



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Christian Legal Society

We have audited the accompanying Statement of Financial Position of Christian Legal Society (a nonprofit organization) as of December 31, 2011 and 2010, and the related Statements of Activities and Cash Flows for the years then ended. These financial statements are the responsibility of the Organization'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 Christian Legal Society as of December 31, 2011 and 2010, 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Manassas, VA
June 13, 2012

Christian Legal Society
Statement of Financial Position
At December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash	\$ 50,504	\$ 121,439
Accounts and Grants Receivable	12,918	9,633
Pledges Receivable, net	119,474	39,336
Unbilled Receivables	-	18,130
Prepaid expenses and other current assets	35,631	18,145
Total Current Assets	218,527	206,683
Property and Equipment, Net	107,400	54,193
Other Assets	7,817	5,150
Total Assets	\$ 333,744	\$ 266,026
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 47,238	\$ 26,355
Lines of Credit	92,843	52,612
Payroll Liabilities	6,069	22,766
Accrued Vacation Expense	19,461	22,480
Deferred Revenue	123,251	130,809
Total Current Liabilities	288,862	255,022
Long-Term Liabilities		
Subtenant Security Deposit	1,288	1,288
Total Long-Term Liabilities	1,288	1,288
Total Liabilities	290,150	256,310
Net Assets		
Unrestricted - undesignated	38,594	2,216
Temporarily restricted	5,000	7,500
Total Net Assets	43,594	9,716
Total Liabilities and Net Assets	\$ 333,744	\$ 266,026

Christian Legal Society
Statement of Activities
For the Years Ended December 31, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contributions	\$ 610,342	\$ 32,000	\$ 642,342	\$ 905,688	\$ 55,945	\$ 961,633
Grants	116,705		116,705	295,339		295,339
Membership Dues	337,541		337,541	252,498		252,498
Conference Registration	228,843		228,843	171,308		171,308
Released from restriction	34,500	(34,500)	-	89,186	(89,186)	-
Sale of Resources	22,774		22,774	21,181		21,181
Total Support & Revenue	1,350,705	(2,500)	1,348,205	1,735,200	(33,241)	1,701,959
Expenses						
Program Services						
Attorney Ministries	293,958	-	293,958	197,134	-	197,134
Legal Aid Ministries	103,784	-	103,784	213,710	-	213,710
Conferences	297,143	-	297,143	224,864	-	224,864
Law Student Ministries	120,677	-	120,677	149,460	-	149,460
Center for Law and Religious Freedom	297,396	-	297,396	318,927	-	318,927
Total Program Services	1,112,958	-	1,112,958	1,104,095	-	1,104,095
Supporting Services:						
Administration	90,658	-	90,658	113,240	-	113,240
Development	132,908	-	132,908	135,828	-	135,828
Total Supporting Services	223,566	-	223,566	249,068	-	249,068
Total Expenses	1,336,524	-	1,336,524	1,353,163	-	1,353,163
Other Income/(Expenses)	22,197	-	22,197	83,679	-	83,679
Increase (Decrease) in Net Assets	\$ 36,378	\$ (2,500)	\$ 33,878	\$ 465,716	\$ (33,241)	\$ 432,475
Net Assets, Beginning of Year	\$ 2,216	\$ 7,500	\$ 9,716	\$ (463,500)	\$ 40,741	\$ (422,759)
Net Assets, End of Year	\$ 38,594	\$ 5,000	\$ 43,594	\$ 2,216	\$ 7,500	\$ 9,716

