERATING FUND:							
Salaries and related expenses	\$ 5,916,733	\$ 4,189,772	\$ 10,106,505	\$ 1,486,069	\$ 2,473,554	\$ 3,959,623	\$ 14,066,128
Contract labor	59,193	104,024	163,217	20,176	15,276	35,452	198,669
Legal case expense	1,390,052		1,390,052				1,390,052
Professional services and fees	377,730	179,159	556,889	281,067	48,178	329,245	886,134
Office equipment and supplies	326,166	347,858	674,024	136,348	105,883	242,231	916,255
Rent	317,022	9,063	326,085	18,471	2,379	20,850	346,935
Utilities, telephone, and maintenance	345,136	367,295	712,431	104,643	156,582	261,225	973,656
Library expense	86,629	51,854	138,483	6,635	13,128	19,763	158,246
Insurance	15,895	75,231	91,126	64,872	13,824	78,696	169,822
Investigation and support	107,725	328,154	435,879				435,879
Staff development and training	270,322	121,716	392,038	45,512	58,502	104,014	496,052
Travel and related expense	238,062	175,877	413,939	48,078	40,492	88,570	502,509
Postage	445,282	801,147	1,246,429	848,695	723,212	1,571,907	2,818,336
Printing	294,579	491,331	785,910	471,956	371,030	842,986	1,628,896
Lettershop expense	124,290	211,214	335,504	201,860	1,186,478	1,388,338	1,723,842
Other development costs	190,808	421,656	612,464	295,218	788,047	1,083,265	1,695,729
Educational publications	194,121	2,068,310	2,262,431		406,566	406,566	2,668,997
Other educational projects	127,328	1,780,589	1,907,917				1,907,917
Interest expense				49,237		49,237	49,237
Depreciation expense	157,891	801,442	959,333	60,410	98,599	159,009	1,118,342
Total operating expenses	10,984,964	12,525,692	23,510,656	4,139,247	6,501,730	10,640,977	34,151,633
ENDOWMENT FUND:							
Investment expense				450,110		450,110	450,110
Total expenses	\$ 10,984,964	\$ 12,525,692	\$ 23,510,656	\$ 4,589,357	\$ 6,501,730	\$ 11,091,087	\$ 34,601,743

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

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

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. The Center's temporarily restricted net assets include its pooled income fund, which consists of the donor's contribution and related earnings. These funds will remain under restriction during the donor's life.

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, formally named "The Morris Dees Legacy 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 expenditures from the endowment fund.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

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

Fair value measurements - Fair value generally represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 - The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. 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.

The fair value for non-marketable 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 non-marketable alternative investments are reasonably stated at October 31, 2011.

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. As of October 31, 2011, alternative investments comprise 88% of the reported fair value of the investment portfolio.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2011

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 present value of the estimated future payments is calculated using discount rates ranging from 2.0% to 9.6% based on applicable mortality tables and the prevailing rates at the time the gifts were made.

Pooled income fund - The Center has entered into agreements in which the Center pools, invests, and manages life income gifts from multiple donors. During the term of the life income gifts, the donor receives the actual income earned on the donor's portion of the pool's investments. The contribution revenue recorded at the time of the gift is reported as an increase in temporarily restricted net assets.

Cash and 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, pooled income funds, and those that are in the endowment fund investment portfolio.

The Center maintains its cash in non-interest bearing bank deposit accounts that are fully insured by the Federal Deposit Insurance Corporation (FDIC).

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 FINANCIAL STATEMENTS
OCTOBER 31, 2011

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

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 - The production of materials and activities which combine fund-raising, education, and management activities are allocated to the development and program activities 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 \$6,075,593 for educational materials and activities that included fund-raising appeals during the year ended October 31, 2011. Of those costs \$1,777,458 was allocated to management and general expense, \$1,430,391 was allocated to development expense, and \$2,867,744 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); accordingly, no provision for income taxes is made in the financial statements.

With few exceptions, the Center is no longer subject to income tax examinations by federal, state, or local tax authorities for the years before 2008.

