

SOUTHERN POVERTY LAW CENTER, INC.

OCTOBER 31, 2007

FINANCIAL STATEMENTS

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

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MONTGOMERY, ALABAMA

Dothan
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INDEPENDENT AUDITORS' REPORT

To 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. as of October 31, 2007 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, 2007 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
December 27, 2007

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2007

OPERATING FUND

ASSETS:

Cash and cash equivalents	\$ 1,113,654
Contributions receivable	3,143,432
Other receivables	642,803
Inventory	784,293
Prepaid expenses	659,296
Investments of gift annuity program	9,134,271
Investments of pooled income fund	204,779
Other investments	2,951,714
Land, buildings and equipment, net	<u>20,202,852</u>
Total operating fund assets	<u>\$ 38,837,094</u>

LIABILITIES AND NET ASSETS:

Accounts payable and accrued liabilities	\$ 874,196
Long-term debt	15,000,000
Gift annuity liability	5,043,483
Pooled income fund liability	<u>78,031</u>
Total operating fund liabilities	<u>20,995,710</u>
Unrestricted net assets - operating fund	16,897,210
Temporarily restricted net assets - operating fund	<u>944,174</u>
Total net assets - operating fund	<u>17,841,384</u>
Total operating fund liabilities and net assets	<u>\$ 38,837,094</u>

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2007

ENDOWMENT FUND

ASSETS:

Investments

\$ 201,710,465

NET ASSETS:

Unrestricted net assets - endowment fund

\$ 201,710,465

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2007

TOTALS

ASSETS:

Total operating fund (including land, building, and equipment)	\$ 38,837,094
Total endowment fund (restricted by Board of Directors)	<u>201,710,465</u>
Total assets	<u><u>\$ 240,547,559</u></u>

LIABILITIES AND NET ASSETS:

Total operating fund liabilities	<u>\$ 20,995,710</u>
Unrestricted net assets:	
Operating fund	16,897,210
Endowment fund	<u>201,710,465</u>
Total unrestricted net assets	<u>218,607,675</u>
Temporarily restricted net assets:	
Operating fund	<u>944,174</u>
Total net assets	<u>219,551,849</u>
Total liabilities and net assets	<u><u>\$ 240,547,559</u></u>

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, 2007

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:

Operating fund support and revenue:

Public support:

Contributions	\$ 27,822,569
Grants	<u>1,167,300</u>
Total public support	<u>28,989,869</u>

Revenue:

Investment income (excluding endowment)	928,332
Other	<u>421,934</u>
Total revenue	<u>1,350,266</u>

Total operating fund support and revenue	<u>30,340,135</u>
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Operating fund expenses:

Program services:

Legal services	7,014,349
Public education	<u>13,810,496</u>
Total program services	<u>20,824,845</u>

Supporting services:

Management and general	3,955,430
Development	<u>5,110,124</u>
Total supporting services	<u>9,065,554</u>

Total operating fund expenses	<u>29,890,399</u>
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Changes in unrestricted net assets from operating fund	449,736
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM
OPERATING FUND:

Operating fund support and revenue:

Contributions	278,034
Pooled income fund contributions and change in value	<u>17,919</u>
Changes in temporarily restricted net assets from operating fund	<u>295,953</u>

CHANGES IN NET ASSETS FROM OPERATING FUND	745,689
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NET ASSETS AT BEGINNING OF YEAR	<u>17,095,695</u>
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NET ASSETS AT END OF YEAR	<u>\$ 17,841,384</u>
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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2007

ENDOWMENT FUND

ENDOWMENT FUND REVENUE:	
Investment income	<u>\$ 26,440,536</u>
Changes in unrestricted net assets from endowment fund	26,440,536
NET ASSETS AT BEGINNING OF YEAR	<u>175,269,929</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 201,710,465</u></u>

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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2007