See the Accompanying Accountant's Report and Notes to the Financial Statements

**Christian Legal Society
Schedule of Functional Expenses
For the Year Ended December 31, 2011**

	<u>Program Services</u>					<u>Support Services</u>			
	<u>Attorney Ministries</u>	<u>Legal Aid Ministries</u>	<u>Conferences</u>	<u>Law Student Ministries</u>	<u>Center for Law & Religious Freedom</u>	<u>Total Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total</u>
Salaries & Benefits	\$ 164,431	\$ 58,164	\$ 23,774	\$ 87,176	\$ 235,963	\$ 569,508	\$ 49,637	\$ 90,225	\$ 709,370
Computer Expenses	4,214	528	525	1,924	5,109	12,300	1,050	1,452	14,802
Chapter/Membership Support	3,993	-	236,206	800	-	240,999	-	-	240,999
Employee Related Expenses	81	-	33	-	-	114	1,835	940	2,889
Bank Charges	-	-	3,919	-	-	3,919	6,855	153	10,927
CLRF-Advocacy	-	-	-	-	15,795	15,795	-	-	15,795
Office Expenses	132	-	2,105	9,225	7,116	18,578	12,495	1,869	32,942
Travel	10,077	10,147	14,030	3,795	-	38,049	9,552	3,132	50,733
Headquarters Facility Costs	13,808	10,138	1,719	6,304	8,330	40,299	3,278	4,757	48,334
Equipment & Supplies	10,652	1,333	1,326	4,863	12,913	31,087	2,530	3,670	37,287
Office Services	8,220	7,672	1,054	3,864	7,336	28,146	2,009	3,859	34,014
Caging & Database Management	2,709	5,451	637	2,335	3,795	14,927	1,214	1,762	17,903
CLSNet Website Costs	2,470	107	107	391	1,039	4,114	203	295	4,612
Publications:									
Christian Lawyer	51,222	10,244	-	-	-	61,466	-	4,284	65,750
Conference	-	-	11,708	-	-	11,708	-	-	11,708
Donor Appeal	9,318	-	-	-	-	9,318	-	16,510	25,828
Dues Renewal	12,631	-	-	-	-	12,631	-	-	12,631
	<u>\$ 293,958</u>	<u>\$ 103,784</u>	<u>\$ 297,143</u>	<u>\$ 120,677</u>	<u>\$ 297,396</u>	<u>\$ 1,112,958</u>	<u>\$ 90,658</u>	<u>\$ 132,908</u>	<u>\$ 1,336,524</u>

See the Accompanying Accountant's Report and Notes to the Financial Statements

Christian Legal Society
Schedule of Functional Expenses
For the Year Ended December 31, 2010

	<u>Attorney</u> <u>Ministries</u>	<u>Legal Aid</u> <u>Ministries</u>	<u>Conferences</u>	<u>Law</u> <u>Student</u> <u>Ministries</u>	<u>Center for Law</u> <u>& Religious</u> <u>Freedom</u>	<u>Total</u> <u>Program</u> <u>Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total</u>
Salaries & Benefits	\$ 116,337	\$ 156,935	\$ 40,440	\$ 86,845	\$ 228,371	\$ 628,928	\$ 58,986	\$ 87,242	\$ 775,156
Computer Expenses	3,159	4,289	1,167	2,598	7,712	18,925	1,648	1,857	22,430
Chapter/Membership Support	4,710	14,656	163,135	350	-	182,851	-	-	182,851
Scholarships	-	-	-	24,695	-	24,695	-	-	24,695
Employee Related Expenses	240	629	1,140	65	461	2,535	3,575	-	6,110
Bank Charges	-	-	-	-	-	-	5,935	-	5,935
CLRF-Advocacy	-	-	-	-	28,097	28,097	-	-	28,097
Office Expenses	2,245	180	1,177	8,467	4,235	16,304	16,630	2,547	35,481
Travel	10,013	10,735	8,453	11,080	4,612	44,893	18,556	554	64,003
Headquarters Facility Costs	6,476	10,768	2,930	6,292	17,425	43,891	3,204	4,662	51,757
Equipment & Supplies	4,982	6,172	1,679	3,606	9,988	26,427	1,836	2,673	30,936
Office Services	4,291	7,134	1,941	4,169	14,447	31,982	2,212	10,039	44,233
Caging & Database Management	320	532	145	311	860	2,168	158	230	2,556
CLSNet Website Costs	1,011	1,680	457	982	2,719	6,849	500	728	8,077
Publications:									
Christian Lawyer	41,005	-	-	-	-	41,005	-	-	41,005
Conference	-	-	2,200	-	-	2,200	-	-	2,200
Donor Appeal	-	-	-	-	-	-	-	25,296	25,296
Miscellaneous	2,345	-	-	-	-	2,345	-	-	2,345
	<u>\$ 197,134</u>	<u>\$ 213,710</u>	<u>\$ 224,864</u>	<u>\$ 149,460</u>	<u>\$ 318,927</u>	<u>\$ 1,104,095</u>	<u>\$ 113,240</u>	<u>\$ 135,828</u>	<u>\$ 1,353,163</u>

