

CHRISTIAN LEGAL SOCIETY

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

CHRISTIAN LEGAL SOCIETY

FINANCIAL STATEMENTS
DECEMBER 31, 2000 and 1999

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YEAHEL & ASSOCIATES
Certified Public Accountants
A PROFESSIONAL CORPORATION
ESTABLISHED 1973

903 WEST BROAD STREET FALLS CHURCH, VA 22046

Independent Auditor's Report

To the Board of Directors
Christian Legal Society
Annandale, Virginia

We have audited the accompanying consolidated statements of financial position of Christian Legal Society (an Illinois nonprofit corporation) as of December 31, 2000 and 1999, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christian Legal Society as of December 31, 2000 and 1999, and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

CHRISTIAN LEGAL SOCIETY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2000 and 1999

ASSETS

	<u>2000</u>	<u>1999</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 190,931	\$ 188,777
Pledges receivable, net	175,412	281,626
Accounts receivable	21,083	16,484
Prepaid expenses and other current assets	<u>27, 778</u>	<u>18,445</u>
	415,204	505,332
PROPERTY AND EQUIPMENT, net	125,553	143,722
OTHER ASSETS	<u>11,459</u>	<u>11,848</u>
	\$ 552,216	\$ 660,902

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 29,961	\$ 24,874
Accrued vacation payable	58,161	32, 553
Deferred revenue	162,747	207,443
Current portion of lease obligation	-	6,599
	250,869	271,469
LONG-TERM OBLIGATIONS, net of current portion	-	1, 619
Obligation under capital lease		
	<u>250,869</u>	<u>273,088</u>
Total liabilities		
COMMITMENTS AND CONTINGENCIES (see notes 6 and 9)		
NET ASSETS		
Unrestricted	1,970	(51,084)
Temporarily restricted	<u>299,377</u>	<u>438,898</u>
	<u>301,347</u>	<u>387,814</u>
	\$ <u>552,216</u>	\$ <u>660,902</u>

See accompanying notes to consolidated
financial statements

January 26, 2001

CHRISTIAN LEGAL SOCIETY

SUPPLEMENTAL CONSOLIDATED SCHEDULE OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000		Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	
<u>Support and revenue:</u>			
Contributions	\$637,726	-	\$637,726
Grants	\$200,140	\$184,616	\$384,756
Membership dues	\$365,103	-	\$365,103
Conference registration	\$236,692	-	\$236,692
Professional fees	\$139,716	-	\$139,716
Other	\$41,880	-	\$41,880
Net Assets released from restriction	\$324,137	-\$324,137	
Total support and revenue	<u>\$1,945,394</u>	<u>-\$139,521</u>	<u>\$1,805,873</u>
<u>Expenses and losses:</u>			
Program services:			
Membership ministries	\$481,404	-	\$481,404
Public ministries	\$53,487	-	\$53,487
Conferences	\$356,438	-	\$356,438
Center for Law and Religious Freedom (CLRF)	\$400,984	-	\$400,984
Religious Liberty Advocates	\$124,773	-	\$124,773
Law Student Ministries (LSM)	\$221,199	-	\$221,199
Supporting activities:			
Administration	\$129,928	-	\$129,928
Development	\$124,127	-	\$124,127
Total expenses	<u>\$1,892,340</u>	-	<u>\$1,892,340</u>
Increase (decrease) in net assets	\$53,054	<u>-\$139,521</u>	\$86,467
<u>NET ASSETS, beginning of year</u>	<u>\$51,084</u>	<u>\$438,898</u>	<u>\$387,814</u>
<u>NET ASSETS, end of year</u>	<u>\$1,970</u>	<u>\$299,377</u>	<u>\$301,347</u>

	1999		
<u>Support and revenue:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Contributions	\$640,034	-	\$640,034
Grants	\$179,222	\$564,228	\$743,450
Membership dues	\$321,498	-	\$321,498
Conference registration	\$175,008	-	\$175,008
Professional fees	\$77,657	-	\$77,657
Other	\$54,992	-	\$54,992
Net Assets released from restriction	\$291,535	-\$291,535	-
 Total support and revenue	 <u>\$1,739,946</u>	 <u>\$272,693</u>	 <u>\$2,012,639</u>
 <u>Expenses and losses:</u>			
Program services:			
Membership ministries	\$422,593	-	\$422,593
Public ministries	\$49,352	-	\$49,352
Conferences	\$249,136	-	\$249,136
Center for Law and Religious Freedom (CLRF)	\$455,176	-	\$455,176
Religious Liberty Advocates	-	-	-
Law Student Ministries (LSM)	\$229,105	-	\$229,105
 Supporting activities:			
Administration	\$118,964	-	\$118,964
Development	\$106,522	-	\$106,522
 Total expenses	 <u>\$1,630,848</u>	 -	 <u>\$1,630,848</u>
 Increase (decrease) in net assets	 \$109,098	 <u>\$272,693</u>	 \$381,791
 <u>NET ASSETS, beginning of year</u>	 <u>\$160,182</u>	 <u>\$166,205</u>	 <u>\$6,023</u>
 <u>NET ASSETS, end of year</u>	 <u>\$51,084</u>	 <u>\$438,898</u>	 <u>\$387,814</u>