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:	
Changes in unrestricted net assets from operating fund	\$ 449,736
Changes in unrestricted net assets from endowment fund	<u>26,440,536</u>
Changes in unrestricted net assets	26,890,272
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Changes in temporarily restricted net assets from operating fund	<u>295,953</u>
TOTAL CHANGES IN NET ASSETS	27,186,225
NET ASSETS AT BEGINNING OF YEAR	<u>192,365,624</u>
NET ASSETS AT END OF YEAR	<u>\$ 219,551,849</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, 2007
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
OPERATING ACTIVITIES:			
Cash received for public support	\$ 29,098,042		\$ 29,098,042
Cash received for rental services	264,709		264,709
Cash received for sale of educational materials	135,709		135,709
Cash payments for operating expenses	(16,781,905)		(16,781,905)
Cash payments for employee salaries and benefits	(10,891,917)		(10,891,917)
Interest and dividend income	472,651	\$ 4,463,046	4,935,697
Net cash from operating activities	<u>2,321,289</u>	<u>4,463,046</u>	<u>6,784,335</u>
INVESTING ACTIVITIES:			
Purchase of investments	(13,141,966)	(43,792,766)	(56,934,732)
Proceeds from sale of investments	10,139,454	39,329,720	49,469,174
Purchase of property and equipment	(437,059)		(437,059)
Net cash used for investing activities	<u>(3,439,571)</u>	<u>(4,463,046)</u>	<u>(7,902,617)</u>
FINANCING ACTIVITIES:			
Payments made to gift annuity plan participants	(674,573)		(674,573)
Cash received for new gift annuities	1,300,579		1,300,579
Net cash from (used for) financing activities	<u>626,006</u>		<u>626,006</u>
Net increase in cash and cash equivalents	(492,276)		(492,276)
Cash and cash equivalents at beginning of year	1,605,930		1,605,930
Cash and cash equivalents at end of year	<u>\$ 1,113,654</u>	<u>\$ -</u>	<u>\$ 1,113,654</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Change in net assets	<u>\$ 745,689</u>	<u>\$ 26,440,536</u>	<u>\$ 27,186,225</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	1,820,543		1,820,543
Amortization of bond discounts and premiums	57,634		57,634
Present value adjustment to annuities and pooled income fund payable	(93,029)		(93,029)
Decrease in receivables, inventory, and prepaid expenses	354,111		354,111
Decrease in accounts payable and accrued liabilities	(107,978)		(107,978)
Realized (gain) loss on sale of investments	(251,540)	(9,852,572)	(10,104,112)
Net unrealized (gain) loss on sale of investments	(204,141)	(12,124,918)	(12,329,059)
Total adjustments	<u>1,575,600</u>	<u>(21,977,490)</u>	<u>(20,401,890)</u>
Net cash from operating activities	<u>\$ 2,321,289</u>	<u>\$ 4,463,046</u>	<u>\$ 6,784,335</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, 2007

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	
Salaries and related expenses	\$ 3,439,436	\$ 3,908,221	\$ 7,347,657	\$ 1,461,707	\$ 2,066,464	\$ 3,528,171	\$ 10,875,828
Contract labor	52,133	79,478	131,611	12,857	7,798	20,655	152,266
Legal case expense	1,799,436		1,799,436				1,799,436
Professional services and fees	83,773	143,302	227,075	232,153	54,250	286,403	513,478
Office equipment and supplies	194,369	284,671	479,040	164,229	258,506	422,735	901,775
Rent	35,976	9,307	45,283	13,729	3,400	17,129	62,412
Utilities, telephone, and maintenance	190,646	288,940	479,586	83,708	123,322	207,030	686,616
Library expense	65,005	90,657	155,662	7,868	43,110	50,978	206,640
Insurance	10,642	49,711	60,353	54,332	12,615	66,947	127,300
Investigation and support	130,376	375,688	506,064				506,064
Staff development and training	165,233	125,624	290,857	41,849	68,205	110,054	400,911
Travel and related expense	52,396	136,829	189,225	45,202	26,703	71,905	261,130
Postage	149,512	629,934	779,446	536,418	489,118	1,025,536	1,804,982
Printing	93,727	558,527	652,254	347,991	316,808	664,799	1,317,053
Lettershop expense	44,574	255,063	299,637	181,326	812,808	994,134	1,293,771
Other development costs	25,983	126,894	152,877	56,858	424,627	481,485	634,362
Museum/memorial maintenance		40,694	40,694				40,694
Educational publications	205,438	3,405,761	3,611,199		153,924	153,924	3,765,123
Other educational projects	27,542	2,120,928	2,148,470				2,148,470
Interest expense				571,545		571,545	571,545
Depreciation expense	248,152	1,180,267	1,428,419	143,658	248,466	392,124	1,820,543
Total expenses	<u>\$ 7,014,349</u>	<u>\$ 13,810,496</u>	<u>\$ 20,824,845</u>	<u>\$ 3,955,430</u>	<u>\$ 5,110,124</u>	<u>\$ 9,065,554</u>	<u>\$ 29,890,399</u>

The accompanying notes are an integral part of these financial statement

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization - The Southern Poverty Law 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.

Basis of presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Center does not have any permanently restricted net assets.

The Center's financial statements also present its net assets in the following 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 accounts for assets that are segregated from the Center's operating fund and that are restricted by the Center's Board of Directors. The Board has restricted the assets of the endowment by earmarking the fund for the future support of the Center's programs and activities and requiring board approval for any current expenditures.

Temporarily restricted net assets - The Center has restricted net assets as a result of its pooled income fund. The restricted assets consist of the donor's contribution and related earnings. The assets are restricted during the term of the donor's life. The Center also has restricted net assets due to time restrictions placed on contributions.

Investment valuation - Investments in marketable securities traded on a national securities exchange and investments in U.S. government securities are stated at fair market value based on the last reported sales price on the valuation date. The investment in private funds and other alternative investments have been valued at the Center's share of the net asset values as reported by the funds and other investment vehicles, which approximates fair market value.

Investment securities are exposed to various risks, such as interest rate, market 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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Joint costs - The mailings of printed material which combine both fund-raising, education and management and general activities are allocated to the development and program activities on the basis of the content of the package, the reason for its distribution and the audience to whom it is mailed. The Center allocates the joint costs in accordance with Statement of Position No. 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund-Raising*.

