



Moran & Company P.C.

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Independent Auditor's Report

To the Board of Directors, Christian Legal Society:

We have audited the accompanying Statement of Financial Position of Christian Legal Society as of December 31, 2008 and 2007(as restated), and the related Statements of Activities, Functional Expenses, 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 U.S. 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 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 at December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Moran & Company, PC

Moran & Company, PC
July 15, 2009

CHRISTIAN LEGAL SOCIETY
Consolidated Statement of Financial Position
December 31, 2008 and 2007

	2008	2007 (Restated)
ASSETS		
CURRENT ASSETS		
Cash	116,865	138,611
Accounts and Grants Receivable	23,679	124,446
Pledges Receivable, net	69,558	136,756
Prepaid expenses and other current assets	6,675	30,973
Total current assets	216,777	430,786
PROPERTY & EQUIPMENT, net	40,521	42,866
OTHER ASSETS	15,942	15,842
TOTAL ASSETS	273,240	489,493
 LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	87,800	109,497
Line of Credit	60,841	-
Notes Payable- Board Members	10,000	-
Payroll Liabilities	47,826	83,552
Accrued Vacation Expense	62,232	100,628
Deferred Expenses	28,485	36,414
Deferred Revenue	110,898	119,956
Total current liabilities	408,081	450,047
 LONG-TERM LIABILITIES		
Subtenant Security Deposit	7,212	7,212
Notes Payable-Board Members	130,000	-
Total Long-Term Liabilities	137,212	7,212
TOTAL LIABILITIES	545,293	457,259
 NET ASSETS: (See Note P)		
Unrestricted - undesignated	(361,878)	(17,636)
Temporarily restricted	89,825	49,870
Total Net Assets	(272,053)	32,234
TOTAL LIABILITIES & EQUITY	273,240	489,493

The accompanying notes are an integral part of these consolidated financial statements.

CHRISTIAN LEGAL SOCIETY
Consolidated Statement of Activities
For the Years Ended December 31, 2008 and 2007

	2008		2007 (Restated)	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
SUPPORT & REVENUE				
Contributions	724,020	228,244	771,250	180,325
Grants	88,000	427,140	152,750	586,736
Membership Dues	305,631	-	354,907	-
Conference Registration	661,111	-	155,126	-
Professional Fees	-	-	300,000	-
Released from restriction (See Note P)	615,429	(615,429)	718,523	(718,523)
Sale of Resources	22,275	-	17,295	-
Total Support & Revenue	2,416,465	39,955	2,469,851	48,538
EXPENSES				
Program Services				
Attorney Ministries	460,828	-	671,162	-
Legal Aid Ministries	140,535	-	200,839	-
Conferences	659,796	-	342,479	-
Law Student Ministries	218,543	-	301,626	-
Center for Law and Religious Freedom	835,880	-	1,126,784	-
Total Program Services	2,315,581	-	2,642,890	-
Supporting Services:				
Administration	184,632	-	148,079	-
Development	211,798	-	213,892	-
Total Supporting Services	396,430	-	361,971	-
Total Expenses	2,712,011	-	3,004,861	-
Other Income/(Expenses)	(48,697)	-	523,812	-
Prior Period Adjustment	-	-	(20,110)	-
CHANGE IN NET ASSETS				
	(344,242)	39,955	(31,307)	48,538
NET ASSETS, BEGINNING OF YEAR	\$ (17,636)	\$ 49,870	\$ 1,332	\$ 15,003
NET ASSETS, END OF YEAR	\$ (361,878)	\$ 89,825	\$ 49,870	\$ 32,234
(See Note P)				

The accompanying notes are an integral part of these consolidated financial statements.

CHRISTIAN LEGAL SOCIETY
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2008

