

**SOUTHERN POVERTY LAW CENTER, INC.**

OCTOBER 31, 2004

**FINANCIAL STATEMENTS**

SOUTHERN POVERTY LAW CENTER, INC.  
MONTGOMERY, ALABAMA

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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 the Southern Poverty Law Center, Inc. as of October 31, 2004 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 the Southern Poverty Law Center, Inc. as of October 31, 2004 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 2, 2004

SOUTHERN POVERTY LAW CENTER, INC.  
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2004

OPERATING FUND

ASSETS:

Cash and cash equivalents	\$ 766,092
Receivables	2,091,646
Prepaid expenses	711,357
Investments of gift annuity program	8,324,883
Investments of pooled income fund	230,130
Other investments	5,946,364
Land, buildings and equipment, at cost less accumulated depreciation	<u>18,588,567</u>
Total operating fund assets	<u>\$ 36,659,039</u>

LIABILITIES AND NET ASSETS:

Accounts payable	\$ 502,237
Accrued liabilities	377,063
Long-term debt	15,000,000
Gift annuity liability	4,329,883
Pooled income fund liability	<u>110,018</u>
Total operating fund liabilities	<u>20,319,201</u>
Unrestricted net assets - operating fund	16,219,726
Temporarily restricted net assets - operating fund	<u>120,112</u>
Total net assets - operating fund	<u>16,339,838</u>
Total operating fund liabilities and net assets	<u>\$ 36,659,039</u>

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SOUTHERN POVERTY LAW CENTER, INC.  
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2004

ENDOWMENT FUND

ASSETS:

Investments

\$ 136,526,211

NET ASSETS:

Unrestricted net assets - endowment fund

\$ 136,526,211

Continued on next page.

SOUTHERN POVERTY LAW CENTER, INC.  
MONTGOMERY, ALABAMA

STATEMENT OF FINANCIAL POSITION  
OCTOBER 31, 2004

TOTALS

ASSETS:

Total operating fund (including land, building and equipment)	\$ 36,659,039
Total endowment fund (restricted by Board of Directors)	<u>136,526,211</u>
Total assets	<u>\$ 173,185,250</u>

LIABILITIES AND NET ASSETS:

Total operating fund liabilities	<u>\$ 20,319,201</u>
Unrestricted net assets:	
Operating fund	16,219,726
Endowment fund	<u>136,526,211</u>
Total unrestricted net assets	<u>152,745,937</u>
Temporarily restricted net assets:	
Operating fund	<u>120,112</u>
Total net assets	<u>152,866,049</u>
Total liabilities and net assets	<u>\$ 173,185,250</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, 2004

OPERATING FUND

CHANGES IN UNRESTRICTED NET ASSETS FROM OPERATING FUND:

Operating fund support and revenue:	
Public support:	
Contributions	\$ 25,264,237
Grants	1,587,484
Total public support	<u>26,851,721</u>
Revenue:	
Investment income (excluding endowment)	671,311
Other	449,393
Total revenue	<u>1,120,704</u>
Total operating fund support and revenue	<u>27,972,425</u>
Operating fund expenses:	
Program services:	
Legal services	3,822,278
Public education	12,078,385
Total program services	<u>15,900,663</u>
Supporting services:	
Management and general	2,513,113
Development	5,363,436
Total supporting services	<u>7,876,549</u>
Total operating fund expenses	<u>23,777,212</u>
Changes in unrestricted net assets from operating fund	4,195,213
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATING FUND:	
Operating fund support and revenue:	
Pooled income fund contributions and change in value	<u>9,547</u>
CHANGES IN NET ASSETS FROM OPERATING FUND	4,204,760
NET ASSETS AT BEGINNING OF YEAR	16,635,078
TRANSFER TO ENDOWMENT FUND	<u>(4,500,000)</u>
NET ASSETS AT END OF YEAR	<u>\$ 16,339,838</u>

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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED OCTOBER 31, 2004

ENDOWMENT FUND

ENDOWMENT FUND REVENUE:	
Investment income	<u>\$ 11,487,401</u>
Changes in unrestricted net assets from endowment fund	11,487,401
NET ASSETS AT BEGINNING OF YEAR	120,538,810
TRANSFER FROM OPERATING FUND	<u>4,500,000</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 136,526,211</u></u>

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SOUTHERN POVERTY LAW CENTER, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED OCTOBER 31, 2004

