SOUTHERN POVERTY LAW CENTER, INC.

OCTOBER 31, 2009

FINANCIAL STATEMENTS

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

INDEX

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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, 2009 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, 2009 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 7, 2010

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2009

OPERATING FUND

ASSETS:		
Cash and cash equivalents	$	1,823,150
Contributions receivable		1,746,318
Other receivables		628,182
Inventory		747,269
Prepaid expenses		1,004,081
Investments of pooled income fund		140,655
Investments of gift annuity program		7,465,313
Other investments		629,036
Land, buildings, and equipment, net		17,583,618
Total operating fund assets	$	31,767,622
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$	1,001,117
Pooled income fund liability		73,640
Gift annuity liability		5,408,246
Long-term debt		15,000,000
Total operating fund liabilities		21,483,003
Unrestricted net assets - operating fund		9,716,506
Temporarily restricted net assets - operating fund		568,113
Total net assets - operating fund		10,284,619
Total operating fund liabilities and net assets	$	31,767,622

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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2009

ENDOWMENT FUND

ASSETS:	
Investments	$ 189,667,327
NET ASSETS:	
Unrestricted net assets - endowment fund	$ 188,982,505
Permanently restricted net assets - endowment fund	684,822
Total net assets - endowment fund	$ 189,667,327

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2009

TOTALS

ASSETS:	
Total operating fund (including land, buildings, and equipment)	$ 31,767,622
Total endowment fund:	
Restricted by Board of Directors	188,982,505
Restricted by donors	684,822
Total assets	$ 221,434,949
LIABILITIES AND NET ASSETS:	
Total operating fund liabilities	$ 21,483,003
Unrestricted net assets:	
Operating fund	9,716,506
Endowment fund	188,982,505
Total unrestricted net assets	198,699,011
Temporarily restricted net assets:	
Operating fund	568,113
Permanently restricted net assets:	
Endowment fund	684,822
Total net assets	199,951,946
Total liabilities and net assets	$ 221,434,949

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, 2009

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:	
Operating fund support and revenue:	
Public support:	
Contributions	$ 27,272,633
Grants	1,434,863
Total public support	28,707,496
Revenue:	
Investment income (excluding endowment)	858,572
Other	190,974
Total revenue	1,049,546
Total operating fund support and revenue	29,757,042
Net assets released from temporary restrictions	1,288,501
Total revenues, gains, and net assets released from restriction	31,045,543
Operating fund expenses:	
Program services:	
Legal services	8,152,172
Public education	12,080,358
Total program services	20,232,530
Supporting services:	
Management and general	3,709,416
Development	5,671,688
Total supporting services	9,381,104
Total operating fund expenses	29,613,634
Changes in unrestricted net assets from operating fund	1,431,909
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATING FUND:	
Operating fund support and revenue:	
Contributions	100,831
Change in value of pooled income fund	(18,972)
Net assets released from temporary restrictions	(1,288,501)
Changes in temporarily restricted net assets from operating fund	(1,206,642)
CHANGES IN NET ASSETS FROM OPERATING FUND	225,267
TRANSFER TO ENDOWMENT FUND	(4,000,000)
NET ASSETS AT BEGINNING OF YEAR	14,059,352
NET ASSETS AT END OF YEAR	$ 10,284,619

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2009

ENDOWMENT FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM ENDOWMENT FUND:	
Endowment fund revenue:	
Investment income	$ 29,804,458
Total endowment fund revenue	29,804,458
Endowment fund expense:	
Supporting services:	
Management and general	318,413
Total endowment fund expense	318,413
Changes in unrestricted net assets from endowment fund	29,486,045
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS FROM ENDOWMENT FUND:	
Permanently restricted contributions	505
Changes in temporarily restricted net assets from endowment fund	505
CHANGES IN NET ASSETS FROM ENDOWMENT FUND	29,486,550
TRANSFER FROM OPERATING FUND	4,000,000
NET ASSETS AT BEGINNING OF YEAR	156,180,777
NET ASSETS AT END OF YEAR	$ 189,667,327

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2009

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:	
Changes in unrestricted net assets from operating fund	$ 1,431,909
Changes in unrestricted net assets from endowment fund	29,486,045
Changes in unrestricted net assets	30,917,954
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Changes in temporarily restricted net assets from operating fund	(1,206,642)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:	
Changes in permanently restricted net assets from endowment fund	505
TOTAL CHANGES IN NET ASSETS	29,711,817
NET ASSETS AT BEGINNING OF YEAR	170,240,129
NET ASSETS AT END OF YEAR	$ 199,951,946