	Program Services						Support Services			Total
	Attorney Ministries	Legal Aid Ministries	Conferences	Student Ministries	Center for Law & Religious Freedom	Program Services	Support Services			
							Administration	Development	Total	
Salaries & Benefits	\$ 292,919	\$ 87,364	\$ 115,121	\$ 139,939	\$ 611,064	1,246,407	\$ 74,575	\$ 136,848	1,457,829	
Computer Expenses	5,714	52	199	70	1,230	7,265	3,435	263	10,962	
Chapter/Membership Support	34,057	24,225	394,791	30,576	7	483,656	135	-	483,791	
Employee Related Expenses	4,053	866.63	3,821	1,034	5,226	15,001	9,404	5,813	30,218	
Bank Charges-ministry specific	-	-	-	-	-	-	979	34	1,013	
CLRF-Advocacy	-	730	-	-	34,241	34,971	-	-	34,971	
Office Expenses-ministry specific	20,406	2,914	61,917	3,415	36,004	124,657	61,948	25,547	212,152	
Travel	5,830	2,124	19,405	12,427	14,977	54,764	3,565	3,449	61,778	
Headquarters Facility Costs	20,413	9,220	8,760	7,417	40,801	86,611	6,127	12,178	104,916	
Equipment & Supplies	18,090	4,412	11,451	7,265	30,496	71,714	6,577	7,391	85,681	
Office Services	18,268	5,011	14,961	8,412	34,454	81,105	7,422	8,228	96,755	
Caging & Database Management	5,711	1,486	3,785	2,616	10,206	23,804	1,999	2,453	28,256	
CLSNet Website Costs	8,375	2,129	4,539	3,774	14,379	33,195	3,018	3,757	39,971	
Publications:										
Christian Lawyer Conference	23,313	-	-	-	-	23,313	-	-	23,313	
Donor Appeal	-	-	21,047	-	-	21,047	-	-	21,047	
Dues Renewal	1,011	-	-	-	-	1,011	-	5,838	5,838	
Insider	-	-	-	-	-	-	-	-	1,011	
CL Digest	2,668	-	-	-	1,681	1,681	-	-	1,681	
Miscellaneous	-	-	-	-	-	2,668	-	-	2,668	
	-	0	-	1,598	1,114	2,712	5,446	-	8,159	
	460,828	140,535	659,796	218,543	835,880	2,315,581	184,632	211,798	2,712,011	

CHRISTIAN LEGAL SOCIETY
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2007

	Program Services						Support Services		
	Attorney Ministries	Legal Aid Ministries	Conferences	Student Ministries	Center for Law & Religious Freedom	Total Program Services	Administration	Development	Total
Salaries & Benefits	\$ 287,152	\$ 117,182	\$ 83,129	\$ 141,034	\$ 782,352	1,410,850	\$ 88,620	\$ 145,633	1,645,103
Computer Expenses	14,480	554	-	472	2,610	18,117	4,561	55	22,733
Chapter/Membership Support	138,786	42,175	151,884	90,496	136	423,477	170	196	423,842
Employee Related Expenses	6,528	333	2,111	344	10,003	19,318	5,373	5,772	30,463
Bank Charges-ministry specific	1,411	1,333	1,072	1,330	1,333	6,479	4,801	1,333	12,612
CLRF-Advocacy	-	-	-	-	83,589	83,589	-	-	83,589
Office Expenses-ministry specific	64,570	3,321	25,011	5,742	45,582	144,227	19,224	13,964	177,415
Travel	15,857	3,167	34,229	12,955	26,111	92,319	1,235	7,685	101,239
Headquarters Facility Costs	18,853	10,703	6,232	7,209	44,154	87,151	7,408	13,152	107,711
Equipment & Supplies	16,714	4,289	6,317	13,475	33,336	74,130	3,954	6,001	84,085
Office Services	23,635	6,596	9,142	10,963	56,351	106,686	5,854	9,325	121,866
Caging & Database Management	6,263	1,545	2,673	4,282	11,737	26,498	1,408	2,143	30,049
CLSNNet Website Costs	14,232	3,520	5,508	11,414	27,295	61,968	3,248	4,945	70,161
Publications:									
Christian Lawyer	27,950	-	-	-	-	27,950	-	-	27,950
Conference	-	-	15,173	-	-	15,173	-	-	15,173
Donor Appeal	-	-	-	-	-	-	-	2,350	2,350
Dues Renewal	18,119	-	-	-	-	18,119	250	-	18,369
Insider	-	-	-	-	-	-	-	750	750
CL Digest	11,477	-	-	-	-	11,477	-	-	11,477
LSM Friends Letter	-	-	-	-	-	-	-	-	-
Miscellaneous	5,134	6,121	-	1,910	2,196	15,361	1,973	588	17,922
	<u>671,162</u>	<u>200,839</u>	<u>342,479</u>	<u>301,626</u>	<u>1,126,784</u>	<u>2,642,890</u>	<u>148,079</u>	<u>213,892</u>	<u>3,004,860</u>

The accompanying notes are an integral part of these consolidated financial statements.