CHRISTIAN LEGAL SOCIETY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000 AND 1999

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2000</u>	<u>1999</u>
Change in net assets	\$(86,467)	\$381,791
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	64,888	30,714
Decrease (increase) in pledges receivable	106,214	(247,854)
Decrease (increase) in accounts receivable	(4,599)	(12,062)
Decrease (increase) in other current assets	(9,333)	(10,275)
Decrease(increase) in other assets	389	(1,158)
Increase (decrease) in accounts payable and accrued expenses	5,087	(18,254)
Increase(decrease)in vacation payable	25,608	11,637
Increase (decrease) in deferred revenues	(44,696)	<u>48,402</u>
Net cash provided by operating activities	57,091	<u>182,941</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(46,719)	(124,310)
 CASH FLOWS FROM FINANCING ACTIVITIES		
borrowings under line of credit	7,106	-
Repayments on line of credit	(7,106)	-
Principal payments on obligation under capital lease	(8,218)	(5,659)
	(8,218)	(5,659)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,154	52,972
CASH AND CASH EQUIVALENTS, Beginning of year	<u>188,777</u>	<u>135,805</u>
CASH AND CASH EQUIVALENTS, End of year	\$ <u>190,931</u>	\$ <u>188,777</u>

CHRISTIAN LEGAL SOCIETY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999

1. Organization

Inspired by Jesus' admonition to the lawyers and judges of His day to "do justice with the love of God, never forgetting the weightier matters of the law: justice, mercy and faithfulness," Christian Legal Society ("CLS" or the "Society") is a national non-profit, religious, membership association of lawyers, judges, law professors, law students and associated friends of the Society. All officers, directors, employees, attorney, law student and associate members of CLS, as a condition of their employment and/or membership in CLS, acknowledge in writing their acceptance of, and agreement with the following Statement of Faith:

Trusting in Jesus Christ as my Savior, I believe In:

1. One God, eternally existent in three persons, Father, Son and Holy Spirit.
2. God the Father Almighty, Maker of heaven and earth.
3. The Deity of our Lord Jesus Christ, God's Only Son, conceived of the Holy Spirit, born of the Virgin Mary; His vicarious death for our sins through which we receive eternal life; His bodily resurrection and personal return.
4. The presence and power of the Holy Spirit in the work of regeneration.
5. The Bible as the inspired Word of God.

CLS was founded in 1961 to bring together lawyers, law students and others to pursue the following corporate objectives which, as amended, remain CLS' core purposes today:

- *"To proclaim Jesus as Lord through all that we do in the field of law and other disciplines."*
- *"To provide a means of society, fellowship and nurture among Christian lawyers."*
- *"To encourage Christian lawyers to view law as ministry."*
- *"To clarify and promote the concept of the Christian lawyer and to help Christian lawyers integrate their faith with their professional lives."*
- *"To mobilize, at the national and local levels, the resources needed to promote justice, religious liberty, the sanctity of human life and biblical conflict reconciliation."*
- *"To encourage, disciple and aid Christian students in preparing for the legal profession."*
- *"To provide a forum for the discussion of problems relating to Christianity and the law."*
- *"To cooperate with bar associations and other organizations in asserting and maintaining high standards of legal ethics."*
- *"To encourage lawyers to furnish legal services to the poor and needy, and grant special consideration to the legal needs of churches and other charitable organizations."*

CLS conducts its operations through four ministries: The Law Student Ministries (campus ministry); the Center for Law & Religious Freedom (public education and legal advocacy); Public Ministries (legal aid, biblical reconciliation, and legal referral); and Membership Ministries (pastoral care and support of our members through various publications, member benefits and voluntary services)

CHRISTIAN LEGAL SOCIETY

1. Organization

Through CLS' Membership and Law Student Ministries, operating through CLS' 86 attorney and 160 law student chapters, CLS encourages the maintenance of an accountable personal and professional lifestyle by each of its members that is characterized by humbly seeing oneself truly as God sees us, loving God completely and others compassionately.