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, 2009
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
OPERATING ACTIVITIES:			
Cash received for public support	$ 30,396,118		$ 30,396,118
Cash received for services and materials	168,934		168,934
Cash received from other sources	94,023		94,023
Cash payments for operating expenses	(15,432,632)	$ (318,413)	(15,751,045)
Cash payments for employee salaries and benefits	(12,565,206)		(12,565,206)
Interest and dividend income	361,492	1,384,404	1,745,896
Net cash from operating activities	3,022,729	1,065,991	4,088,720
INVESTING ACTIVITIES:			
Purchase of investments	(3,855,559)	(89,354,444)	(93,210,003)
Proceeds from sale of investments	5,281,709	84,287,948	89,569,657
Purchase of property and equipment	(220,975)		(220,975)
Net cash from (used for) investing activities	1,205,175	(5,066,496)	(3,861,321)
FINANCING ACTIVITIES:			
Operating transfers in (out)	(4,000,000)	4,000,000	
Proceeds from contributions restricted for investment in permanent endowment		505	505
Payments made to gift annuity plan participants	(764,657)		(764,657)
Payments made to pooled income participants	(6,852)		(6,852)
Cash received for new gift annuities	719,513		719,513
Net cash from (used for) financing activities	(4,051,996)	4,000,505	(51,491)
NET INCREASE IN CASH AND CASH EQUIVALENTS	175,908		175,908
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,647,242		1,647,242
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,823,150	$ -	$ 1,823,150
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Change in net assets	$ 225,267	$ 29,486,550	$ 29,711,817
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation	1,486,368		1,486,368
Present value adjustment to annuities and pooled income fund payable	146,000		146,000
Contributions restricted for investment in permanent endowment		(505)	(505)
Increase in receivables, inventory, and prepaid expenses	1,762,413		1,762,413
Increase in accounts payable and accrued liabilities	(100,239)		(100,239)
Realized loss on sale of investments	531,441	14,763,259	15,294,700
Net unrealized gain on investments	(1,028,521)	(43,183,313)	(44,211,834)
Total adjustments	2,797,462	(28,420,559)	(25,623,097)
Net cash from operating activities	$ 3,022,729	$ 1,065,991	$ 4,088,720

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, 2009

	PROGRAM SERVICES			SUPPORTING SERVICES			
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	TOTAL EXPENSES
OPERATING FUND:							
Salaries and related expenses	$ 4,252,008	$ 4,006,302	$ 8,258,310	$ 1,621,054	$ 2,432,279	$ 4,053,333	$ 12,311,643
Contract labor	74,198	137,080	211,278	22,022	13,572	35,594	246,872
Legal case expense	1,114,693		1,114,693				1,114,693
Professional services and fees	264,466	252,393	516,859	160,721	90,628	251,349	768,208
Office equipment and supplies	193,381	244,173	437,554	109,125	140,638	249,763	687,317
Rent	218,441	6,966	225,407	24,513	7,170	31,683	257,090
Utilities, telephone, and maintenance	278,710	442,508	721,218	124,342	173,431	297,773	1,018,991
Library expense	80,782	36,758	117,540	8,047	12,506	20,553	138,093
Insurance	14,073	62,674	76,747	69,768	15,810	85,578	162,325
Investigation and support	117,739	338,851	456,590				456,590
Staff development and training	160,128	71,596	231,724	33,709	43,419	77,128	308,852
Travel and related expense	137,409	111,267	248,676	39,385	35,703	75,088	323,764
Postage	327,514	627,262	954,776	618,891	639,561	1,258,452	2,213,228
Printing	227,879	402,715	630,594	357,588	381,112	738,700	1,369,294
Lettershop expense	103,963	205,565	309,528	179,357	870,982	1,050,339	1,359,867
Other development costs	79,890	206,693	286,583	98,477	559,789	658,266	944,849
Educational publications	224,942	2,821,337	3,046,279		47,436	47,436	3,093,715
Other educational projects	58,235	1,163,588	1,221,823				1,221,823
Interest expense				130,052		130,052	130,052
Depreciation expense	223,721	942,630	1,166,351	112,365	207,652	320,017	1,486,368
Total operating expenses	8,152,172	12,080,358	20,232,530	3,709,416	5,671,688	9,381,104	29,613,634
ENDOWMENT FUND:							
Investment expense				318,413		318,413	318,413
Total expenses	$ 8,152,172	$ 12,080,358	$ 20,232,530	$ 4,027,829	$ 5,671,688	$ 9,699,517	$ 29,932,047

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

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 Center reports 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 temporarily 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.

Fair value measurements - Effective November 1, 2008, the Center adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, issued by the Financial Accounting Standards Board (FASB). ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and enhances disclosures about fair value measurements.

