

SOUTHERN POVERTY LAW CENTER, INC.

OCTOBER 31, 2006

FINANCIAL STATEMENTS

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

INDEX

	<u>PAGE</u>
Independent auditors' report	1
Statement of financial position	2 - 4
Statement of activities	5 - 7
Statement of cash flows	8
Statement of functional expenses	9
Notes to financial statements	10 - 15



MONTGOMERY, ALABAMA

Dothan

Prattville

Wetumpka

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, 2006 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, 2006 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 1, 2006

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2006

OPERATING FUND

ASSETS:

Cash and cash equivalents	\$ 1,605,931
Contributions receivable	2,973,826
Other receivables	660,024
Inventory	1,044,265
Prepaid expenses	924,487
Investments of gift annuity program	7,922,398
Investments of pooled income fund	198,036
Other investments	770,970
Land, buildings and equipment, at cost less accumulated depreciation	<u>21,588,820</u>
Total operating fund assets	<u><u>\$ 37,688,757</u></u>

LIABILITIES AND NET ASSETS:

Accounts payable	\$ 403,954
Accrued liabilities	578,220
Long-term debt	15,000,000
Gift annuity liability	4,521,681
Pooled income fund liability	<u>89,207</u>
Total operating fund liabilities	<u>20,593,062</u>
Unrestricted net assets - operating fund	15,873,487
Temporarily restricted net assets - operating fund	<u>1,222,208</u>
Total net assets - operating fund	<u>17,095,695</u>
Total operating fund liabilities and net assets	<u><u>\$ 37,688,757</u></u>

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SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2006

ENDOWMENT FUND

ASSETS:

Investments

\$ 175,269,929

NET ASSETS:

Unrestricted net assets - endowment fund

\$ 175,269,929

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2006

TOTALS

ASSETS:

Total operating fund (including land, building and equipment)	\$ 37,688,757
Total endowment fund (restricted by Board of Directors)	<u>175,269,929</u>
Total assets	<u><u>\$ 212,958,686</u></u>

LIABILITIES AND NET ASSETS:

Total operating fund liabilities	<u>\$ 20,593,062</u>
Unrestricted net assets:	
Operating fund	15,873,487
Endowment fund	<u>175,269,929</u>
Total unrestricted net assets	<u>191,143,416</u>
Temporarily restricted net assets:	
Operating fund	<u>1,222,208</u>
Total net assets	<u>192,365,624</u>
Total liabilities and net assets	<u><u>\$ 212,958,686</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, 2006

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:

Operating fund support and revenue:

Public support:

Contributions	\$ 29,252,084
Grants	1,499,526
Total public support	<u>30,751,610</u>

Revenue:

Investment income (excluding endowment)	1,034,874
Other	475,569
Total revenue	<u>1,510,443</u>

Total operating fund support and revenue	<u>32,262,053</u>
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Operating fund expenses:

Program services:

Legal services	5,797,225
Public education	16,392,870
Total program services	<u>22,190,095</u>

Supporting services:

Management and general	4,554,795
Development	5,604,761
Total supporting services	<u>10,159,556</u>

Total operating fund expenses	<u>32,349,651</u>
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Changes in unrestricted net assets from operating fund	(87,598)
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM
OPERATING FUND:

Operating fund support and revenue:

Contributions	1,113,380
Pooled income fund contributions and change in value	12,933
Changes in temporarily restricted net assets from operating fund	<u>1,126,313</u>

CHANGES IN NET ASSETS FROM OPERATING FUND	1,038,715
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NET ASSETS AT BEGINNING OF YEAR	<u>16,056,980</u>
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NET ASSETS AT END OF YEAR	<u><u>\$ 17,095,695</u></u>
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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2006

ENDOWMENT FUND

ENDOWMENT FUND REVENUE:	
Investment income	<u>\$ 23,193,606</u>
Changes in unrestricted net assets from endowment fund	23,193,606
NET ASSETS AT BEGINNING OF YEAR	<u>152,076,323</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 175,269,929</u></u>

