

**Christian Legal Society**

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Consolidated Financial Statements  
For the Year Ended  
December 31, 2002  
With Independent Auditors' Report

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**For the Year Ended December 31, 2002**  
**With Independent Auditors' Report**

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<b>CONTENTS</b>	<b>PAGE</b>
<b>Independent Auditors' Report</b>	1
<b>Consolidated Financial Statements:</b>	
Statement of financial position	2
Statement of activities	3
Statement of functional expenses	4
Statement of cash flows	5
<b>Notes to Consolidated Financial Statements</b>	6-10

## INDEPENDENT AUDITORS' REPORT

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TO THE BOARD OF DIRECTORS  
CHRISTIAN LEGAL SOCIETY  
Annandale, Virginia

We have audited the accompanying consolidated statement of financial position of CHRISTIAN LEGAL SOCIETY (the "Society") as of December 31, 2002 and the related consolidated statements of activities, functional expenses and cash flows for the year 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 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 consolidated financial statement presentation. We believe that our audit provides 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 at December 31, 2002, and the changes in its net assets and its cash flows for the year then ended, in conformity with auditing standards generally accepted in the United States of America.

McLean, Virginia  
January 23, 2003

**Christian Legal Society**  
**Consolidated Statement of Financial Position**  
**December 31, 2002**



**ASSETS**

CURRENT ASSETS:

Cash	\$ 76,726
Accounts receivable	33,157
Pledges receivable, net	94,308
Property held for sale	68,000
Prepaid expenses and other current assets	13,252
Total current assets	<u>285,443</u>

PROPERTY AND EQUIPMENT, net 274,152

OTHER ASSETS 14,231

\$ 573,826

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES:

Accounts payable	\$ 77,016
Accrued expenses	60,524
Note payable	6,149
Accrued vacation payable	57,913
Deferred revenue	146,121
Total current liabilities	<u>347,723</u>

NOTE PAYABLE 17,467

Total liabilities 365,190

COMMITMENTS -

NET ASSETS:

Unrestricted - undesignated	127,808
Temporarily restricted	80,828
Total net assets	<u>208,636</u>
	<u>\$ 573,826</u>

**Christian Legal Society**  
**Consolidated Statement of Activities**  
**For the Year Ended December 31, 2002**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE:</b>			
Contributions	\$ 942,410	\$ -	\$ 942,410
Grants	277,058	163,840	440,898
Membership dues	357,533	-	357,533
Conference registration	206,196	-	206,196
Professional fees	152,854	-	152,854
Other	21,470	-	21,470
Released from restriction	118,341	(118,341)	-
Total support and revenue	<u>2,075,862</u>	<u>45,499</u>	<u>2,121,361</u>
<b>EXPENSES:</b>			
Program services:			
Membership ministries	431,451	-	431,451
Public ministries	229,197	-	229,197
Conferences	345,473	-	345,473
Law student ministries	146,951	-	146,951
Center for Law and Religious Freedom	569,990	-	569,990
Total program services	<u>1,723,062</u>	<u>-</u>	<u>1,723,062</u>
Supporting services:			
Administration	161,233	-	161,233
Development	81,591	-	81,591
Total supporting services	<u>242,824</u>	<u>-</u>	<u>242,824</u>
Total expenses	<u>1,965,886</u>	<u>-</u>	<u>1,965,886</u>
CHANGE IN NET ASSETS	109,976	45,499	155,475
NET ASSETS, BEGINNING OF YEAR	<u>17,832</u>	<u>35,329</u>	<u>53,161</u>
NET ASSETS, END OF YEAR	<u>\$ 127,808</u>	<u>\$ 80,828</u>	<u>\$ 208,636</u>

**Christian Legal Society**  
**Consolidated Statement of Functional Expenses**  
**For the Year Ended December 31, 2002**