CHRISTIAN LEGAL SOCIETY
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	(304,287)	\$ 17,232
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and Amortization	20,649	26,898
Loss on disposal of property and equipment	-	-
Contributed property and equipment	-	131,589
Changes in assets and liabilities affecting operations:		
Accounts and Grants receivable	100,766	57,949
Pledges receivable, net	67,197	(17,331)
Prepaid expenses and other current assets	-	(14,722)
Accounts Payable	(21,698)	41,938
Accrued Expenses	-	(25,671)
Accrued Vacation expense	(38,399)	10,065
Payroll Liabilities	(35,726)	26,062
Other Assets	24,199	100
Deferred Expenses	(7,929)	(36,414)
Deferred Revenue	(9,059)	(18,760)
Net cash used in operating activities	(204,287)	198,935
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(18,300)	(8,414)
Net cash used in investing activities	(18,300)	(8,414)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable-board members	140,000	-
Proceeds from line of credit	60,841	-
Repayments of notes payable	-	(214,538)
Net cash provided by financing activities	200,841	(214,538)
NET CHANGE IN CASH	(21,746)	(24,017)
CASH, BEGINNING OF YEAR	\$ 138,611	162,628
CASH, END OF YEAR	\$ 116,865	\$ 138,611
SUPPLEMENTAL DISCLOSURES:		
Interest paid during the year	14,383	15,551

The accompanying notes are an integral part of these financial statements.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. ORGANIZATION

Our goal is to encourage Christian lawyers to practice law as their Christian ministry. 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) is a national, non-profit, religious, membership association of lawyers, judges, law professors, law students, and associated friends of the society. CLS is not a 'membership' organization in the sense of being organized to advance the commercial or trade interests of its members. Rather CLS is a membership-driven service organization in the sense that it is exclusively united through a common confession of faith in Jesus Christ, whose members are solely dedicated to obediently advancing Jesus' expressed interests in "doing justice, loving mercy and faithfully serving God" through the legal profession (Luke 11:42; Matthew 23:23). More accurately, CLS is a 'confessional' organization that exists to "bear witness" of Jesus in the legal profession by seeking to transform that profession and our larger society as it is influenced by that profession for the common good, one heart and mind at a time.

For the past 48 years, CLS has grown in charitable service to the poor and needy, to those deprived of their inalienable rights to life or religious free exercise, and to those who seek to be witnesses of Jesus in and through their study and practice of law. All officers, directors, employees, attorneys, law students, and associate members of CLS, as a condition of the 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, law professors, jurists and others to pursue the following nine objectives which, as amended, remain CLS' core purposes:

- 1. "To proclaim Jesus as Lord through all that we do in the field of law and other disciplines."*
- 2. "To provide a means of society, fellowship, and nurture among Christian lawyers."*
- 3. "To encourage Christian lawyers to view law as ministry."*
- 4. "To clarify and promote the concept of the Christian lawyer and to help Christian lawyers integrate their faith with their professional lives."*
- 5. "To mobilize, at the national and local levels, the resources needed to promote justice, religious liberty, the inalienable right to human life, and Biblical conflict reconciliation."*
- 6. "To encourage, disciple, and aid Christian students preparing for the legal profession."*
- 7. "To provide a forum for the discussion of problems relating to Christianity and the law."*

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. ORGANIZATION (continued)

8. *"To cooperate with bar associations and other organizations in asserting and maintaining high standards of legal ethics."*

9. *"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 its five ministries: Law Student Ministries (campus ministry); the Center for Law and Religious Freedom (public education and legal advocacy); Christian Legal Aid Ministries (legal aid, Biblical reconciliation, and legal referral); Attorney Ministries (pastoral care and support of our members through various publications, member benefits, mentoring and other voluntary service opportunities); and Conferences (national and regional meetings of attorneys, law students, law professors, jurists and others).

Through CLS' Attorney and Law Student Ministries, operating through CLS' 37 attorney and 150 law student chapters and fellowships located in 10 foreign countries, all fifty states and 1,500 cities (including all the nation's major cities), CLS encourages 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.