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2006

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:	
Changes in unrestricted net assets from operating fund	\$ (87,598)
Changes in unrestricted net assets from endowment fund	<u>23,193,606</u>
Changes in unrestricted net assets	23,106,008
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Changes in temporarily restricted net assets from operating fund	<u>1,126,313</u>
TOTAL CHANGES IN NET ASSETS	24,232,321
NET ASSETS AT BEGINNING OF YEAR	<u>168,133,303</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 192,365,624</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, 2006
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
OPERATING ACTIVITIES:			
Cash received for public support	\$ 29,962,420		\$ 29,962,420
Cash received for rental services	292,072		292,072
Cash received for sale of educational materials	182,111		182,111
Cash payments for operating expenses	(21,354,021)		(21,354,021)
Cash payments for employee salaries and benefits	(10,270,528)		(10,270,528)
Interest and dividend income	459,191	\$ 3,705,006	4,164,197
Net cash from operating activities	<u>(728,755)</u>	<u>3,705,006</u>	<u>2,976,251</u>
INVESTING ACTIVITIES:			
Purchase of investments	(7,939,826)	(111,135,939)	(119,075,765)
Proceeds from sale of investments	10,853,997	107,430,933	118,284,930
Purchase of property and equipment	(1,281,361)		(1,281,361)
Net cash used for investing activities	<u>1,632,810</u>	<u>(3,705,006)</u>	<u>(2,072,196)</u>
FINANCING ACTIVITIES:			
Payments made to gift annuity plan participants	(633,377)		(633,377)
Cash received for new gift annuities	443,570		443,570
Net cash from (used for) financing activities	<u>(189,807)</u>		<u>(189,807)</u>
Net increase in cash and cash equivalents	714,248		714,248
Cash and cash equivalents at beginning of year	891,683		891,683
Cash and cash equivalents at end of year	<u>\$ 1,605,931</u>	<u>\$ -</u>	<u>\$ 1,605,931</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Change in net assets	\$ 1,038,715	\$ 23,193,606	\$ 24,232,321
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	1,836,465		1,836,465
Amortization of bond discounts and premiums	928		928
Present value adjustment to annuities and pooled income fund payable	82,981		82,981
Decrease in receivables, inventory and prepaid expenses	(3,332,114)		(3,332,114)
Decrease in accounts payable and accrued liabilities	219,953		219,953
Realized (gain) loss on sale of investments	(254,943)	(8,959,117)	(9,214,060)
Net unrealized (gain) loss on sale of investments	(320,740)	(10,529,483)	(10,850,223)
Total adjustments	<u>(1,767,470)</u>	<u>(19,488,600)</u>	<u>(21,256,070)</u>
Net cash from operating activities	<u>\$ (728,755)</u>	<u>\$ 3,705,006</u>	<u>\$ 2,976,251</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, 2006

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	
Salaries and related expenses	\$ 2,707,064	\$ 4,012,369	\$ 6,719,433	\$ 1,482,072	\$ 2,010,885	\$ 3,492,957	\$ 10,212,390
Contract labor	39,859	98,034	137,893	16,848	40,798	57,646	195,539
Legal case expense	1,416,775		1,416,775				1,416,775
Professional services and fees	63,617	170,472	234,089	140,740	43,358	184,098	418,187
Office equipment and supplies	123,551	297,349	420,900	167,649	242,637	410,286	831,186
Rent	25,594	10,213	35,807	12,105	2,361	14,466	50,273
Utilities, telephone and 6 maintenance	102,573	278,906	381,479	197,646	51,952	249,598	631,077
Library expense	61,221	51,869	113,090	5,322	19,021	24,343	137,433
Insurance	9,475	46,090	55,565	47,858	9,238	57,096	112,661
Investigation and support	114,131	588,363	702,494				702,494
Staff development and training	120,235	182,519	302,754	53,654	66,499	120,153	422,907
Travel and related expense	24,026	103,406	127,432	35,306	19,063	54,369	181,801
Postage	177,147	872,629	1,049,776	771,728	651,070	1,422,798	2,472,574
Printing	157,401	905,743	1,063,144	727,777	429,028	1,156,805	2,219,949
Lettershop expense	71,242	402,449	473,691	341,532	854,577	1,196,109	1,669,800
Other development costs	59,647	332,017	391,664	232,387	635,407	867,794	1,259,458
Museum/memorial maintenance		55,424	55,424				55,424
Educational publications	178,474	4,403,157	4,581,631		164,483	164,483	4,746,114
Other educational projects	51,625	2,203,045	2,254,670				2,254,670
Interest expense	138,508	205,280	343,788	75,811	102,875	178,686	522,474
Depreciation expense	155,060	1,173,536	1,328,596	246,360	261,509	507,869	1,836,465
Total expenses	<u>\$ 5,797,225</u>	<u>\$16,392,870</u>	<u>\$22,190,095</u>	<u>\$ 4,554,795</u>	<u>\$ 5,604,761</u>	<u>\$ 10,159,556</u>	<u>\$ 32,349,651</u>

