

SOUTHERN POVERTY LAW CENTER, INC.

OCTOBER 31, 2014

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 statement of financial position of Southern Poverty Law Center, Incorporated (the Center) as of October 31, 2014, which comprise the related statements 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 audits. We conducted our audits 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, 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jackson Thornton & Co. PC

Montgomery, Alabama
December 19, 2014

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2014

OPERATING FUND

ASSETS:

Cash and cash equivalents	\$ 994,441
Contributions receivable	3,295,618
Other receivables	1,544,715
Inventory	510,092
Prepaid expenses	1,757,000
Investments of gift annuity program and pooled income fund	9,009,114
Other investments	5,478,398
Land, buildings, and equipment, net	<u>15,182,534</u>
Total operating fund assets	<u>\$ 37,771,912</u>

LIABILITIES AND NET ASSETS:

Accounts payable and accrued liabilities	\$ 2,273,374
Line of credit	2,500,000
Gift annuity and pooled income fund liability	6,075,992
Long-term debt	<u>15,000,000</u>
Total operating fund liabilities	<u>25,849,366</u>
Unrestricted net assets - operating fund	9,772,431
Temporarily restricted net assets - operating fund	<u>2,150,115</u>
Total net assets - operating fund	<u>11,922,546</u>
Total operating fund liabilities and net assets	<u>\$ 37,771,912</u>

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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2014

ENDOWMENT FUND

ASSETS:

Investments \$ 302,825,586

NET ASSETS:

Unrestricted net assets - endowment fund \$ 299,253,687

Permanently restricted net assets - endowment fund 3,571,899

Total endowment fund net assets \$ 302,825,586

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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2014

TOTALS

ASSETS:

Total operating fund (including land, buildings, and equipment)	\$ 37,771,912
Total endowment fund	<u>302,825,586</u>
Total assets	<u>\$ 340,597,498</u>

LIABILITIES AND NET ASSETS:

Total operating fund liabilities	\$ 25,849,366
Total liabilities	<u>25,849,366</u>

Unrestricted net assets:

Operating fund	9,772,431
Endowment fund	<u>299,253,687</u>
Total unrestricted net assets	<u>309,026,118</u>

Temporarily restricted net assets:

Operating fund	<u>2,150,115</u>
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Permanently restricted net assets:

Endowment fund	3,571,899
Total net assets	<u>314,748,132</u>

Total liabilities and net assets	<u>\$ 340,597,498</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, 2014

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:

Operating fund support and revenue:	
Public support:	
Contributions	\$ 39,186,630
Grants	1,987,373
Total public support	<u>41,174,003</u>
Revenue:	
Investment income (excluding endowment)	558,422
Other	341,263
Total revenue	<u>899,685</u>
Total operating fund support and revenue	<u>42,073,688</u>
Net assets released from temporary restrictions	1,306,624
Total support, revenue, and net assets released from restriction	<u>43,380,312</u>
Operating fund expenses:	
Program services:	
Legal services	13,038,959
Public education	14,918,505
Total program services	<u>27,957,464</u>
Supporting services:	
Management and general	5,305,503
Development	8,698,356
Total supporting services	<u>14,003,859</u>
Total operating fund expenses	<u>41,961,323</u>
Changes in unrestricted net assets from operating fund	1,418,989
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATING FUND:	
Operating fund support and revenue:	
Contributions and grants	1,235,944
Net assets released from temporary restrictions	(1,306,624)
Changes in temporarily restricted net assets from operating fund	<u>(70,680)</u>
CHANGES IN NET ASSETS FROM OPERATING FUND	1,348,309
TRANSFER FROM ENDOWMENT FUND	492,829
NET ASSETS AT BEGINNING OF YEAR	<u>10,081,408</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,922,546</u>

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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2014

ENDOWMENT FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM ENDOWMENT FUND:

Endowment fund revenue:

Investment income	\$ 21,424,702
Total endowment fund revenue	<u>21,424,702</u>

Endowment fund expense:

Supporting services:

Management and general	<u>579,760</u>
Total endowment fund expense	<u>579,760</u>

Changes in unrestricted net assets from endowment fund	<u>20,844,942</u>
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CHANGES IN PERMANENTLY RESTRICTED NET ASSETS
FROM ENDOWMENT FUND:

Permanently restricted contributions	<u>1,350,000</u>
Changes in permanently restricted net assets from endowment fund	<u>1,350,000</u>