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

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The Center's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The three levels of the fair value hierarchy are described below:

> Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date. The type of investments included in Level 1 include listed equity securities, mutual funds, and government bonds.
>
> Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. The type of investments included in Level 2 include certain fixed income securities and alternative investments which are redeemable at net asset value as of the measurement date or in the near term.
>
> Level 3 - 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 in the circumstances and may require significant management judgment or estimation. The type of investments included in Level 3 include hedge funds, equity and fixed income alternative investments, and other alternative investments which are not redeemable at net asset value as of the measurement date or in the near term.

<u>Investment valuation</u> - Investments in marketable securities traded on a national securities exchange and investments in U.S. government securities are stated at fair value based on the last reported sales price on the valuation date.

The Center has adopted the measurement amendments to FASB ASC 820 which create a practical expedient to measure the fair value of certain alternative investments on the basis of the net asset value per share of the investment (or its equivalent) determined as of the reporting entity's measurement date. Therefore, the Center has valued its investment in private funds and other alternative investments at the Center’s share of the net asset values as reported by the funds and other investment vehicles. The Center has elected to defer the adoption of the disclosure provision of 820-10-50-6A until the year ending October 31, 2010.

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

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, 2009.

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, 2009, alternative investments comprise 75% 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.

<u>Joint costs</u> - The mailings of printed material which combine 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.

<u>Contributions</u> - 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.

<u>Subsequent events</u> - The Center has evaluated subsequent events through January 7, 2010, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of October 31, 2009, have been incorporated into these financial statements.

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 2.4% to 9.6% based on applicable mortality tables and the prevailing rates at the time the gifts were made.

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

Cash and cash equivalents - For purposes of the statement of cash flows, the Center considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Center excludes those cash equivalents that are invested for the gift annuity program, pooled income funds, and those that are in the endowment fund investment portfolio.

The Center maintains its cash in bank deposit accounts with a bank that participates in the Federal Deposit Insurance Corporation's (FDIC) transaction account guarantee program. Under that program, through June 30, 2010, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Inventories - Supplies and publication inventories are priced at the lower of cost or market 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 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 three 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).

FASB ASC 740-10 clarifies the accounting for income taxes. It also provides guidance on derecognition, measurement and classification of amounts related to uncertain tax position, and certain disclosures. The Center has elected to defer application of FASB ASC 740-10 and will continue to use FASB ASC 450-20 to account for uncertain tax positions.

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 3 - CONTRIBUTIONS RECEIVABLE:

Contributions receivable are summarized as follows at October 31, 2009:

Unconditional promises expected to be collected in:	
Less than one year	$ 323,476
One year to five years	156,280
More than five years	398,000
Less: Discounts to net present value	(331,562)
Total unconditional promises to give	546,194
Bequests receivable	1,200,124
Net contributions receivable	$ 1,746,318

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, 2009

NOTE 4 - INVESTMENTS:
The Center's investments are presented in the statement of financial position in the aggregate at fair value and includes the following at October 31, 2009:

	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL I)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL II)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)	TOTAL
Operating fund:				
Cash funds	$ 684,220			$ 684,220
Common stock	3,002,111			3,002,111
Corporate obligations securities		$ 1,205,580		1,205,580
U.S. Treasury obligations securities	2,528,543			2,528,543
Mutual funds	814,550			814,550
Total operating fund	7,029,424	1,205,580		8,235,004
Endowment fund:				
Cash funds	8,612,137			8,612,137
U.S. equity mutual fund	8,204,368			8,204,368
U.S. equity alternative investments		20,753,798		20,753,798
U.S. Treasury obligation securities	5,161,959			5,161,959
International equity alternative investments		29,280,150		29,280,150
Private equity funds			$ 5,604,772	5,604,772
Fixed income mutual funds	19,764,274			19,764,274
Fixed income alternative investments			18,113,611	18,113,611
Hedge funds		55,293,961	6,239,572	61,533,533
Real asset alternative investments		12,515,677	123,048	12,638,725
Total endowment fund	41,742,738	117,843,586	30,081,003	189,667,327
Totals	$ 48,772,162	$ 119,049,166	$ 30,081,003	$ 197,902,331

NOTE 4 - INVESTMENTS: (continued)

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL III)
Balance at October 31, 2008	$ 20,507,146
Purchases and (redemptions), net	6,175,000
Realized gains and (losses), net	339,323
Unrealized gains and (losses), net	3,059,534
Totals	$ 30,081,003

Realized and unrealized gains and losses are reported in the endowment fund statement of activities in unrestricted investment return.

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.

