

CHRISTIAN LEGAL SOCIETY

AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

CHRISTIAN LEGAL SOCIETY

FINANCIAL STATEMENTS
DECEMBER 31, 2001 and 2000

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YEAKEL & ASSOCIATES

Certified Public Accountants

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, 2001 and 2000, 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 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 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, 2001 and 2000, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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.

Yeakel & Associates, Inc.

February 4, 2002

CHRISTIAN LEGAL SOCIETY

DECEMBER 31, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 86,884	\$ 190,931
Pledges receivable, net	89,559	175,412
Accounts receivable	9,273	21,083
Prepaid expenses and other current assets	<u>24,413</u>	<u>27,778</u>
	210,129	415,204
PROPERTY AND EQUIPMENT, net	211,400	125,553
OTHER ASSETS	<u>15,664</u>	<u>11,459</u>
	<u>\$ 437,193</u>	<u>\$ 552,216</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 74,626	\$ 15,087
Accrued expenses	78,652	14,874
Current portion of long-term debt	5,693	-
Accrued vacation payable	51,093	58,161
Deferred revenue	<u>150,351</u>	<u>162,747</u>
	360,415	250,869
LONG-TERM DEBT, net of current portion	<u>23,617</u>	<u>-</u>
Total liabilities	<u>384,032</u>	<u>250,869</u>
COMMITMENTS AND CONTINGENCIES (see notes 6 and 10)		
<u>NET ASSETS</u>		
Unrestricted	17,832	1,970
Temporarily restricted	<u>35,329</u>	<u>299,377</u>
	<u>53,161</u>	<u>301,347</u>
	<u>\$ 437,193</u>	<u>\$ 552,216</u>

See accompanying notes to consolidated financial statements

Christian Legal Society

Consolidated Statements of Activities
For the Years Ended December 31, 2001 and 2000

2001

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and revenue:</u>			
Contributions	\$ 550,838	\$ -	\$ 550,838
Grants	391,378	27,695	419,073
Membership dues	360,196	-	360,196
Conference registration	178,498	-	178,498
Professional fees	76,285	-	76,285
Other	26,523	-	26,523
Net Assets released from restriction	291,743	(291,743)	-
 Total support and revenue	 1,875,461	 (264,048)	 1,611,413
<u>Expenses and losses:</u>			
Program services:			
Membership ministries	471,137	-	471,137
Public ministries	64,291	-	64,291
Conferences	316,539	-	316,539
Center for Law and Religious Freedom (CLRF)	371,846	-	371,846
Religious Liberty Advocates	126,355	-	126,355
Law Student Ministries (LSM)	288,097	-	288,097
 Supporting activities:			
Administration	127,839	-	127,839
Development	93,495	-	93,495
 Total Expenses	 1,859,599	 -	 1,859,599
 Increase (decrease) in net assets	 15,862	 (264,048)	 (248,186)
 Net Assets, beginning of year	 1,970	 299,377	 301,347
	17,832	35,329	53,161
 Net Assets, end of year			

2000

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and revenue:</u>			
Contributions	\$ 637,726	\$ -	\$ 637,726
Grants	320,766	136,778	457,544
Membership dues	365,103	-	365,103
Conference registration	236,692	-	236,692
Professional fees	66,928	-	66,928
Other	41,880	-	41,880
Net Assets released from restriction	276,299	(276,299)	-
 Total support and revenue			
<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	1,892,340	-	1,892,340
 Increase (decrease) in net assets	53,054	(139,521)	(86,467)
 Net Assets, beginning of year	(51,084)	438,989	387,814
 Net Assets, end of year	1,970	299,377	301,347

See accompanying notes to consolidated financial statements

CHRISTIAN LEGAL SOCIETY

YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (248,186)	\$ (86,467)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	80,260	64,888
Decrease (increase) in pledges receivable	85,853	106,214
Decrease (increase) in accounts receivable	11,810	(4,599)
Decrease (increase) in other current assets	3,365	(9,333)
Decrease (increase) in other assets	(4,205)	389
Increase (decrease) in accounts payable	59,539	(2,617)
Increase (decrease) in accrued expenses	63,778	7,704
Increase (decrease) in vacation payable	(7,068)	25,608
Increase (decrease) in deferred revenues	<u>(12,396)</u>	<u>(44,696)</u>
Net cash provided by operating activities	<u>32,750</u>	<u>57,091</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(176,758)	(46,719)
Disposals of property and equipment, net	<u>10,651</u>	<u>-</u>
Net cash used by investing activities	<u>(166,107)</u>	<u>(46,719)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under line of credit	-	7,106
Repayments on line of credit	-	(7,106)
Borrowings under long-term debt	32,000	-
Repayments on long-term debt	(2,690)	-
Principal payments on obligation under capital lease	<u>-</u>	<u>(8,218)</u>
Net cash provided by financing activities	<u>29,310</u>	<u>(8,218)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(104,047)	2,154
CASH AND CASH EQUIVALENTS, Beginning of year	<u>190,931</u>	<u>188,777</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 86,884</u>	<u>\$ 190,931</u>

See accompanying notes to consolidated financial statements

CHRISTIAN LEGAL SOCIETY
DECEMBER 31, 2001 AND 2000

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

1. Organization (continued)

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 3000 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.

In addition to these concentrations, the Society received approximately 10% of its contributions revenue for the years ended December 31, 2001 and 2000 from a single donor.

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.