CHANGES IN NET ASSETS FROM ENDOWMENT FUND	22,194,942
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TRANSFER TO OPERATING FUND	(492,829)
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NET ASSETS AT BEGINNING OF YEAR	<u>281,123,473</u>
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NET ASSETS AT END OF YEAR	<u>\$ 302,825,586</u>
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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2014

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:	
Changes in unrestricted net assets from operating fund	\$ 1,418,989
Changes in unrestricted net assets from endowment fund	<u>20,844,942</u>
Changes in unrestricted net assets	22,263,931
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Changes in temporarily restricted net assets from operating fund	<u>(70,680)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:	
Changes in permanently restricted net assets from endowment fund	<u>1,350,000</u>
TOTAL CHANGES IN NET ASSETS	23,543,251
NET ASSETS AT BEGINNING OF YEAR	<u>291,204,881</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 314,748,132</u></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, 2014
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
OPERATING ACTIVITIES:			
Cash received for public support	\$ 42,196,713		\$ 42,196,713
Cash received for services and materials	141,682		141,682
Cash received from other sources	193,363		193,363
Cash payments for operating expenses	(23,716,377)	\$ (579,760)	(24,296,137)
Cash payments for employee salaries and benefits	(17,235,676)		(17,235,676)
Interest and dividend income	247,939	702,904	950,843
Net cash from operating activities	<u>1,827,644</u>	<u>123,144</u>	<u>1,950,788</u>
INVESTING ACTIVITIES:			
Purchase of investments	(11,132,181)	(56,270,639)	(67,402,820)
Proceeds from sale of investments	6,331,990	55,290,324	61,622,314
Purchase of property and equipment	(1,055,447)		(1,055,447)
Net cash used for investing activities	<u>(5,855,638)</u>	<u>(980,315)</u>	<u>(6,835,953)</u>
FINANCING ACTIVITIES:			
Operation transfers in (out)	492,829	(492,829)	
Proceeds from contributions restricted for investment in permanent endowment		1,350,000	1,350,000
Proceeds from draw on line of credit	2,500,000		2,500,000
Payments made to gift annuity plan and pooled income participants	(831,757)		(831,757)
Cash received for new gift annuities	698,175		698,175
Net cash from financing activities	<u>2,859,247</u>	<u>857,171</u>	<u>3,716,418</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,168,747)		(1,168,747)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,163,188</u>		<u>2,163,188</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 994,441</u>	<u>\$ -</u>	<u>\$ 994,441</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Change in net assets	\$ 1,348,309	\$ 22,194,942	\$ 23,543,251
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	1,362,389		1,362,389
Present value adjustment to annuities and pooled income fund payable	(7,723)		(7,723)
Contributions restricted for investment in permanent endowment		(1,350,000)	(1,350,000)
Increase in receivables, inventory, and prepaid expenses	(920,240)		(920,240)
Increase in accounts payable and accrued liabilities	355,392		355,392
Net realized gain on sale of investments	(174,587)	(9,320,641)	(9,495,228)
Net unrealized gain on investments	(135,896)	(11,401,157)	(11,537,053)
Total adjustments	<u>479,335</u>	<u>(22,071,798)</u>	<u>(21,592,463)</u>
Net cash from operating activities	<u>\$ 1,827,644</u>	<u>\$ 123,144</u>	<u>\$ 1,950,788</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, 2014