TOTALS

CHANGES IN UNRESTRICTED NET ASSETS:	
Changes in unrestricted net assets from operating fund	\$ 4,195,213
Changes in unrestricted net assets from endowment fund	<u>11,487,401</u>
Changes in unrestricted net assets	15,682,614
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Changes in temporarily restricted net assets from operating fund	<u>9,547</u>
TOTAL CHANGES IN NET ASSETS	15,692,161
NET ASSETS AT BEGINNING OF YEAR	<u>137,173,888</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 152,866,049</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, 2004  
Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND	ENDOWMENT FUND	TOTALS
<b>OPERATING ACTIVITIES:</b>			
Cash received for public support	\$ 26,662,414		\$ 26,662,414
Cash received for rental services	256,462		256,462
Cash received for sale of educational materials	48,334		48,334
Cash received from other sources	148,546		148,546
Cash payments for operating expenses	(15,153,155)		(15,153,155)
Cash payments for employee salaries and benefits	(7,283,204)		(7,283,204)
Interest and dividend income	447,424	\$ 2,897,360	3,344,784
Net cash from operating activities	<u>5,126,821</u>	<u>2,897,360</u>	<u>8,024,181</u>
<b>INVESTING ACTIVITIES:</b>			
Purchase of investments	(17,044,227)	(20,757,584)	(37,801,811)
Proceeds from sale of investments	15,706,171	13,360,224	29,066,395
Purchase of equipment	(956,549)		(956,549)
Proceeds from sale of equipment	12,003		12,003
Net cash used for investing activities	<u>(2,282,602)</u>	<u>(7,397,360)</u>	<u>(9,679,962)</u>
<b>FINANCING ACTIVITIES:</b>			
Operating transfers in (out)	(4,500,000)	4,500,000	
Payments made to gift annuity plan participants	(591,872)		(591,872)
Cash received for new gift annuities	946,817		946,817
Net cash from (used for) financing activities	<u>(4,145,055)</u>	<u>4,500,000</u>	<u>354,945</u>
Net decrease in cash and cash equivalents	(1,300,836)		(1,300,836)
Cash and cash equivalents at beginning of year	<u>2,066,928</u>		<u>2,066,928</u>
Cash and cash equivalents at end of year	<u>\$ 766,092</u>	<u>\$ -</u>	<u>\$ 766,092</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Change in net assets	\$ 4,204,760	\$ 11,487,401	\$ 15,692,161
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	1,156,869		1,156,869
Amortization of bond discounts and premiums	(825)		(825)
Loss on sale of equipment	3,949		3,949
Present value adjustment to annuities and pooled income fund payable	(113,065)		(113,065)
Increase in receivables and prepaid expenses	(269,364)		(269,364)
Increase in accounts payable and accrued liabilities	368,384		368,384
Realized (gain) loss on sale of investments	(118,968)	382,839	263,871
Net unrealized gain on sale of investments	(104,919)	(8,972,880)	(9,077,799)
Total adjustments	<u>922,061</u>	<u>(8,590,041)</u>	<u>(7,667,980)</u>
Net cash from operating activities	<u>\$ 5,126,821</u>	<u>\$ 2,897,360</u>	<u>\$ 8,024,181</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, 2004

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL EXPENSES
	LEGAL SERVICES	PUBLIC EDUCATION	TOTAL	MANAGEMENT AND GENERAL	DEVELOPMENT	TOTAL	
Salaries and related expenses	\$ 1,492,352	\$ 3,191,169	\$ 4,683,521	\$ 861,156	\$ 1,646,004	\$ 2,507,160	\$ 7,190,681
Contract labor	37,176	81,714	118,890	27,538	18,074	45,612	164,502
Legal case expense	905,737		905,737				905,737
Professional services and fees	22,934	13,792	36,726	241,569		241,569	278,295
Office equipment and supplies	31,889	119,307	151,196	276,072	210,404	486,476	637,672
Rent	1,751	7,002	8,753		8,752	8,752	17,505
Utilities, telephone and maintenance	91,185	164,901	256,086	103,383	72,413	175,796	431,882
Library expense	54,800	50,677	105,477	4,575	5,380	9,955	115,432
Insurance	55,122	33,073	88,195	16,536	5,512	22,048	110,243
Investigation and support	92,088	345,598	437,686				437,686
Staff development and training	85,964	154,290	240,254	98,574	81,256	179,830	420,084
Travel and related expense	29,061	91,287	120,348	3,362	52,519	55,881	176,229
Postage	181,365	984,940	1,166,305	241,452	665,393	906,845	2,073,150
Printing	143,531	813,340	956,871	157,456	513,313	670,769	1,627,640
Lettershop expense	102,782	582,434	685,216	118,953	861,913	980,866	1,666,082
Other development costs	48,934	277,292	326,226	46,401	653,350	699,751	1,025,977
Museum/Memorial maintenance	3,510	19,892	23,402				23,402
Educational publications	133,806	2,988,124	3,121,930		342,890	342,890	3,464,820
Other educational projects	56,731	1,604,832	1,661,563				1,661,563
Interest expense	47,940	47,941	95,881	47,940	47,940	95,880	191,761
Depreciation expense	203,620	506,780	710,400	268,146	178,323	446,469	1,156,869
Total expenses	\$ 3,822,278	\$ 12,078,385	\$ 15,900,663	\$ 2,513,113	\$ 5,363,436	\$ 7,876,549	\$ 23,777,212