Through CLS' Legal Aid Ministries (comprised of 59 legal aid projects in 49 different cities in 28 states and 4 countries) and its Center for Law and Religious Freedom, CLS provides three national and local avenues through which the CLS' national staff attorneys and its members may seek to advocate justice, Biblical reconciliation, the inalienable right to human life and human dignity, and religious liberty. *First*, CLS recruits and trains lawyers to provide Christian legal aid to the truly needy. *Second*, CLS trains and encourages its members to reflect 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 religious liberty and the inalienable right to life.

CLS believes that our voluntary, accountable fellowship in Christ more consistently mobilizes our more than 3,000 CLS members and more than 11,000 lawyers who have signed CLS' statement of faith, as well as the thousands more who attend CLS events or receive CLS resources without joining CLS, to ethically practice law, best serve their clients, locally volunteer their services in aid of the poor, actively mentor a student or an attorney, promote the Biblical reconciliation of conflict, protect the inalienable right to human life from conception to natural death, and defend a "neighbor" persecuted or discriminated against for the free exercise of their religious conscience.

The Center for Law and Religious Freedom (CLRF) - Through litigation, legislative advocacy, friend of the court briefs, and public education, CLS' Center for Law and Religious Freedom works to protect the religious liberties of all Americans and the inalienable right to life and dignity for all human beings. The Center continues to expand its efforts to protect

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. ORGANIZATION (continued)

religious freedom and human life through litigation and appellate work, aided by the prayers and giving of its supporters. In 2008, the Center:

- Continued litigation against University of Montana officials on behalf of a religious student group denied recognition and attendant benefits because of its religious character.
- Commenced and successfully concluded litigation against University of South Carolina officials on behalf of a religious student group denied recognition and attendant benefits because of its religious character.
- Continued litigation against University of Florida officials on behalf of a Christian fraternity denied recognition and attendant benefits because of its religious character.
- Continued to represent a CLS law student chapter in a lawsuit against officials with the Hastings College of Law who de-recognized the group because it draws its leaders and voting members from among those who voluntarily profess faith in Christ.
- Successfully challenged the exclusion of religious charities from Michigan's state employee charitable campaign.
- Successfully concluded a challenge to the exclusion of religious charities from Iowa's state employee charitable campaign.
- Successfully intervened in federal court to help defend the constitutionality of a federal statute protecting the religious liberties and exercise of conscience by health care providers.
- Prevailed in a challenge to Colorado's discriminatory exclusion from state student aid programs of students attending colleges deemed by the state to be "too religious".
- Continued to represent a Kentucky child service provider whose partnership with the state had been challenged.
- Continued to represent interveners in a legal challenge to the freedom of a California Christian high school to maintain and enforce Biblical standards of conduct.
- Continued to represent a Christian university in Kentucky whose receipt of state funds for a pharmacy school had been challenged.
- Commenced litigation challenging the viewpoint discriminatory use of student activities fees by Boise State University

Attorney Ministries (AM) - For its attorney members, CLS provides spiritual formation and discipleship, chaplaincy, membership benefits, conferences, administration, and development services. CLS membership is open to all Christian attorneys, judges, law professors, law students, retired legal professionals, paralegals, legal secretaries, and anyone else who is interested in joining and supporting CLS' mission and work. CLS remains the largest network of Christian lawyers in the world, operating in every state and 1500 cities and towns, spiritually encouraging one another in "the love and good works" (Heb. 10:24) Jesus modeled.

CLS produced and published its *The Christian Lawyer* magazine, a bi-annual publication, which is mailed to CLS members every September and March. In 2008 the magazine covered the topics of adoption, non-profit law, religious freedom and much more.

CLS continues to serve between 2000-3000 dues paying members, organized in over 37 chapters, and annually influencing nearly 12,000 Christian lawyers, law students, judges, professors and friends through prayer, fellowship, networking, conferences, chapter meetings, websites and referrals.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. ORGANIZATION (continued)

In 2008, AM accomplished the following milestones:

- AM continued to network, organize and encourage Christian lawyers and chapters in over 35 metropolitan areas across the country.
- AM held Northeast regional conferences for attorneys and their families, and for law students.