	Program Services					Support Services			Total
	Membership Ministries	Public Ministries	Conferences	Law Student and Religious Ministries	Center for Freedom	Total Program Services	Administration	Development	
Salaries and benefits	\$ 270,960	\$ 96,863	\$ 86,870	\$ 89,091	\$ 334,319	\$ 878,103	\$ 118,036	\$ 46,441	\$ 1,042,580
Computer expenses	2,784	-	-	-	184	2,968	485	285	3,738
Chapter/membership support	4,259	7,737	158,124	3,933	700	174,753	-	638	175,391
Employee related expenses	4,308	587	2,187	272	3,483	10,837	3,085	822	14,744
Bank charges - ministry specific	5,453	164	4,068	515	2,694	12,894	195	925	14,014
CLRF - advocacy	-	-	-	-	44,286	44,286	-	-	44,286
Office expenses - ministry specific	27,166	94,042	18,496	5,174	33,045	177,923	4,752	2,305	184,980
Travel	17,709	7,396	17,061	9,999	7,058	59,223	3,096	2,145	64,464
Headquarters facility costs	18,724	1,865	10,837	11,451	41,518	84,395	8,131	4,608	97,134
Equipment and supplies	19,009	5,555	8,282	6,740	24,736	64,322	5,760	3,320	73,402
Office services	16,913	3,851	5,522	5,325	23,155	54,766	5,085	2,785	62,636
Caging and database management	15,225	3,954	6,412	5,369	21,718	52,678	4,973	2,627	60,278
CLNet website costs	25,159	7,183	12,114	9,082	33,094	86,632	7,635	4,155	98,422
Publications:									
Chrisitan Lawyer	543	-	-	-	-	543	-	-	543
Conference	-	-	11,319	-	-	11,319	-	-	11,319
Donor appeal	-	-	-	-	-	-	-	1,184	1,184
Dues renewal	1,133	-	-	-	-	1,133	-	-	1,133
Insider	-	-	-	-	-	-	-	9,351	9,351
Miscellaneous	2,106	-	4,181	-	-	6,287	-	-	6,287
	<u>\$ 431,451</u>	<u>\$ 229,197</u>	<u>\$ 345,473</u>	<u>\$ 146,951</u>	<u>\$ 569,990</u>	<u>\$ 1,723,062</u>	<u>\$ 161,233</u>	<u>\$ 81,591</u>	<u>\$ 1,965,886</u>

**Christian Legal Society**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2002**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	\$ 155,475
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	122,020
Contributed property held for sale	(68,000)
Contributed property and equipment	(139,717)
Changes in assets and liabilities affecting operations:	
Accounts receivable	(23,884)
Pledges receivable, net	(4,749)
Prepaid expenses and other assets	12,594
Accounts payable	2,390
Accrued expenses	(18,128)
Accrued vacation	6,820
Deferred revenue	(4,230)
Net cash provided by operating activities	<u>40,591</u>

**CASH FLOWS FOR INVESTING ACTIVITIES:**

Purchase of property and equipment	<u>(45,055)</u>
Net cash used in investing activities	<u>(45,055)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Repayments of note payable	<u>(5,694)</u>
Net cash used in financing activities	<u>(5,694)</u>

NET CHANGE IN CASH (10,158)

CASH, BEGINNING OF YEAR 86,884

CASH, END OF YEAR \$ 76,726

**SUPPLEMENTAL DISCLOSURES:**

Interest paid during the year	\$ <u><u>9,377</u></u>
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**Christian Legal Society**  
**Notes to Consolidated Financial Statements**  
**December 31, 2002**

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**A. 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 and legal ethics."*
- *"To encourage lawyers to furnish legal services to the poor and needy, and grant special considerations to the legal needs of churches and other charitable organizations."*

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

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.



**Christian Legal Society**  
**Notes to Consolidated Financial Statements**  
**December 31, 2002**

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**A. ORGANIZATION (continued)**

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 service in the defense of the sanctity of human life and religious liberty.

CLS believes that voluntary, accountable fellowship in Christ most consistently mobilizes its more than 3,000 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 religious conscience.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting** - The accompanying financial statements of the Society have been prepared on the accrual basis of accounting where revenue is recorded as earned and expenses are recorded as incurred.

**Consolidation** - The consolidated financial statements include the accounts of the Center for Law and Religious Freedom Advocates, LLC ("CLRF"), a wholly owned subsidiary of the Society. Intercompany balances and transactions have been eliminated in consolidation.

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

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**Property and equipment** - Property and equipment are stated at cost. Donated assets are recorded at the estimated fair market value at the time of donation. Depreciation is provided for using the straight-line method, based on the estimated useful lives of the assets. Amortization is determined using the straight-line method over the estimated useful lives of the related leases.