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	
OPERATING FUND:							
Salaries and related expenses	\$ 7,312,852	\$ 5,027,700	\$ 12,340,552	\$ 1,888,607	\$ 2,975,867	\$ 4,864,474	\$ 17,205,026
Contract labor	59,372	69,791	129,163	19,804	29,633	49,437	178,600
Legal case expense	1,647,196		1,647,196				1,647,196
Professional services and fees	253,242	172,133	425,375	671,082	68,706	739,788	1,165,163
Office equipment and supplies	308,066	420,580	728,646	180,259	166,996	347,255	1,075,901
Rent	431,112	16,346	447,458	26,390	4,199	30,589	478,047
Utilities, telephone, and maintenance	440,396	535,033	975,429	163,009	210,569	373,578	1,349,007
Library expense	86,895	40,176	127,071	4,226	17,337	21,563	148,634
Insurance	33,065	149,936	183,001	130,788	28,141	158,929	341,930
Investigation and support	126,661	455,366	582,027				582,027
Staff development and training	382,531	192,865	575,396	89,301	97,446	186,747	762,143
Travel and related expense	145,959	126,384	272,343	44,743	37,647	82,390	354,733
Postage	404,144	698,929	1,103,073	765,044	1,122,265	1,887,309	2,990,382
Printing	361,926	553,064	914,990	514,341	671,325	1,185,666	2,100,656
Lettershop expense	164,336	254,383	418,719	251,753	966,634	1,218,387	1,637,106
Other development costs	220,192	1,279,281	1,499,473	408,001	1,451,594	1,859,595	3,359,068
Educational publications	229,112	2,127,704	2,356,816				2,356,816
Other educational projects	130,385	2,137,713	2,268,098				2,268,098
Interest expense				19,432		19,432	19,432
Depreciation expense	301,517	661,121	962,638	128,723	271,028	399,751	1,362,389
Total operating expenses	13,038,959	14,918,505	27,957,464	5,305,503	8,698,356	14,003,859	41,961,323
ENDOWMENT FUND:							
Investment expense				579,760		579,760	579,760
Total expenses	\$ 13,038,959	\$ 14,918,505	\$ 27,957,464	\$ 5,885,263	\$ 8,698,356	\$ 14,583,619	\$ 42,541,083

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

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2014

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 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, 2014

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, 2014, alternative investments comprise 88% 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, 2014.

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, 2014

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 1.2% 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 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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

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 a single bank 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 \$8,056,407 for educational materials and activities as part of fund-raising appeals during the year ended October 31, 2014. Of those costs, \$1,997,659 was allocated to management and general expense, \$2,093,230 was allocated to development expense, and \$3,965,517 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).

With few exceptions, the Center is no longer subject to income tax examinations by federal, state, or local tax authorities for the years before 2011.

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, 2014

NOTE 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are summarized as follows at October 31, 2014:

Unconditional promises expected to be collected in:	
Less than one year	\$ 926,941
One year to five years	867,251
More than five years	1,058,789
Less: Discounts to net present value	<u>776,180</u>
Total unconditional promises to give	2,076,801
Bequests receivable	<u>1,218,817</u>
Net contributions receivable	<u>\$ 3,295,618</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, 2014

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, 2014:

	QUOTED PRICES ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL I)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL II)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)	TOTAL
<u>Operating Fund</u>				
Cash funds	\$ 5,672,829			\$ 5,672,829
Fixed income				
Bond mutual funds	4,947,048			4,947,048
Public equities				
US equities	1,957			1,957
Equity mutual funds	3,865,678			3,865,678
Total Operating Fund	14,487,512			14,487,512
<u>Endowment Fund</u>				
Cash funds	11,141,745			11,141,745
Fixed income				
US bond funds	767,083			767,083
US treasury inflation protection securities	1,885,510			1,885,510
Non-US bond funds		\$ 4,108,451		4,108,451
Equities				
US equity funds	9,026,478	51,508,414		60,534,892
Non-US equity funds		55,275,343		55,275,343
Private equity funds			\$ 28,809,569	28,809,569
Real asset funds		16,955,556		16,955,556
Alternative funds				
Absolute return funds		7,738,549	16,151,716	23,890,265
Arbitrage funds			20,240,133	20,240,133
Long-short funds		23,834,753	9,610,414	33,445,167
Multi-strategy funds		22,073,380	23,698,491	45,771,871
Total Endowment Fund	22,820,816	181,494,446	98,510,323	302,825,585
Totals	\$ 37,308,328	\$ 181,494,446	\$ 98,510,323	\$ 317,313,097

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 4 - INVESTMENTS: (continued)

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)
Balance at October 31, 2013	\$ 90,248,385
Purchases and (redemptions), net	354,969
Realized gains and (losses), net	2,187,585
Unrealized gains and (losses), net	<u>5,719,384</u>
Total	<u>\$ 98,510,323</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, 2014

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:

	VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	REDEMPTION NOTICE
Endowment fund:				
Cash funds (a)	\$ 11,141,745		Daily	
Fixed income: (b)				
U.S. bond funds	767,083		Daily	
U.S. Treasury inflation protected securities	1,885,510		Daily	
Non-U.S. bond funds	4,108,451		Monthly	60 days
Public equities: (c)				
U.S. equity funds	60,534,892		Daily, bi-monthly, calendar quarter	5 - 60 days
Non-U.S. equity funds	55,275,343		Daily, monthly, calendar quarter	6 - 60 days
Private equity funds (d)	28,809,569	\$ 12,864,230		
Real asset funds (e)	16,955,556		Monthly	5 - 11 days
Marketable alternative funds: (f)				
Absolute return funds	23,890,265		Calendar quarter	60 - 65 days
Arbitrage funds	20,240,133		Calendar quarter, annually	60 - 90 days
Long-short funds	33,445,167		Calendar quarter, annually	30 - 60 days
Multi-strategy funds	45,771,871		Weekly, Semi-Monthly, Calendar quarter, annually	5 - 180 days
Total endowment fund	<u>\$ 302,825,585</u>	<u>\$ 12,864,230</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, 2014

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, 2014:

Operating fund:

Interest and dividend income	\$	247,939
Net realized gain		174,587
Net unrealized gain		<u>135,896</u>

Total investment income \$ 558,422

Endowment fund:

Interest and dividend income	\$	702,904
Net realized gain		9,320,641
Net unrealized gain		<u>11,401,157</u>

Total investment income \$ 21,424,702

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT:

At October 31, 2014, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

Land	\$ 669,682
Buildings and improvements	24,101,662
Civil rights memorial	811,738
Furniture and equipment	8,422,367
Total cost	<u>34,005,449</u>
Less: Accumulated depreciation	<u>18,822,915</u>
Net	<u>\$ 15,182,534</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.

NOTE 7 - LINE OF CREDIT:

The Center has a \$5,000,000 revolving line of credit with Sterling Bank. As of October 31, 2014, a draw of \$2,500,000 was outstanding on the line of credit. The line of credit bears interest at the one month LIBOR rate plus 1.500%, which was 1.652% at October 31, 2014. The interest rate is reset daily. Interest is due monthly with principal and interest due upon maturity on March 1, 2015.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 8 - RESTRICTED NET ASSETS:

At October 31, 2014, the restricted net assets consist of the following:

Temporarily restricted net assets:	
Contributions restricted for future periods	\$ 1,501,801
Contributions restricted for purpose	575,000
Pooled income fund	<u>73,314</u>
Total temporarily restricted net assets	<u>\$ 2,150,115</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 9 - RETIREMENT PLAN:

The Center has a 401(k) Retirement Plan for its employees. For the year ended October 31, 2014, 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 2014 was \$1,115,172.

NOTE 10 - 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, 2014

NOTE 11 - ENDOWMENT FUND:

The Center has classified its October 31, 2014 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, 2014:

	<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	\$ 299,253,687			299,253,687
Totals	<u>\$ 299,253,687</u>	<u>\$ -</u>	<u>\$ 3,571,899</u>	<u>\$ 302,825,586</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 11 - ENDOWMENT: (continued)

Change in endowment net assets for the year ended October 31, 2014:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, beginning of year	\$ 278,901,574		\$ 2,221,899	\$ 281,123,473
Investment return:				
Investment income, net	9,233,470	\$ 210,315		9,443,785
Net unrealized gain	11,401,157			11,401,157
Total investment return	<u>20,634,627</u>	<u>210,315</u>		<u>20,844,942</u>
Contributions			1,350,000	1,350,000
Appropriated for expenditure	210,315	(210,315)		
Transfer to decrease board- designated endowment fund	<u>(492,829)</u>			<u>(492,829)</u>
Total change in endowment funds	<u>20,352,113</u>		<u>1,350,000</u>	<u>21,702,113</u>
Endowment net assets, end of year	<u>\$ 299,253,687</u>	<u>\$ -</u>	<u>\$ 3,571,899</u>	<u>\$ 302,825,586</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 11 - 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.

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, 2014

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. In October 2014, the Board of Directors approved spending from the unrestricted endowment fund of \$4 million in the next fiscal year.

NOTE 12 - 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 values of financial instruments at October 31, 2014 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	\$ 994,441			\$ 994,441
Receivables		\$ 3,295,618		3,295,618
Investments	37,308,328	181,494,446	\$ 98,510,323	317,313,097
Pooled income fund and gift annuity liability		6,075,992		6,075,992
Long-term debt		15,000,000		15,000,000

NOTE 13 - SUBSEQUENT EVENTS:

The Center has evaluated subsequent events through December 19, 2014, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of October 31, 2014, have been incorporated into these financial statements.