2. Summary of Significant Accounting Policies (continued)

unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Society reports the support as unrestricted.

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, 2001, donors to the Society have made written pledges to give totalling \$95,146, on which management has established a \$5,587 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, 2001 and 2000 consists of the following:

	<u>2001</u>	<u>2000</u>
Furniture	\$ 14,421	\$ 17,651
Leasehold improvements	3,476	8,769
Website	273,064	142,122
Equipment and computers (including capitalized leases)	82,460	89,260
Less: accumulated depreciation and amortization	<u>(162,021)</u>	<u>(132,249)</u>
	<u>\$ 211,400</u>	<u>\$ 125,553</u>

In 2001 the Society received contributed services of \$54,264 toward the development of the CLS Website.

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 2001 and 2000, the retirement benefits expense approximates \$21,400 and \$21,100, respectively.

6. Line of Credit

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, 2003. As of December 31, 2001 there were no amounts outstanding on the line.

7. Long-term Debt

In 2001 the Society financed the purchase of a new phone system with a note payable. The note requires monthly payments of \$641 including principal and interest at 7.5%. The note matures June 2006. The debt matures as follows:

2002	\$ 5,693
2003	6,135
2004	6,611
2005	7,124
2006	<u>3,747</u>
	\$ <u>29,310</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Mission Assurance	\$ 1,000
Law Student Ministry	3,773
Bible Study Translation	4,849
Pledges for 2002	21,695
Miscellaneous Programs	<u>4,012</u>
	\$ <u>35,329</u>

9. 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.)

10. 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>	
2002	\$ 63,654
2003	63,654
2004	63,654
2005	<u>47,741</u>
	\$ <u>238,703</u>

Rent expense for 2001 and 2000, excluding passed-through operating costs and net of sub-lease rental income of approximately \$16,000 and \$16,800, respectively, totalled approximately \$45,800 and \$45,000. The sub-lease ended June 1997 and the tenant has remained on a month-to-month basis.

10. Commitments (continued)

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 2001 and 2000 totalled approximately \$143,000 and \$165,000, 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 \$2,940 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 2001 and 2000, the Society paid fees totalling approximately \$29,000 and \$34,000, respectively, for these services.

11. 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.

12. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Christian Legal Society

Supplemental Consolidated Schedule of Functional Expenses
For The Years Ended December 31, 2001 and 2000

Christian Legal Services

	<u>Programs</u>		
	Membership	Pub Min	Conferences
Salaries and benefits	\$ 246,660	\$ 55,194	\$ 110,805
Outsourced services(1)	15,329	1,972	8,047
Chapter/Member support	11,423	15,271	95,693
Facilities and headquarters	19,511	1,442	10,341
Technology support	10,523	-	313
CLRF Advocacy	-	-	-
Office Expense	49,431	12,850	32,760
Accounting and financial services	20,940	2,172	15,061
Travel	20,691	6,518	16,508
Moody Radio Feature			
CLSNet web site	14,525	1,872	8,942
Publications			
Christian Lawyer	23,615	-	-
Conference	-	-	17,492
Defender	-	-	-
Directory	22,237	-	-
Donor Appeal	-	-	-
Dues Renewal	6,627	-	-
Insider	-	-	-
LSM Friends Letter	-	-	-
Miscellaneous	9,625	-	577
Total 2001 Expenses	471,137	64,291	316,539
Total 2000 Expenses	481,404	53,487	356,438

Support

	Admin	Development
Salaries and benefits	\$ 92,926	\$ 44,093
Outsourced services(1)	4,279	3,052
Chapter/Member support	12	-
Facilities and headquarters	6,706	3,452
Technology support	944	-
CLRF Advocacy	-	-
Office Expense	12,714	4,996
Accounting and financial services	4,707	4,167
Travel	1,528	2,030
Moody Radio Feature		
CLSNet web site	4,023	2,880
Publications		

Christian Lawyer	-	-
Conference	-	-
Defender	-	-
Directory	-	-
Donor Appeal	-	10,291
Dues Renewal	-	-
Insider	-	13,086
LSM Friends Letter	-	5,448
Miscellaneous	-	-
Total 2001 Expenses	127,839	93,495
Total 2000 Expenses	129,928	124,127

	CLRF Ministry	Religious Liberty	Law Students	2001 Total
Salaries and benefits	\$ 224,870	\$ 80,518	\$ 182,405	\$ 1,004,471
Outsourced services(1)	12,185	3,966	8,940	57,770
Chapter/Member support	323	-	24,976	147,698
Facilities and headquarters	35,556	8,711	11,425	97,144
Technology support	49	360	-	12,189
CLRF Advocacy	12,007	13,536	-	25,543
Office Expense	40,428	7,257	32,871	193,307
Accounting and financial services	14,224	7,268	11,327	80,166
Travel	14,549	934	7,164	69,922
Moody Radio Feature	2,547	-	-	2,547
CLSNet web site	11,826	3,805	8,628	56,481
Publications				
Christian Lawyer	-	-	-	23,615
Conference	-	-	-	17,492
Defender	3,302	-	-	3,302
Directory	-	-	-	22,237
Donor Appeal	-	-	-	10,291
Dues Renewal	-	-	61	6,688
Insider	-	-	-	13,086
LSM Friends Letter	-	-	-	5,448
Miscellaneous	-	-	-	10,202
Total 2001 Expenses	371,846	126,355	288,097	1,859,599
Total 2000 Expenses	400,984	124,773	221,199	

(1) Outsourced Services includes