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 of 3.6% to 9.6% and applicable mortality tables.

Pooled income fund - The Center has entered into agreements in which the Center pools, invests, and manages life income gifts from many different 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 bank deposit accounts, which at times may exceed federally insured limits. 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 equivalents.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007

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

Depreciation of buildings and improvements is provided by using the straight-line method over the estimated lives of 10 to 40 years. Depreciation on furniture and equipment is provided by using the straight-line method over the estimated useful lives of 3 to 10 years.

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).

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are summarized as follows at October 31, 2007:

Unconditional promises expected to be collected in:

Less than one year	\$2,596,708
One year to five years	626,257
More than five years	<u>472,000</u>
Total unconditional promises to give	3,694,965
Less: Discounts to net present value	<u>(551,533)</u>
Net contributions receivable	<u><u>\$3,143,432</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, 2007

NOTE 3 - INVESTMENTS:

Investments are stated at fair value and are summarized as follows as of October 31, 2007:

Operating fund:	COST	FAIR VALUE	UNREALIZED APPRECIATION (DEPRECIATION)
	<u> </u>	<u> </u>	<u> </u>
Cash funds	\$ 1,118,651	\$ 1,118,651	
Marketable equity securities	2,461,787	3,172,219	\$ 710,432
Mutual funds - bonds	90,567	89,457	(1,110)
Mutual funds - stocks	2,705,793	2,746,872	41,079
U.S. Treasury obligations securities	3,649,098	3,705,343	56,245
Corporate obligations securities	<u>1,480,458</u>	<u>1,458,222</u>	<u>(22,236)</u>
Totals	<u>\$ 11,506,354</u>	<u>\$ 12,290,764</u>	<u>\$ 784,410</u>
Endowment fund:			
Mutual funds - stocks	\$ 109,340,305	\$ 128,292,848	\$ 18,952,543
Mutual funds - bonds	52,259,965	52,941,750	681,785
Other investments	<u>17,000,000</u>	<u>20,475,867</u>	<u>3,475,867</u>
Totals	<u>\$ 178,600,270</u>	<u>\$ 201,710,465</u>	<u>\$ 23,110,195</u>

Other investments represent the Center's investment in private funds and other investment vehicles (fund of funds) whose purpose is to invest in securities. The GT Offshore Fund, Ltd. is an open-ended "umbrella" fund. The fund has indirect investments in securities, derivative instruments, and commodities, which it achieves through investments in other entities, generally known as alternative investment funds or hedge funds. Palladian Partners V, LLC is a fund formed to enable investors to participate in private equity investments through a diversified portfolio of distressed, buyout, venture capital, and secondary partnerships.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2007

The following schedule summarizes the investment return reported in the statement of activities for the year ended October 31, 2007:

Operating fund:	
Interest and dividend income	\$ 472,651
Net realized gain on marketable securities	251,540
Net unrealized gain on marketable securities	<u>204,141</u>
Total investment income	<u><u>\$ 928,332</u></u>
Endowment fund:	
Interest and dividend income	\$ 4,463,046
Net realized gain on marketable securities	9,852,572
Net unrealized gain on marketable securities	<u>12,124,918</u>
Total investment income	<u><u>\$ 26,440,536</u></u>

NOTE 4 - LAND, BUILDINGS, AND EQUIPMENT:

At October 31, 2007, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

Land	\$ 669,683
Buildings and improvements	23,741,511
Civil rights memorial	811,737
Furniture and equipment	<u>5,461,708</u>
Total cost	30,684,639
Less: Accumulated depreciation	<u>10,481,787</u>
Net	<u><u>\$ 20,202,852</u></u>

NOTE 5 - 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. Under the terms of the agreement, the Center is required to make monthly payments to the Trustee, sufficient to pay interest on the Bonds.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2007

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. 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 6 - TEMPORARILY RESTRICTED NET ASSETS:

At October 31, 2007, the temporarily restricted net assets consist of the following:

Contributions restricted for future periods	\$ 817,426
Pooled income fund	<u>126,748</u>
Total	<u><u>\$ 944,174</u></u>

NOTE 7 - RETIREMENT PLAN:

The Center has a 401(k) Retirement Plan for its employees. The Plan provides a 6% employer contribution regardless of the employee contribution, and an additional 100% employer match of employee contributions up to 8.5% of salary. The Center's total retirement plan expense for 2007 was \$888,329.

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 9 - ALLOCATION OF JOINT COSTS:

The Center incurred joint costs of \$5,153,215 for informational materials and activities that included fund-raising appeals during the year ended October 31, 2007. Of those costs \$1,101,518 was allocated to management and general expense, \$1,486,235 was allocated to development expense, and \$2,565,462 was allocated to program expense.

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash and cash equivalents and receivables approximate fair value because of the short maturity of those financial instruments. The carrying amounts of investments are at fair value, which 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 those financial instruments bear 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.