

CHRISTIAN LEGAL SOCIETY
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

CHRISTIAN LEGAL SOCIETY

FINANCIAL STATEMENTS
DECEMBER 31, 1999 and 1998

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YEAKEL & 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 statements of financial position of Christian Legal Society (an Illinois nonprofit corporation) as of December 31, 1999 and 1998, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the financial position of Christian Legal Society as of December 31, 1999 and 1998, 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 basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeakel & Associates, Inc.

February 2, 2000

CHRISTIAN LEGAL SOCIETY

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 188,777	\$ 135,805
Pledges receivable, net	281,626	33,772
Accounts receivable	16,484	4,422
Prepaid expenses and other current assets	<u>18,445</u>	<u>8,170</u>
	505,332	182,169
PROPERTY AND EQUIPMENT, net	143,722	50,126
OTHER ASSETS	<u>11,848</u>	<u>10,690</u>
	<u>\$ 660,902</u>	<u>\$ 242,985</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 24,874	\$ 43,128
Accrued vacation payable	32,553	20,916
Deferred revenue	207,443	159,041
Current portion of lease obligation	<u>6,599</u>	<u>5,620</u>
	271,469	228,705
LONG-TERM OBLIGATIONS, net of current portion		
Obligation under capital lease	<u>1,619</u>	<u>8,257</u>
Total liabilities	<u>273,088</u>	<u>236,962</u>
COMMITMENTS AND CONTINGENCIES (see notes 6 and 9)		
NET ASSETS		
Unrestricted	(51,084)	(160,182)
Temporarily restricted	<u>438,828</u>	<u>166,205</u>
	<u>387,814</u>	<u>6,023</u>
	<u>\$ 660,902</u>	<u>\$ 242,985</u>

See accompanying notes to financial statements

	1999		
		<u>Temporarily</u>	
<u>Support and revenue:</u>	<u>Unrestricted</u>	<u>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
Other	\$132,649	-	\$132,649
Net Assets released from restriction	\$291,535	(\$291,535)	-
Total support and revenue	\$1,739,946	\$272,693	\$2,012,639
Gain on forgiveness of debt and interest (see note 6)	-	-	-
Total support, revenue and gains	<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
Law Student Ministries (LSM)	\$229,105	-	\$229,105
 Supporting activities:			
Administration	\$118,964	-	\$118,964
Development	\$106,522	-	\$106,522
Total expenses	\$1,630,848	\$0	\$1,630,848
Increase (decrease) in net assets	\$109,098	\$272,693	\$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>

***See accompanying notes to consolidated financial statements.

1998

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$519,106	-	\$519,106
\$194,709	\$136,234	\$330,943
\$435,079	-	\$435,079
\$120,961	-	\$120,961
\$117,041	-	\$117,041
\$37,967	(\$37,967)	-
\$1,424,863	\$98,267	\$1,523,130
\$12,500	-	\$12,500
\$1,437,363	\$98,267	\$1,535,630
\$292,603	-	\$292,603
\$56,621	-	\$56,621
\$169,137	-	\$169,137
\$347,913	-	\$347,913
\$220,523	-	\$220,523
\$141,173	-	\$141,173
\$157,466	-	\$157,466
\$1,385,436	\$0	\$1,385,436
\$51,927	\$98,267	\$150,194
(\$212,109)	\$67,938	(\$144,171)
(\$160,182)	\$166,205	\$6,023

CHRISTIAN LEGAL SOCIETY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 381,791	\$ 150,194
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,714	15,106
Forgiveness of debt principal	-	(12,500)
Loss on disposition of fixed assets	-	1,413
Decrease (increase) in pledges receivable	(247,854)	(19,322)
Decrease (increase) in accounts receivable	(12,062)	(2,005)
Decrease (increase) in other current assets	(10,275)	4,227
Decrease (increase) in other assets	(1,158)	306
Increase (decrease) in accounts payable and accrued expenses	(18,254)	(67,327)
Increase (decrease) in vacation payable	11,637	20,916
Increase (decrease) in deferred revenues	<u>48,402</u>	<u>(58,825)</u>
Net cash provided by operating activities	<u>182,941</u>	<u>32,183</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	<u>(124,310)</u>	<u>(24,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on obligation under capital lease	<u>(5,659)</u>	<u>(5,171)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	52,972	2,375
CASH AND CASH EQUIVALENTS, Beginning of year	<u>135,805</u>	<u>133,430</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 188,777</u>	<u>\$ 135,805</u>
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for interest	\$ 945	\$ 1,392

CHRISTIAN LEGAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

1. Organization (continued)

Through CLS' Membership and Law Student Ministries, operating through CLS' 90 attorney and 165 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 3500 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

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 of Credit Risk - 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 83% of the December 31, 1999 balance. Management considers this balance to be fully collectible.

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.

CHRISTIAN LEGAL SOCIETY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

2. Summary of Significant Accounting Policies (continued)

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. Restricted grants and contributions whose restrictions are met in the same year as received are reported as unrestricted support.