Christian Legal Society
Statement of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 33,878	\$ 432,475
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and Amortization	25,021	13,513
Changes in assets and liabilities affecting operations:		
Accounts and Grants receivable	14,845	18,231
Pledges receivable, net	(80,138)	(18,097)
Prepaid expenses and other current assets	(17,486)	(16,434)
Other Assets	(2,667)	-
Accounts Payable	20,883	(278,800)
Accrued Expenses	-	(3,400)
Accrued Vacation expense	(3,019)	5,645
Payroll Liabilities	(16,697)	(64,540)
Deferred Revenue	(7,558)	(14,204)
Net cash used in operating activities	<u>(32,938)</u>	<u>74,389</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(78,228)</u>	<u>(50,230)</u>
Net cash used in investing activities	<u>(78,228)</u>	<u>(50,230)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (Payments to) lines of credit	40,231	(20,455)
Forgiveness of Debt on Notes Payable	-	(57,166)
Repayments of Notes Payable	-	(34,834)
Net cash provided by financing activities	<u>40,231</u>	<u>(112,455)</u>
Net Increase (Decrease) in Cash	\$ (70,935)	\$ (88,296)
Cash, Beginning of Year	\$ 121,439	\$ 209,735
Cash, End of Year	\$ 50,504	\$ 121,439
Interest paid during the year	\$ 211	\$ 409

Christian Legal Society
Notes to Financial Statements
December 31, 2011 and 2010

A. ABOUT THE CHRISTIAN LEGAL SOCIETY (CLS)

History - Founded in 1961, Christian Legal Society (CLS) is a national, non-profit, religious, membership association of lawyers, judges, law professors, law students, paralegals, legal assistants, and associated friends of the society. All officers, directors, employees, and members of CLS, as a condition of the employment and/or membership, affirm the following statement of faith:

Trusting in Jesus Christ as my savior, I believe in:

- *One God, eternally existent in three persons: Father, Son, and Holy Spirit.*
- *God the Father Almighty, maker of heaven and earth.*
- *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.*
- *The presence and power of the Holy Spirit in the work of regeneration.*
- *The Bible as the inspired word of God.*

Structure - For over 50 years, CLS members have been "Seeking justice with the Love of God" through four primary ministries:

Attorney Ministries

CLS attorney chapters throughout the country provide legal professionals with a wide range of opportunities. These include Christian fellowship and spiritual development, discipleship, law student mentoring, contributions to The Christian Lawyer magazine, legal referrals, and volunteer legal service on behalf of the poor and needy.

Law Student Ministries

CLS helps students in law schools across the country integrate their Christian faith with the study and eventual practice of law. Our Law Student Ministries include Bible studies, one-on-one mentoring, student-focused conferences, and faith-based curriculum services to law schools.

Legal Aid Ministries

Since 2000, thousands of CLS members have donated hundreds of thousands of legal service hours to helping the disadvantaged untangle legal issues, seek Christian guidance for personal problems, and understand their rights under the law.