The accompanying notes are an integral part of these financial statement:

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization - The Southern Poverty Law Center is a nonprofit organization that combats hate, intolerance and discrimination through education and litigation.

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 barring any current expenditures from the fund and earmarking the fund for the future support of the Center's programs and activities.

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, 2006

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, 2006

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, 2006:

Unconditional promises expected to be collected in:

Less than one year	\$2,357,105
One year to five years	628,257
More than five years	<u>360,000</u>
Total unconditional promises to give	3,345,362
Less: Discounts to net present value	<u>(371,536)</u>
Net contributions receivable	<u><u>\$2,973,826</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, 2006

NOTE 3 - INVESTMENTS:

Investments are stated at fair value and are summarized as follows as of October 31, 2006:

Operating fund:	COST	FAIR VALUE	UNREALIZED APPRECIATION (DEPRECIATION)
	<u> </u>	<u> </u>	<u> </u>
Cash funds	\$ 557,276	\$ 557,276	
Marketable equity securities	2,199,707	2,898,809	\$699,102
Mutual funds - bonds	90,570	88,872	(1,698)
Mutual funds - stocks	555,136	572,647	17,511
U.S. Treasury obligations securities	2,967,075	2,878,122	(88,953)
Corporate obligations securities	1,927,528	1,895,678	(31,850)
	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$8,297,292</u>	<u>\$8,891,404</u>	<u>\$594,112</u>
Endowment fund:			
Mutual funds - stocks	\$101,462,882	\$111,859,352	\$10,396,470
Mutual funds - bonds	45,821,782	46,410,577	588,795
Other investments	17,000,000	17,000,000	
	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$164,284,664</u>	<u>\$175,269,929</u>	<u>\$10,985,265</u>

In October 2006, the Center invested 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.

The following schedule summarizes the investment return reported in the statement of activities for the year ended October 31, 2006:

Operating fund:	
Interest and dividend income	\$ 459,191
Net realized gain on marketable securities	254,943
Net unrealized gain on marketable securities	<u>320,740</u>
Total investment income	<u>\$1,034,874</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2006

Endowment fund:	
Interest and dividend income	\$ 3,705,006
Net realized gain on marketable securities	8,959,117
Net unrealized gain on marketable securities	<u>10,529,483</u>
Total investment income	<u><u>\$23,193,606</u></u>

NOTE 4 - LAND, BUILDINGS AND EQUIPMENT:

At October 31, 2006, land, buildings and equipment consist of the following:

Land	\$ 669,682
Buildings and improvements	23,643,846
Civil rights memorial	811,737
Furniture and equipment	<u>5,194,010</u>
Total cost	30,319,275
Less: Accumulated depreciation	<u>8,730,455</u>
Net	<u><u>\$21,588,820</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.

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, 2006, the temporarily restricted net assets consist of the following:

Contributions restricted for future periods	\$1,113,380
Pooled income fund	<u>108,828</u>
Total	<u><u>\$1,222,208</u></u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2006

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 9.5% of salary. The Center's total retirement plan expense for 2006 was \$875,628.

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 \$7,120,197 for informational materials and activities that included fund-raising appeals during the year ended October 31, 2006. Of those costs \$2,015,473 was allocated to management and general expense, \$1,704,448 was allocated to development expense and \$3,400,276 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.