

SOUTHERN POVERTY LAW CENTER, INC.

OCTOBER 31, 2008

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, 2008 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, 2008 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 16, 2009

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2008

OPERATING FUND

ASSETS:

Cash and cash equivalents	\$ 1,647,242
Contributions receivable	3,195,199
Other receivables	640,064
Inventory	1,233,466
Prepaid expenses	819,534
Investments of gift annuity program	8,132,891
Investments of pooled income fund	172,674
Other investments	926,980
Land, buildings, and equipment, net	<u>18,852,567</u>
Total operating fund assets	<u>\$ 35,620,617</u>

LIABILITIES AND NET ASSETS:

Accounts payable and accrued liabilities	\$ 1,173,339
Pooled income fund liability	86,686
Gift annuity liability	5,301,240
Long-term debt	<u>15,000,000</u>
Total operating fund liabilities	<u>21,561,265</u>
Unrestricted net assets - operating fund	12,284,597
Temporarily restricted net assets - operating fund	<u>1,774,755</u>
Total net assets - operating fund	<u>14,059,352</u>
Total operating fund liabilities and net assets	<u>\$ 35,620,617</u>

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2008

ENDOWMENT FUND

ASSETS:

Investments	<u>\$ 156,180,777</u>
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NET ASSETS:

Unrestricted net assets - endowment fund	\$ 155,496,460
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Permanently restricted net assets - endowment fund	<u>684,317</u>
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Total net assets - endowment fund	<u>\$ 156,180,777</u>
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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2008

TOTALS

ASSETS:

Total operating fund (including land, building, and equipment)	\$ 35,620,617
Total endowment fund:	
Restricted by Board of Directors	155,496,460
Restricted by donors	<u>684,317</u>
Total assets	<u>\$ 191,801,394</u>

LIABILITIES AND NET ASSETS:

Total operating fund liabilities	<u>\$ 21,561,265</u>
Unrestricted net assets:	
Operating fund	12,284,597
Endowment fund	<u>155,496,460</u>
Total unrestricted net assets	<u>167,781,057</u>
Temporarily restricted net assets:	
Operating fund	1,774,755
Permanently restricted net assets:	
Endowment fund	<u>684,317</u>
Total net assets	<u>170,240,129</u>
Total liabilities and net assets	<u>\$ 191,801,394</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, 2008

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:

Operating fund support and revenue:	
Public support:	
Contributions	\$ 28,215,508
Grants	<u>2,667,828</u>
Total public support	<u>30,883,336</u>
Revenue:	
Investment loss (excluding endowment)	(1,204,200)
Other	<u>241,745</u>
Total revenue	<u>(962,455)</u>
Total operating fund support and revenue	<u>29,920,881</u>
Operating fund expenses:	
Program services:	
Legal services	7,998,784
Public education	<u>12,907,371</u>
Total program services	<u>20,906,155</u>
Supporting services:	
Management and general	4,208,076
Development	<u>5,419,262</u>
Total supporting services	<u>9,627,338</u>
Total operating fund expenses	<u>30,533,493</u>
Changes in unrestricted net assets from operating fund	(612,612)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATING FUND:	
Operating fund support and revenue:	
Contributions	871,340
Change in value of pooled income fund	<u>(40,760)</u>
Changes in temporarily restricted net assets from operating fund	<u>830,580</u>
CHANGES IN NET ASSETS FROM OPERATING FUND	217,968
TRANSFER TO ENDOWMENT FUND	(4,000,000)
NET ASSETS AT BEGINNING OF YEAR	<u>17,841,384</u>
NET ASSETS AT END OF YEAR	<u>\$ 14,059,352</u>

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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2008

ENDOWMENT FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM ENDOWMENT FUND:

Endowment fund revenue:	
Investment revenue	<u>\$ (50,029,836)</u>
Total endowment fund revenue	(50,029,836)
 Endowment fund expense:	
Supporting services:	
Management and general	<u>184,169</u>
Total endowment fund expense	<u>184,169</u>
 Changes in unrestricted net assets from endowment fund	<u>(50,214,005)</u>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS
FROM ENDOWMENT FUND:

Permanently restricted contributions	<u>684,317</u>
Changes in temporarily restricted net assets from endowment fund	<u>684,317</u>

CHANGES IN NET ASSETS FROM ENDOWMENT FUND (49,529,688)

TRANSFER FROM OPERATING FUND 4,000,000

NET ASSETS AT BEGINNING OF YEAR 201,710,465

NET ASSETS AT END OF YEAR \$ 156,180,777

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2008

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:	
Changes in unrestricted net assets from operating fund	\$ (612,612)
Changes in unrestricted net assets from endowment fund	<u>(50,214,005)</u>
Changes in unrestricted net assets	(50,826,617)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Changes in temporarily restricted net assets from operating fund	830,580
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:	
Changes in permanently restricted net assets from endowment fund	<u>684,317</u>
TOTAL CHANGES IN NET ASSETS	(49,311,720)
NET ASSETS AT BEGINNING OF YEAR	<u>219,551,849</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 170,240,129</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, 2008
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
OPERATING ACTIVITIES:			
Cash received for public support	\$ 31,606,074		\$ 31,606,074
Cash received for rental services	143,178		143,178
Cash received for sale of educational materials	100,363		100,363
Cash payments for operating expenses	(16,543,722)	\$ (184,169)	(16,727,891)
Cash payments for employee salaries and benefits	(12,496,436)		(12,496,436)
Interest and dividend income	587,924	4,387,027	4,974,951
Net cash from operating activities	<u>3,397,381</u>	<u>4,202,858</u>	<u>7,600,239</u>
INVESTING ACTIVITIES:			
Purchase of investments	(18,128,205)	(121,233,813)	(139,362,018)
Proceeds from sale of investments	19,389,985	112,346,638	131,736,623
Purchase of property and equipment	(462,209)		(462,209)
Net cash from (used for) investing activities	<u>799,571</u>	<u>(8,887,175)</u>	<u>(8,087,604)</u>
FINANCING ACTIVITIES:			
Operating transfers in (out)	(4,000,000)	4,000,000	
Proceeds from contributions restricted for investment in permanent endowment		684,317	684,317
Payments made to gift annuity plan participants	(728,377)		(728,377)
Payments made to pooled income participants	(11,349)		(11,349)
Cash received for new gift annuities	1,076,362		1,076,362
Net cash from (used for) financing activities	<u>(3,663,364)</u>	<u>4,684,317</u>	<u>1,020,953</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	533,588		533,588
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,113,654</u>		<u>1,113,654</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,647,242</u>	<u>\$ -</u>	<u>\$ 1,647,242</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Change in net assets	\$ 217,968	\$ (49,529,688)	\$ (49,311,720)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	1,805,399		1,805,399
Amortization of bond discounts and premiums	11,409		11,409
Present value adjustment to annuities and pooled income fund payable	(70,223)		(70,223)
Contributions restricted for investment in permanent endowment		(684,317)	(684,317)
Increase in receivables, inventory, and prepaid expenses	(658,439)		(658,439)
Increase in accounts payable and accrued liabilities	297,347		297,347
Realized loss on sale of investments	898	4,065,188	4,066,086
Net unrealized loss on investments	1,793,022	50,351,675	52,144,697
Total adjustments	<u>3,179,413</u>	<u>53,732,546</u>	<u>56,911,959</u>
Net cash from operating activities	<u>\$ 3,397,381</u>	<u>\$ 4,202,858</u>	<u>\$ 7,600,239</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, 2008