Additionally, through CLS' Public Ministries and its Center for Law and Religious Freedom, CLS provides three national and local avenues through which its national staff attorneys and its members may seek to advocate justice, biblical reconciliation, the sanctity of human life, and religious liberty. First, CLS recruits and trains lawyers how to provide Christian legal services to the truly needy. Second, CLS trains and encourages its members to model the biblical principles Christ modeled: truth, justice, sacredness of life, freedom of conscience, and biblical conflict reconciliation through personal confession and forgiveness of wrongs. Third, CLS' staff attorneys, directly and through assisting the volunteer services of CLS members, provide legal services in the defense of the sanctity of human life and religious liberty.

CLS believes that voluntary, accountable fellowship in Christ most consistently mobilizes our more than 3100 CLS members to ethically practice law, best serve their clients, locally volunteer his or her services to help the poor, mentor a student, promote the biblical reconciliation of conflict, protect the sanctity of innocent human life, or defend a "neighbor" persecuted or discriminated against for the exercise of their free religious conscience.

2. Summary of Significant Accounting Policies

Consolidation of Related Entity The consolidated financial statements include The accounts of the Society and CLRF Advocates, Inc. (dba Religious Liberty Advocates or Human Life Advocates) which is under the control of the Society. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents The Society considers money market funds and all other highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentrations

The Society occasionally maintains deposits in excess of federally insured limits. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

Credit risk with respect to pledges receivable is concentrated in one single donor who comprises approximately 46% of the December 31, 2000 balance. Management considers this balance to be fully collectible.

In addition to these concentrations, the Society received approximately 10% of its contributions revenue for the year ended December 31, 2000 from a single donor.

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2. Summary of Significant Accounting Policies (continued)

Property and Equipment Purchased property and equipment are recorded at cost; donated equipment is recorded at fair value and reported as unrestricted support unless donor-imposed restrictions exist. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis. The estimated useful lives range from three to seven years.

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Revenue Recognition Restricted grants and contributions received are recorded as temporarily restricted or permanently restricted revenue depending on the existence and nature of donor restrictions.

Conditional grants are deferred if the Society feels the condition may not be satisfied. When the Society determines that there is a reasonable likelihood the condition will be satisfied, the grant is recognized as temporarily restricted support.

Contributions of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Membership dues and conference fees received in advance are deferred and recognized as revenue over the period to which they relate and when the events take place, respectively.

Income Taxes The Society is generally exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code.

3. Pledges Receivable

As of December 31, 2000, donors to the Society have made written pledges to give totalling \$179,411, on which management has established a \$3,999 reserve for uncollectible pledges. All pledges are scheduled to be collected within one year.

4. Property and Equipment

Property and equipment as of December 31, 2000 and 1999 consists of the following:

	<u>2000</u>	<u>1999</u>
Furniture	\$ 17,651	\$ 17,651
Leasehold improvements	8,769	5,293
Website	142,122	113,044
Equipment and computers (including capitalized leases)	89,260	75,095
Less: accumulated depreciation and amortization	(132,249)	(67,361)
	<u>\$ 125,553</u>	<u>\$ 143,722</u>

In 1999 the Society received contributed services of \$85,699 toward the development of the CLS Website.

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5. Pension Plan

The Society maintains a tax deferred annuity pension plan, qualified under Section 403(b) of the Internal Revenue Code, for eligible employees with at least two years of full-time service, working at least 1,000 hours per year. The Society contributes 5% of the annual salary of each participant. For 2000 and 1999, the retirement benefits expense approximates \$21,100 and \$20,700, respectively.

6. Line of Credit

The Society has available a revolving line of credit of up to \$35,000. Interest is at the bank's prime rate plus 1%, payable monthly on outstanding principal balances. The principal is due on demand and must be maintained at a zero balance for any consecutive 30 day period throughout the year. The line is secured by the assets of the Society and expires January 15, 2002. As of December 31, 2000 there were no amounts outstanding on the line.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Membership Ministries	\$ 68,912
National Legal Resource Center	54,755
Center for Law and Religious Freedom	50,000
Mission Assurance	48,000
Pledges for 2001	31,755
Public Ministries	25,361
Chaplain Support	6,299
Law Student Ministry	5,196
Bible Study Translation	4,849
Miscellaneous Programs	4,250
	<u>\$ 299,377</u>

8. Functional Distribution of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. (See supplemental schedule at page 10.)