**Donated materials and services** - The estimated fair value of donated materials and services, net of actual payments, if any, are reported as support and expense in the period of benefit. Donated materials and services totaled approximately \$311,000.

**Functional allocation of expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program services benefited.

**Christian Legal Society**  
**Notes to Consolidated Financial Statements**  
**December 31, 2002**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income taxes** - The Society is classified for federal income tax purposes as a Section 501(c)(3) organization exempt from income taxes as provided under Section 501(a) of the Internal Revenue Code.

**Contributions** - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence and/or nature of any donor restrictions. As of December 31, 2002, the Society had no permanently restricted net assets. When a donor 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. When a restriction on a contribution is met in the same period that the contribution was received, the contribution is reported in the statement of activities as temporarily restricted revenue and as net assets released from restrictions.

**Deferred dues** - 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.

**Costs of joint activities** - Statement of Position 98-2, "*Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*", establishes accounting standards for recording costs associated with joint activities (activities which are part fund raising and have elements of one or more other functions, such as program or general and administrative). The pronouncement requires that the criteria of purpose, audience and content be met in order to allocate any portion of the costs of joint activities to a functional area other than fundraising. The Society did not have any costs of joint activities eligible for allocation during 2002. All associated costs were properly allocated to fundraising.

**C. PLEDGES RECEIVABLE**

As of December 31, 2002 the donors to the Society have made pledges to give totaling \$94,308, net of an allowance for uncollectible amounts of \$5,425. All pledges are scheduled to be collected within the next year.

**D. PROPERTY AND EQUIPMENT**

The major classes of property and equipment are as follows as of December 31, 2002:

Leasehold improvements	\$	3,476
Furniture		14,421
Equipment		33,405
Website		455,305
Computers and software		<u>51,586</u>
		558,193
Less: accumulated depreciation and amortization		(284,041)
	\$	<u>274,152</u>

Depreciation expense for the year ended December 31, 2002 totaled \$122,020.

**Christian Legal Society**  
**Notes to Consolidated Financial Statements**  
**December 31, 2002**

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**E. NOTE PAYABLE**

Outstanding note payable is summarized as follows at December 31, 2002:

Note payable from a financial institution for the Society's telephone system due June 2006. Payments of \$641 are due monthly including principal and interest at 7.5%. The note is collateralized by the Society's phone system.	\$ 23,616
Less: current portion	<u>(6,149)</u>
Total	\$ <u>17,467</u>

Future maturities of the note payable at December 31, 2002 are as follows:

For the years ending December 31,

2003	\$ 6,149
2004	6,570
2005	7,080
2006	<u>3,817</u>
Total	\$ <u>23,616</u>

**F. LINE OF CREDIT**

The Society maintains a line of credit with a financial institution up to \$35,000, which is collateralized by the Society's furniture, fixtures and equipment. At December 31, 2002, the balance on the line of credit is zero.

**G. COMMITMENTS**

The Organization maintains several operating leases for a postage machine, copier, and an office condominium. Future maturities of the operating leases at December 31, 2002 are as follows:

For the years ending December 31,

2003	\$ 74,525
2004	59,525
2005	11,445
2006	5,285
2007	<u>3,964</u>
	\$ <u>154,744</u>

Rent expense totaled \$163,104 for the year ended December 31, 2002.

**Christian Legal Society**  
**Notes to Consolidated Financial Statements**  
**December 31, 2002**

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**H. TEMPORARILY RESTRICTED NET ASSETS**

Net assets of \$80,828 were temporarily restricted at December 31, 2002, for the Alliance Defense Fund, conference and scholarships.

For the year ended December 31, 2002, net assets in the amount of \$118,341 were released from donor restrictions by incurring expenses satisfying the restricted purpose which related to the Alliance Defense Fund, conference, scholarships and other expenses.

**I. RELATED PARTY TRANSACTIONS**

An officer of the Society is a partial owner and Chief Operating Officer of a web-base vendor that the Society contracts with. During 2002, the Society was invoiced \$184,896 for these services of which \$45,179 was to be paid in cash and \$139,717 was considered contributed property.

**J. RETIREMENT 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. Pension expense totaled \$20,149 for the year ended December 31, 2002.