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, 2011

NOTE 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are summarized as follows at October 31, 2011:

Unconditional promises expected to be collected in:	
Less than one year	\$ 737,394
One year to five years	631,211
More than five years	85,394
Less: Discounts to net present value	<u>309,400</u>
Total unconditional promises to give	1,144,599
Bequests receivable	<u>1,673,457</u>
 Net contributions receivable	 <u><u>\$ 2,818,056</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 FINANCIAL STATEMENTS
OCTOBER 31, 2011

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, 2011:

	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL I)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL II)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)	TOTAL
Operating fund:				
Cash funds	\$ 651,123			\$ 651,123
Fixed income:				
Bond mutual funds	4,413,036			4,413,036
Corporate obligations		\$ 190,529		190,529
Public equities:				
U.S. equities	268,676			268,676
Equity mutual funds	2,798,307			2,798,307
Total operating fund	<u>8,131,142</u>	<u>190,529</u>		<u>8,321,671</u>
Endowment fund:				
Cash funds	2,391,572			2,391,572
Fixed income:				
U.S. bond funds	795,768			795,768
U.S. treasury inflation protection securities	4,078,936			4,078,936
Non-U.S. bond funds		4,108,998		4,108,998
Public equities:				
U.S. equity funds	11,349,574	28,086,021		39,435,595
Non-U.S. equity funds		34,461,106		34,461,106
Private equity funds			\$ 12,875,023	12,875,023
Real asset funds		16,757,785		16,757,785
Marketable alternative funds:				
Absolute return funds		6,071,285	6,271,088	12,342,373
Arbitrage funds			25,668,585	25,668,585
Long-short funds		27,303,921	7,171,848	34,475,769
Multi-strategy funds		14,174,361	22,228,736	36,403,097
Total endowment fund	<u>18,615,850</u>	<u>130,963,477</u>	<u>74,215,280</u>	<u>223,794,607</u>
Totals	<u>\$ 26,746,992</u>	<u>\$ 131,154,006</u>	<u>\$ 74,215,280</u>	<u>\$ 232,116,278</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

NOTE 4 - INVESTMENTS: (continued)

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)
Balance at October 31, 2010	\$ 69,327,242
Purchases and (redemptions), net	(851,927)
Unrealized gains and (losses), net	<u>5,739,965</u>
Total	<u>\$ 74,215,280</u>

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, 2011

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 Center has investments in the following categories:

	VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE
Endowment fund:				
Cash funds (a)	\$ 2,391,572		Daily	
Fixed income: (b)				
U.S. bond funds	795,768		Daily	
U.S. Treasury inflation protected securities	4,078,936		Daily	
Non-U.S. bond funds	4,108,998		Monthly	60 days
Public equities: (c)				
U.S. equity funds	39,435,595		Daily, bi-monthly, calendar quarter	5 - 60 days
Non-U.S. equity funds	34,461,106		Daily, bi-monthly, calendar quarter	6 - 60 days
Private equity funds (d)	12,875,023	\$ 14,112,840		
Real asset funds (e)	16,757,785		Monthly	5 - 11 days
Marketable alternative funds: (f)				
Absolute return funds	12,342,373		Calendar quarter	60 - 65 days
Arbitrage funds	25,668,585		Calendar quarter, annually	60 - 90 days
Long-short funds	34,475,769		Calendar quarter, annually	30 - 60 days
Multi-strategy funds	36,403,097		Calendar quarter, annually	45 - 180 days
Total endowment fund	<u>\$ 223,794,607</u>	<u>\$ 14,112,840</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 30 days. Level III assets have liquidity provisions similar to those for marketable alternatives, as described below.
- (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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2011

NOTE 4 - INVESTMENTS: (continued)

- (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, 2011:

Operating fund:	
Interest and dividend income	\$ 229,190
Net realized gain	763,151
Net unrealized gain / (loss)	<u>(709,619)</u>
Total investment income	<u>\$ 282,722</u>
Endowment fund:	
Interest and dividend income	\$ 578,742
Net realized gain	725,083
Net unrealized gain	<u>5,974,641</u>
Total investment income	<u>\$ 7,278,466</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2011

NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT:

At October 31, 2011, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

Land	\$	669,682
Buildings and improvements		24,075,679
Civil rights memorial		811,737
Furniture and equipment		6,368,823
Total cost		<u>31,925,921</u>
Less: Accumulated depreciation		<u>15,758,641</u>
Net	\$	<u>16,167,280</u>

NOTE 6 - LONG-TERM DEBT:

The Center's office building is financed through tax-exempt variable rate demand revenue 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 August 1, 2000, between the Authority and the Trustee. The Center is purchasing the facility under an Agreement of Sale (the Agreement) dated as of March 1, 1999, amended August 1, 2000. S&P reevaluated the Center's financial position in June 2011 resulting in the agency upgrading the Center's rating to AA/A-1+. 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 bonds bear interest at a variable rate and interest is due on a monthly basis. The principal on the bonds matures March 1, 2019. 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, 2011

NOTE 7 - RESTRICTED NET ASSETS:

At October 31, 2011, the restricted net assets consist of the following:

Temporarily restricted net assets:	
Contributions restricted for future periods	\$ 994,600
Contributions restricted for purpose	718,000
Pooled income fund	<u>59,459</u>
Total temporarily restricted net assets	<u>\$ 1,772,059</u>
Permanently restricted net assets:	
Contributions restricted for permanent endowment	<u>\$ 1,971,899</u>
Total permanently restricted net assets	<u>\$ 1,971,899</u>

NOTE 8 - RETIREMENT PLAN:

The Center has a 401(k) Retirement Plan for its employees. For the year ended October 31, 2011, the plan provided a 6% employer contribution regardless of the employee contribution, and an additional 100% employer match of employee contributions up to 4.0% of salary. The Center's total retirement plan expense for 2011 was \$864,611.

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, 2011

NOTE 10 - ENDOWMENT FUND:

The Center has classified its October 31, 2011 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, known as the Morris Dees Legacy 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, 2011:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds			\$ 1,971,899	\$ 1,971,899
Board designated endowment funds	\$ 221,822,708			221,822,708
Totals	<u>\$ 221,822,708</u>	<u>\$ -</u>	<u>\$ 1,971,899</u>	<u>\$ 223,794,607</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

NOTE 10 - ENDOWMENT: (continued)

Change in endowment net assets for the year ended October 31, 2011:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, beginning of year	\$ 214,994,352		\$ 1,236,899	\$ 216,231,251
Investment return:				
Investment income, net	799,147	\$ 54,568		853,715
Net unrealized gain	5,974,641			5,974,641
Total investment return	<u>6,773,788</u>	<u>54,568</u>		<u>6,828,356</u>
Contributions			735,000	735,000
Appropriated for expenditure		(54,568)		(54,568)
Transfer to increase board- designated endowment fund	<u>54,568</u>			<u>54,568</u>
Total change in endowment funds	<u>6,828,356</u>		<u>735,000</u>	<u>7,563,356</u>
Endowment net assets, end of year	<u>\$ 221,822,708</u>	<u>\$ -</u>	<u>\$ 1,971,899</u>	<u>\$ 223,794,607</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

NOTE 10 - ENDOWMENT: (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.

Funds with deficiencies - From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this sort may result from investment losses. There were no such deficiencies as of October 31, 2011.

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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

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 approved spending from the endowment fund of \$3 million in 2011, representing a spending rate of 1.5% of its 12-quarter trailing average market value. Actual operating fund revenue exceeded projections for the year and this draw from the endowment was not required.

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash and cash equivalents and receivables 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 value of financial instruments at October 31, 2011 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
Cash and cash equivalents	\$ 7,649,689			\$ 7,649,689
Receivables		\$ 1,673,457		1,673,457
Investments	26,746,992	131,154,006	\$ 74,215,280	232,116,278
Pooled income fund and gift annuity liability		5,648,834		5,648,834
Long-term debt		15,000,000		15,000,000

NOTE 12 - SUBSEQUENT EVENTS:

The Center has evaluated subsequent events through January 3, 2012, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of October 31, 2011, have been incorporated into these financial statements.