Center for Law and Religious Freedom (CLRF)

As the country's oldest Christian advocacy ministry for religious liberty, CLRF has initiated law suits, filed amicus briefs, argued cases, and worked with Congress to defend our Constitution's First Amendment protection of religious freedom.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accompanying consolidated 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.

Christian Legal Society
Notes to Financial Statements
December 31, 2011 and 2010

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.

Cash and cash equivalents – For purposes of the statement of cash flows, all highly liquid debt instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

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. Property and equipment costing over \$1,000 are capitalized.

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. The total is made up of the use of facilities in Mt. Pleasant, Texas. For the years ended December 31, 2011 and 2010, donated materials totaled \$6,300 and \$6,300, respectively.

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.

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.

Promises to Give – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included in support until the conditions are substantially met. As of December 31, 2011 and 2010 there were no conditional promises to give, while unconditional promises to give were \$119,474 and \$39,336, respectively.

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, 2011 and 2010, the Society had no permanently restricted net assets, while temporarily restricted net assets totaled \$5,000 and \$7,500, respectively.

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.

Christian Legal Society
Notes to Financial Statements
December 31, 2011 and 2010

Deferred Revenue – 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 – FASB ASC 958-720-50-2, “*Accounting for Costs of Activities That Include Fund Raising*”, establishes accounting standards for recording costs associated with joint activities (activities which are part fundraising and have elements of one of 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. See Note J.

C. PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give as of December 31:

	<u>2011</u>	<u>2010</u>
Unconditional promises to give before unamortized discount and reserve	\$ 119,474	\$ 39,336
Less: Unamortized discount	-	-
Subtotal	<u>119,474</u>	<u>39,336</u>
Less: Reserve	-	-
Net unconditional promises to give	<u><u>119,474</u></u>	<u><u>39,336</u></u>
Amounts due in:		
Less than one year	\$ 119,474	\$ 39,336
One to five years	-	-
More than five years	-	-
Total gross unconditional promises to give	<u><u>\$ 119,474</u></u>	<u><u>\$ 39,336</u></u>

Christian Legal Society
Notes to Financial Statements
December 31, 2011 and 2010

D. PROPERTY AND EQUIPMENT

The major classes of property and equipment, along with their respective accumulated depreciation and net worth, are as follows as of December 31:

	<u>2011</u>	<u>Accum Depr</u>	<u>Net</u>
Leasehold Improvements	28,296	13,085	15,211
Furniture	11,490	11,490	-
Equipment	76,961	41,055	35,906
Website and Software	60,053	35,704	24,349
Computers	110,408	78,474	31,934
	<u>287,208</u>	<u>179,808</u>	<u>107,400</u>

	<u>2010</u>	<u>Accum Depr</u>	<u>Net</u>
Leasehold Improvements	12,326	10,251	2,075
Furniture	11,490	11,490	-
Equipment	69,093	34,844	34,249
Website and Software	30,334	26,841	3,493
Computers	85,737	71,361	14,376
	<u>208,980</u>	<u>154,787</u>	<u>54,193</u>

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 totaled \$25,021 and \$13,513, respectively.

E. LINES OF CREDIT

The Society maintains a line of credit with a financial institution up to \$75,000, which is collateralized by the Society's furniture, fixtures and equipment. The line of credit is due on demand and bears interest at the rate of prime plus 1.5%. At December 31, 2011 and 2010, the balance on the line of credit was \$74,000 and \$37,500 respectively. The Society also has a consumer credit card with the same financial institution. At December 31, 2011 and 2010, the balance on the consumer credit card was \$18,843 and \$15,112 respectively. Both accounts carry a zero balance periodically during the year.