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	
OPERATING FUND:							
Salaries and related expenses	\$ 4,168,944	\$ 4,060,220	\$ 8,229,164	\$ 1,560,167	\$ 2,226,161	\$ 3,786,328	\$ 12,015,492
Contract labor	51,447	110,751	162,198	18,075	11,010	29,085	191,283
Legal case expense	1,365,714		1,365,714				1,365,714
Professional services and fees	103,173	116,964	220,137	191,962	26,458	218,420	438,557
Office equipment and supplies	278,221	387,033	665,254	483,054	259,163	742,217	1,407,471
Rent	135,435	9,179	144,614	20,002	5,907	25,909	170,523
Utilities, telephone, and maintenance	275,872	411,066	686,938	113,395	171,764	285,159	972,097
Library expense	74,701	102,947	177,648	8,123	14,911	23,034	200,682
Insurance	14,029	68,071	82,100	71,999	15,951	87,950	170,050
Investigation and support	187,883	363,104	550,987				550,987
Staff development and training	180,999	136,842	317,841	38,907	85,290	124,197	442,038
Travel and related expense	99,188	120,044	219,232	41,304	31,069	72,373	291,605
Postage	215,669	536,512	752,181	530,852	605,319	1,136,171	1,888,352
Printing	139,663	387,039	526,702	347,437	370,264	717,701	1,244,403
Lettershop expense	66,705	187,357	254,062	167,175	820,973	988,148	1,242,210
Other development costs	33,145	116,290	149,435	58,059	458,896	516,955	666,390
Educational publications	240,633	3,008,799	3,249,432		67,041	67,041	3,316,473
Other educational projects	92,033	1,644,503	1,736,536				1,736,536
Interest expense				417,231		417,231	417,231
Depreciation expense	275,330	1,140,650	1,415,980	140,334	249,085	389,419	1,805,399
Total operating expenses	7,998,784	12,907,371	20,906,155	4,208,076	5,419,262	9,627,338	30,533,493
ENDOWMENT FUND:							
Investment expense				184,169		184,169	184,169
Total expenses	\$ 7,998,784	\$ 12,907,371	\$ 20,906,155	\$ 4,392,245	\$ 5,419,262	\$ 9,811,507	\$ 30,717,662

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

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2008

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 - 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'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 donors for permanent investment or by the Center's Board of Directors. The Board has restricted 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 expenditure.

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 temporarily restricted net assets due to time restrictions placed on contributions.

Permanently restricted net assets - The Center has permanently restricted net assets as a result of contributions received with donor-imposed stipulations that they be maintained permanently by the Center. The donors of these assets permit the Center to use the income earned on related investments for operations.

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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2008

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

The recorded market price 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, 2008.

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, 2008, alternative investments comprise 49% of the reported fair value of the investment portfolio.

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.

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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2008

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

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% 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 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.

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.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2008

New accounting pronouncement - Financial Accounting Standards Board (FASB) Statement 157, *Fair Value Measurements*, is effective for fiscal years beginning after November 15, 2007. FASB Statement 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands required disclosures about the use of fair value measurements. The Center does not believe the adoption of FASB 157 will have a material impact on its operating results or financial position.

NOTE 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are summarized as follows at October 31, 2008:

Unconditional promises expected to be collected in:	
Less than one year	\$ 3,141,933
One year to five years	335,358
More than five years	<u>135,739</u>
Total unconditional promises to give	3,613,030
Less: Discounts to net present value	<u>(417,831)</u>
Net contributions receivable	<u><u>\$ 3,195,199</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, 2008

NOTE 4 - INVESTMENTS:

As described in Note 2, the Center's investments are stated at fair value and are summarized as follows as of October 31, 2008:

	COST	FAIR VALUE	UNREALIZED APPRECIATION (DEPRECIATION)
Operating fund:			
Cash funds	\$ 916,410	\$ 916,410	
U.S. Treasury obligations securities	3,313,880	3,327,004	\$ 13,124
Corporate obligations securities	1,109,501	964,208	(145,293)
Common stock	3,994,792	3,189,663	(805,129)
Mutual funds	908,111	835,260	(72,851)
Totals	\$ 10,242,694	\$ 9,232,545	\$ (1,010,149)
Endowment fund:			
Cash and cash equivalents	\$ 20,741,471	\$ 20,741,471	
U.S. equity mutual funds	27,089,830	21,017,049	\$ (6,072,781)
U.S. equity alternative investments	25,000,000	20,564,074	(4,435,926)
International equity funds	25,719,906	14,097,410	(11,622,496)
Private equity funds	5,769,216	6,130,626	361,410
Fixed income mutual funds	20,281,050	18,763,652	(1,517,398)
Fixed income alternative investments	10,000,000	9,932,600	(67,400)
Hedge funds	48,820,784	44,933,895	(3,886,889)
Totals	\$183,422,257	\$156,180,777	\$ (27,241,480)