9. Commitments

Operating Leases The Society leases office space with the initial term expiring 2005. Lease payments are \$5,150 per month with the option to renew the lease for one five-year period. An increase of 3% in the base rent will be effective in the seventh year of the lease. Future annual noncancellable lease payments on the lease are as follows:

<u>Years Ending December 31,</u>	
2001	\$ 61,800
2002	63,654
2003	63,654
2004	63,654
2005	<u>47,741</u>
	<u>\$ 300,503</u>

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9. Commitments (continued)

Rent expense for 2000 and 1999, excluding passed-through operating costs and net of sub-lease rental income of approximately \$16,800 and \$25,300, respectively, totalled approximately \$45,000 and \$35,150. The sub-lease ended June 1997 and the tenant has remained on a month-to-month basis.

Outsourcing The Society outsources all of the administrative duties related to database management, accounting, and fundraising.

Caging, database management and inventory services are provided by Jefferson Direct under a three year agreement that expired in 2000 and is being continued on a month-to-month basis. Minimum monthly payments under this agreement are \$2,000, exclusive of postage and materials. Payments in 2000 and 1999 totalled approximately \$165,000 and \$198,000, respectively. In addition, Jefferson Direct may undertake membership campaigns at its own expense. As compensation for these campaigns, Jefferson Direct will retain a decreasing portion of the membership dues for the first three years of the new membership.

The Society contracts with another entity to provide accounting services. The agreement can be canceled by either party with appropriate notice, and requires payments of \$2,800 per month for contracted bookkeeping and accounting services with additional hourly charges for work outside the scope of the agreement. This agreement expired at the end of 1997 and has been continued on a month-to-month basis under the original terms. For 2000 and 1999, the Society paid fees totalling approximately \$34,000 and \$39,000, respectively, for these services.

10. Related Parties

The Society has student chapters at law schools throughout the country. The accompanying consolidated financial statements do not include the accounts of the chapters.

CHRISTIAN LEGAL SOCIETY

SUPPLEMENTAL CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 2000 AND 1999

	Public Programs / Membership	Public Programs / Ministries	Public Programs / Conferences	Support / Admin	Support / Development
Salaries and benefits	\$296,399	\$16,472	\$72,613	\$90,339	\$50,054
Outsources services (1)	16,962	1,776	7,372	4,664	4,334
Chapter/Member support	2,241	1,695	190,013	2,809	6,814
Facilities and headquarters	22,128	6,370	4,335	11,980	2,357
Technology support	5,505	-	-	367	2
CLRF Advocacy	-	-	-	-	-
Office Expense	44,400	18,422	34,200	9,899	7,481
Accounting and financial services	20,425	1,793	12,909	4,469	4,059
Travel	18,486	5,713	10,464	1,828	2,823
Moody Radio Feature	-	-	-	-	-
CLNet web site	12,877	1,246	5,610	3,573	3,101
PUBLICATIONS:					
Christian Lawyer	14,564	-	-	-	-
Conference	-	-	18,922	-	-
Defender	-	-	-	-	-
Directory	22,102	-	-	-	-
Donor Appeal	-	-	-	-	25,424
Dues Renewal	2,857	-	-	-	-
Insider	-	-	-	-	14,678
Miscellaneous	2,458	-	-	-	-
Total 2000 Expenses	\$481,404	\$53,487	\$356,438	\$129,928	\$124,127
Total 1999 Expenses	\$422,593	\$49,352	\$249,136	\$118,964	\$106,522

	Center for Law and Religious Freedom Ministry	Religious Liberty Advocates	Law Student Ministries	2000 Total
Salaries and benefits	\$258,743	\$90,895	\$155,900	\$1,034,415
Outsources services (1)	13,908	4,397	7,834	612,472
Chapter/Member support	32	567	21	204,192
Facilities and headquarters	35,919	9,400	283	92,772
Technology support	4,634	-	507	11,015
CLRF Advocacy	12,717	4,904	-	17,671
Office Expense	33,074	5,820	37,833	191,129
Accounting and financial services	14,234	4,868	9,794	72,551
Travel	3,495	490	3,048	46,347
Moody Radio Feature	4,016	-	-	4,016
CLSN Net web site	10,184	3,432	5,979	46,002
PUBLICATIONS:				
Christian Lawyer	-	-	-	14,564
Conference	-	-	-	18,922
Defender	10,028	-	-	10,028
Directory	-	-	-	22,102
Donor Appeal	-	-	-	25,424
Dues Renewal	-	-	-	2,857
Insider	-	-	-	14,678
Miscellaneous	-	-	-	2,458
Total 2000 Expenses	\$400,984	\$124,773	\$221,199	\$1,892,340
Total 1999 Expenses	\$455,176	-	\$229,105	1999 Total \$1,630,848