Investment return is made up of the following at October 31, 2009:

Operating fund:	
Interest and dividend income	$ 361,492
Net realized loss	(531,441)
Net unrealized gain	1,028,521
Total investment income	$ 858,572
Endowment fund:	
Interest and dividend income	$ 1,384,404
Net realized loss	(14,763,259)
Net unrealized gain	43,183,313
Total investment income	$ 29,804,458

At October 31, 2009, the Center has unfunded commitments to invest $7,056,000 in limited partnerships and LLC's under capital commitment agreements.

NOTE 5 - LAND, BUILDINGS, AND EQUIPMENT:

At October 31, 2009, land, buildings, and equipment are presented at cost less accumulated depreciation and consist of the following:

Land	$ 669,683
Buildings and improvements	23,880,424
Civil rights memorial	811,737
Furniture and equipment	5,738,251
Total cost	31,100,095
Less: Accumulated depreciation	13,516,477
Net	$ 17,583,618

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. 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 - RESTRICTED NET ASSETS:
At October 31, 2009, the restricted net assets consist of the following:

Temporarily restricted net assets:		
Contributions restricted for future periods	$	501,096
Pooled income fund		67,017
Total temporarily restricted net assets	$	568,113
Permanently restricted net assets:		
Contributions restricted for permanent endowment	$	684,822
Total permanently restricted net assets	$	684,822

NOTE 8 - RETIREMENT PLAN:
The Center has a 401(k) Retirement Plan for its employees. For the year ended October 31, 2009, 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 2009 was $774,144.

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 $4,916,525 for informational materials and activities that included fund-raising appeals during the year ended October 31, 2009. Of those costs $1,213,674 was allocated to management and general expense, $1,359,008 was allocated to development expense, and $2,343,843 was allocated to program expense.

NOTE 11 - ENDOWMENT:
In August 2008, the FASB issued FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund (FAS 117-1). FAS 117-1, as codified in FASB ASC 958-205, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Management of Institution Funds Act of 2006 (UPMIFA). FAS 117-1 also expands disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Center is incorporated in and subject to the laws of Alabama, which adopted UPMIFA effective January 1, 2009. As a result of this new law and the adoption of FAS 117-1, the Center has classified its October 31, 2009 net assets as follows:

- *Permanently restricted net assets* 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 use for a particular purpose. These net assets are released from restrictions when the specified time elapses or 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. Such net assets may be designated by the Center for specific purposes, including to function as endowment funds.

The Center's endowment 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.

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.

Endowment net asset composition by type of fund as of October 31, 2009:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Donor-restricted endowment funds			$ 684,822	$ 684,822
Board designated endowment funds	$ 188,982,505			188,982,505
Totals	$ 188,982,505	$ -	$ 684,822	$ 189,667,327

NOTE 11 - ENDOWMENT: (continued)

Change in endowment net assets for the year ended October 31, 2009:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	$ 155,496,460		$ 684,317	$ 156,180,777
Investment return:				
Investment loss	(13,697,268)			(13,697,268)
Net unrealized gain	43,183,313			43,183,313
Total investment return	29,486,045			29,486,045
Contributions			505	505
Transfer to increase board-designated endowment fund	4,000,000			4,000,000
Total change in endowment funds	33,486,045		505	33,486,550
Endowment net assets, end of year	$ 188,982,505	$ -	$ 684,822	$ 189,667,327

Funds with deficiencies - From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this sort may result from investment losses. There were no such deficiencies as of October 31, 2009.

Return objectives and risk parameters - The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while also seeking to maintain the purchasing power of the endowment assets, including both donor-restricted and board-designated funds. Under the Center's investment policy, the endowment assets are invested in a manner that is intended to produce results that exceed the total return of a benchmark composed of 30% of the Barclays Capital Aggregate Bond Index and 70% of the Standard & Poor's 500 Index, while assuming a moderate level of investment risk. The Center expects its endowment funds, over time, to provide an average real rate of return of 5% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - The Center targets a diversified asset allocation made up of public and private equity, hedge funds, fixed income, and real assets to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy - The Center invests its endowment funds and allocates the related earnings for expenditures in accordance with the total return concept. In establishing this method, the Center considered the long-term expected return on its funds. Under the total return method, distributions consist of net investment income and may also include a portion of the cumulative realized and unrealized gains. The Board of Directors approves the spending rate, which is calculated as a percentage of the 12-quarter trailing average market value of the endowment. The spending rate is targeted to fall within a range of 4% to 6% of the market value of the endowment, averaging a rate of 5% on a long-term basis.

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 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.

Fair value of financial instruments at October 31, 2009 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	$ 1,823,150			$ 1,823,150
Receivables		$ 1,746,318		1,746,318
Investments	48,772,162	119,049,166	$ 30,081,003	197,902,331
Pooled income fund and gift annuity liability		5,481,886		5,481,886
Long-term debt		15,000,000		15,000,000