The Center maintains operating fund investments of cash and short-term U.S. Treasury securities to fund daily operations. Its investments in fixed income securities, common stock, and mutual funds are held to meet its gift annuity liabilities. These investments are managed by professional investment advisors, in accordance with the guidelines published by the American Council on Gift Annuities.

The Center's endowment fund maintains a broadly diversified investment portfolio oriented toward equity investments and strategies to take advantage of market inefficiencies. The Center's investment objectives are guided by its asset allocation policy and are achieved in partnership with an active investment advisory committee and external investment managers.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2008

NOTE 4 - INVESTMENTS: (continued)

The Center's endowment fund investments include limited partnerships, limited liability companies, and offshore corporations, some of which employ traditional strategies (long only) in readily marketable securities (liquid equities or bonds traded on exchanges) and others of which employ less traditional strategies such as long/short hedge fund investing for capital appreciation; multi-strategy event driven funds (long and short equity or fixed income distressed/event driven, distressed debt, arbitrage strategies, etc.) that may include the use of options, futures, and other derivative instruments. The Center's alternative investments themselves have interests in limited partnerships, U.S. and international public equities, private equity, fixed income, real estate, and commodities, depending on the legal structure and investment strategy of the underlying manager. Because alternative investments are not readily marketable, their estimated fair values are subject to judgment and uncertainty and therefore may differ from the values that would have been used had a ready market for such investments existed.

At October 31, 2008, the Center has outstanding commitments to invest approximately \$8,300,000 in limited partnerships and LLC's under capital commitment agreements.

The following schedule summarizes the investment return reported in the statement of activities for the year ended October 31, 2008:

Operating fund:	
Interest and dividend income	\$ 587,924
Net realized loss	898
Net unrealized loss	<u>(1,793,022)</u>
Total investment income	<u>\$ (1,204,200)</u>
Endowment fund:	
Interest and dividend income	\$ 4,387,027
Net realized loss	(4,065,188)
Net unrealized loss	<u>(50,351,675)</u>
Total investment income	<u>\$ (50,029,836)</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2008

NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT:

At October 31, 2008, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

Land		\$	669,683
Buildings and improvements			23,826,385
Civil rights memorial			811,737
Furniture and equipment			5,797,390
Total cost			31,105,195
Less: Accumulated depreciation			12,252,628
Net		\$	18,852,567

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. 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. 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 - RESTRICTED NET ASSETS:

At October 31, 2008, the restricted net assets consist of the following:

Temporarily restricted net assets:			
Contributions restricted for future periods		\$	1,688,767
Pooled income fund			85,988
Total temporarily restricted net assets		\$	1,774,755
Permanently restricted net assets:			
Contributions restricted for permanent endowment		\$	684,317
Total permanently restricted net assets		\$	684,317

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2008

NOTE 8 - RETIREMENT PLAN:

The Center has a 401(k) Retirement Plan for its employees. For the year ended October 31, 2008, the plan provided a 6% employer contribution regardless of the employee contribution, and an additional 100% employer match of employee contributions up to 7.5% of salary. The Center's total retirement plan expense for 2008 was \$928,872.

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.

NOTE 10 - ALLOCATION OF JOINT COSTS:

The Center incurred joint costs of \$4,174,004 for informational materials and activities that included fund-raising appeals during the year ended October 31, 2008. Of those costs \$1,060,682 was allocated to management and general expense, \$1,159,038 was allocated to development expense, and \$1,954,284 was allocated to program expense.

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 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 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.