Christian Legal Society
Notes to Financial Statements
December 31, 2011 and 2010

F. LEASES

The Organization was obligated to pay on a lease for 9,565 square feet in an office building on the third floor of 8100 Braddock Road, Springfield, Virginia. The lease ran through the end of October 2010. The base rent increased at a rate of 3% per year. This lease was re-negotiated effective December 1, 2009. The Organization is now obligated to pay on a lease for 3,089 square feet. The lease runs through November 30, 2014, but is terminable by Christian Legal Society at any point on 12-months' advance written notice to the Lessor. The following is a schedule for future minimum lease payments at December 31, 2011:

<u>For the years ending December 31,</u>	<u>Rent Out</u>	<u>Rents In</u>	<u>Net</u>
2012	65,706	16,391	49,315
2013	67,677	16,883	50,794
2014	63,739	15,940	47,799
<u>Total</u>	<u>\$ 197,122</u>	<u>\$ 49,214</u>	<u>\$ 147,908</u>

Christian Legal Society also subleased portions of this facility to Child Evangelism Fellowship (CEF). CEF's sublease runs through the end of November 2014, and their base rent increases at 3% per year. CEF currently subleases 722 square feet.

For the years ended December 31, 2011 and 2010, rent expense for Christian Legal Society totaled \$63,784 and \$70,886, respectively.

G. RELATED PARTY TRANSACTIONS

A Board of Director for the Society is a partial owner of a Law Firm that the Society had contracted with. During 2011 and 2010, the Society was invoiced \$4,646 and \$13,701, respectively, for these services. At December 31, 2011 and 2010 the amounts due to the Law Firm included in accounts payable were \$865 and \$4,190, respectively.

The Executive Director owns an organization which has a shared employee arrangement with CLS. The amount paid from the other organization to reimburse CLS for services paid by CLS was \$14,466 for the year ended December 31, 2011.

H. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31 are available for the following purposes:

	<u>2011</u>	<u>2010</u>
National Student Conference	\$ 5,000	\$ 7,500
Total temporarily restricted net assets	<u>\$ 5,000</u>	<u>\$ 7,500</u>

For the years ended December 31, 2011 and 2010, net assets in the amount of \$34,500 and \$89,186, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purpose, which related to the Alliance Defense Fund, conference, scholarships and other expenses.

Christian Legal Society
Notes to Financial Statements
December 31, 2011 and 2010

I. 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 \$10,962 and \$4,411 for the years ended December 31, 2011 and 2010, respectively.

J. ALLOCATION OF JOINT ACTIVITIES

During 2011 and 2010, CLS incurred joint costs of approximately \$73,691 and \$78,923, respectively, for website costs and informational materials primarily related to mailings that included fundraising appeals. Pursuant to FASB ASC 958-720-50-2 (See Note B) these costs were allocated to the functional areas as follows:

	<u>2011</u>	<u>2010</u>
Program Services	99,237	52,399
Supporting Services:		
Development	21,089	26,024
Administration	203	500
Total	<u>120,529</u>	<u>78,923</u>

K. INTEREST EXPENSE

The amount of Interest Expense for the year ended December 31, 2011 and 2010 totaled \$211 and \$409, respectively. These expenses are included in Bank Charges and Equipment Expenses.

L. OTHER INCOME

Items included in Other Income on the Statement of Activities for the year ended December 31, 2011 are listed below:

Reimbursed Expenses	\$ 22,348
Interest income	(19)
Net apprec (deprec) investments	(132)
Miscellaneous	-
Total	<u>\$ 22,197</u>

Christian Legal Society
Notes to Financial Statements
December 31, 2011 and 2010

Items included in Other Income on the Statement of Activities for the year ended December 31, 2010 are listed below:

Forgiveness of Debt	\$ 66,876
Interest income	20
Net apprec (deprec) investments	251
Reimbursed Expenses	17,512
Miscellaneous	<u>(980)</u>
Total	<u>\$ 83,679</u>

M. SUBSEQUENT EVENTS

Subsequent events have been evaluated through information known as of June 13, 2012 which is the date of these financial statements were available to be issued.