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, 1999, donors to the Society have made written pledges to give totalling \$288,076, on which management has established a \$6,450 reserve for uncollectible pledges. Pledges are scheduled to be collected as follows:

Receivable in less than one year	\$ 198,076
Receivable in one to five years	<u>90,000</u>
	288,076
Less: Reserve for uncollectible pledges	<u>(6,450)</u>
	\$ <u>281,626</u>

4. Property and Equipment

Property and equipment as of December 31, 1999 and 1998 consists of the following:

	<u>1999</u>	<u>1998</u>
Furniture	\$ 17,651	\$ 17,651
Leasehold improvements	5,293	-
Website	113,044	-
Equipment and computers (including capitalized leases)	75,095	69,122
Less: accumulated depreciation and amortization	<u>(67,361)</u>	<u>(36,647)</u>
	\$ <u>143,722</u>	\$ <u>50,126</u>

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

In 1998 the Society wrote off retired and substantially depreciated assets, reducing fixed assets and accumulated depreciation by approximately \$18,200.

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 1999 and 1998, the retirement benefits expense approximates \$20,700 and \$13,500, respectively.

6. Long-Term Obligations

Related Parties - The Society had notes payable to directors and key employees, bearing annual interest at 8.0%, payable quarterly. The remaining principal of \$12,500 was forgiven in 1998.

Obligations Under Capital Lease - The Society leases telephone equipment totalling approximately \$27,000 pursuant to a capital lease agreement. The equipment is being amortized over 60 months, with accumulated amortization of \$19,450 and \$14,022 as of December 31, 1999 and 1998, respectively. The lease requires monthly payments of \$547 through April 2001, with an implicit annual lease rate of 8.6%. Upon expiration, the Society can acquire the equipment at fair market value to be determined at that time. Future minimum annual lease payments under this agreement as of December 31, 1999 are as follows (including \$534 of implicit interest):

2000	\$ 6,564
2001	<u>2,188</u>
Total minimum lease payments	\$ <u>8,752</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Membership Ministries	\$ 151,251
Center for Law and Religious Freedom	150,000
National Legal Resource Center	54,755
Public Ministries	28,555
Public Ministries Matching Gifts	21,444
Bible Study Translation	7,307
Information Systems/Webpage Upgrades	6,825
Moody Radio Feature	5,775
Law Student Ministry Scholarships	5,000
LSM Office Buildout	3,306
Miscellaneous Programs	<u>4,680</u>
	\$ <u>438,898</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>	
2000	\$ 61,800
2001	61,800
2002	63,654
2003	63,654
2004	63,654
Thereafter	<u>47,741</u>
	\$ <u>362,303</u>

Rent expense for 1999 and 1998, excluding passed-through operating costs and net of sub-lease rental income of \$25,300 and \$21,100, respectively, totalled approximately \$35,150 and \$38,900. 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 expiring in 2000. Minimum monthly payments under this agreement are \$2,000, exclusive of postage and materials. Payments in 1999 and 1998 totalled approximately \$198,000 and \$162,000, 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 1999 and 1998, the Society paid fees totalling approximately \$39,000 and \$37,800, respectively, for these services.

10. Related Parties

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

During 1998 a note holder forgave debt of \$12,500 (see note 6).

	Public Programs			Support		Center for Law and Religious Freedom	Law Student Ministries	1999 Total
	Membership	Ministries	Conferences	Admin	Development	Ministry	Ministries	
Salaries and benefits	\$238,117	\$15,289	\$46,031	\$77,672	\$52,154	\$266,173	\$150,556	\$845,992
Outsources services (1)	17,231	1,887	5,380	4,993	4,614	18,851	9,787	62,743
Chapter/Member support	9,435	3,313	144,056	840	6,030	11,497	16,262	191,433
Facilities and headquarters	22,130	9,251	3,795	11,537	3,032	41,873	451	92,069
Technology support	5,409	-	70	1421	-	11,056	1,219	19,175
CLRF Advocacy	-	-	-	76	-	16,044	-	16,120
Office Expense	26,673	11,285	21,488	14,240	7,267	29,057	26,699	136,709
Accounting and financial services	23,933	2,457	8,008	6,314	5,838	22,469	13,260	82,279
Travel	11,571	5,349	10,552	1,108	3,041	12,141	9,074	52,836
Moody Radio Feature	-	-	-	-	-	12,280	-	12,280
CLSNet web site	3,599	521	3,032	763	1,087	3,974	1,797	14,773
PUBLICATIONS:								0
Christian Lawyer	28,835	-	-	-	-	-	-	28,835
Conference	-	-	6,724	-	150	-	-	6,874
Defender	-	-	-	-	-	9,761	-	9,761
Directory	19,271	-	-	-	-	-	-	19,271
Donor Appeal	-	-	-	-	14,786	-	-	14,786
Dues Renewal	7,847	-	-	-	-	-	-	7,847
Insider	-	-	-	-	8,374	-	-	8,374
Miscellaneous	8,542	-	-	-	149	-	-	8,691
Total 1999 Expenses	\$422,593	\$49,352	\$249,136	\$118,964	\$106,522	\$455,176	\$229,105	\$1,630,848
Total 1998 Expenses	\$292,603	\$56,621	\$169,137	\$141,173	\$157,466	\$347,913	\$220,523	1998 Total \$1,385,436

(1) Outsourced Services includes costs associated with accounting, database management, publications and legal services.