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

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2004

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.

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, 2004

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 3.8% 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.

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

Depreciation of buildings is provided by using the straight-line method over the estimated lives of 10 to 40 years. Depreciation on equipment is provided by using the straight-line method and the declining-balance 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).

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, 2004

NOTE 2 - INVESTMENTS:

Investments are stated at fair value and are summarized as follows as of October 31, 2004:

Operating fund:	<u>COST</u>	<u>FAIR VALUE</u>	<u>UNREALIZED APPRECIATION (DEPRECIATION)</u>
Cash funds and cash equivalents	\$ 831,572	\$ 831,572	
Marketable equity securities	2,182,586	2,414,648	\$232,062
Mutual funds – bonds	5,795,132	5,868,405	73,273
Mutual funds - stocks	305,025	272,012	(33,013)
U.S. Treasury obligations	5,026,210	5,114,740	88,530
Totals	<u>\$14,140,525</u>	<u>\$14,501,377</u>	<u>\$360,852</u>

Endowment fund:	<u>COST</u>	<u>FAIR VALUE</u>	<u>UNREALIZED APPRECIATION (DEPRECIATION)</u>
Cash funds and cash equivalents	\$ 351,902	\$ 351,902	
Marketable equity securities	1,874,231	2,255,357	\$ 381,126
Mutual funds - bonds	29,589,758	30,474,371	884,613
Mutual funds - stocks	114,601,752	103,444,581	(11,157,171)
Totals	<u>\$146,417,643</u>	<u>\$136,526,211</u>	<u>(\$9,891,432)</u>

The following schedule summarizes the investment return reported in the statement of activities for the year ended October 31, 2004:

Operating fund:	
Interest and dividend income	\$447,424
Net realized gain on marketable securities	118,968
Net unrealized gain on marketable securities	<u>104,919</u>
Total investment income	<u>\$671,311</u>
Endowment fund:	
Interest and dividend income	\$ 2,897,360
Net realized loss on marketable securities	(382,839)
Net unrealized gain on marketable securities	<u>8,972,880</u>
Total investment income	<u>\$11,487,401</u>

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2004

NOTE 3 - LAND, BUILDINGS AND EQUIPMENT:

At October 31, 2004, land, buildings and equipment consist of the following:

Land	\$ 669,682
Buildings and improvements	18,161,869
Civil rights memorial	811,737
Furniture and equipment	4,217,951
Construction in process - museum	937,922
Total cost	<u>24,799,161</u>
Less: Accumulated depreciation	<u>6,210,594</u>
Net	<u>\$18,588,567</u>

NOTE 4 - 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 Indenture contains various restrictive covenants.

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 5 - 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 2004 was \$642,907.

NOTE 6 - 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 7 - ALLOCATION OF JOINT COSTS:

The Center incurred joint costs of \$5,605,432 for informational materials and activities that included fund-raising appeals during the year ended October 31, 2004. Of those costs, \$1,287,786 was allocated to development expense, \$549,878 was allocated to management expense and \$3,767,768 was allocated to public education expense.

SOUTHERN POVERTY LAW CENTER, INC.

NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2004

NOTE 8 - 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.

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.

NOTE 9 - CONSTRUCTION COMMITMENTS:

As of October 31, 2004, the Center had entered into construction contracts for the renovation of an existing building. The remaining commitment under the existing contracts is approximately \$3,000,000.