Law Student Ministries (LSM) - CLS' Law Student Ministry is a national ministry committed in a concerted way to reaching the nation's more than 148,000 law students on 200 ABA-accredited law school campuses for Jesus Christ. LSM is beginning to disciple the next generation of lawyers for Christ by supporting Christian law fellowships or student groups at more than 165 law schools and at a handful of strategic Christian colleges. In ministering to students contemplating careers in the law, LSM seeks to achieve two fundamental goals:

- To establish vibrant CLS-affiliated student chapters at every law school in the nation and at prominent Christian colleges.
- To nurture CLS student chapters by providing mentors and resources aimed at fostering spiritual growth, compassionate outreach in service to others, and the integration of Christian faith and practice with the profession of law.

In 2008 LSM accomplished the following milestones:

- LSM continued to network, organize and encourage Christian law students and chapters in over 150 law schools across the country.
- LSM and Intervarsity Christian Fellowship (IVCF) graduate and faculty ministries continued to work closely together to reach more law school campuses and law school student chapters, using LSM's resources and IVCF campus workers.
- LSM partnered with the North American Mission Board and other organizations to sponsor weekend retreats, conferences, and symposia. The total attendance was more than 300 students at regional and national gatherings in Pennsylvania, Chicago, and Washington, DC.
- CLS Law Student Ministries and Regent University continued to work together through the Institute for Christian Legal Studies, designed to promote Christian scholarship and materials.

Conferences (AM/LSM/LAM) - CLS provides national and regional conferences to support spiritual formation discipleship and professional development in support of the Center for Law and Religious Freedom, Attorney Ministries, Legal Aid Ministries, and Law Student Ministries.

In 2007 CLS conducted a number of regional conferences, and its National Conference in Destin, Florida, attended by more than 500 people, held November 1-4, 2007 at the Hilton Sandestin Beach Golf Resort & Spa. The 2008 Global Convocation and CLS National Conference was held in Washington, DC at the Hyatt Regency Washington on Capital Hill from October 9-12, 2008. In 2009, the CLS National Conference will be held October 15-18, 2009, at the San Diego Marriott-La Jolla, La Jolla, CA. For further information see www.clsnet.org.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

A. ORGANIZATION (continued)

Legal Aid Ministries (LAM) - CLS' Legal Aid Ministries include the legal aid and Christian conciliation programs that provide advice and limited assistance for many of the legal and spiritual needs of the poor, in cooperation with Christian churches and faith-based social service providers. CLS encourages and trains Christian volunteer lawyers and other legal professionals to provide basic legal and spiritual counseling, to suggest Biblical conflict resolution, and to organize and conduct quality local legal aid programs. They address family conflict problems, the wrongful denial of jobs, housing, medical or other benefits, and certain minor criminal problems. For example, Elizabeth, a LAM client in 2005, was unable to understand how the police could be taking her children away from her when she had done nothing wrong. Lacking money, only Christian legal aid was willing and able to help her. With the assistance of a volunteer CLS volunteer attorney and several court hearings, the children were returned to her in what the appointed guardian called the worst case of injustice he had seen in 20 years.

- Elizabeth, who is now doing well, is one of an estimated 7,800 indigent clients representing more than 60,000 family members annually served by the CLA staff and volunteer network which in 2007 provided approximately 45,000 volunteer legal service hours, valued to be worth more than an estimated \$8.0 million, having trained more than 850 attorneys and 100 law students, who are now working through 59 projects in 49 cities, 28 states and four countries (USA, Uganda, Kenya, South Africa).
- Project Upgrade – CLA accepted and funded several applications for grants of up to \$5,000 each for local projects that are improving the quality of their service by upgrading their ministry to the poor. Local projects are required to raise matching local donations.

Geographic Scope - CLS has members located in all 50 states and 10 foreign nations. In addition, its Law School Ministries has 165 chapters and fellowships on law school campuses throughout the U.S., in addition to several fellowships associated with undergraduate pre-law programs on campuses in the U.S. CLS' Legal Aid Ministries currently sponsors 59 Christian legal aid projects serving 49 cities in 28 states, in addition to four projects in Uganda, Kenya and South Africa helping an estimated 7,800 individuals and families in 2008 that received free legal aid, spiritual help, and Christian conciliation services.

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.

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. Inter-company balances and transactions have been eliminated in consolidation.

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of the related capital leases. Property and equipment 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 use of facilities in Birmingham, Alabama, and attorney volunteer hours make up this total. For the years ended December 31, 2008 and 2007, donated materials and services totaled \$16,263 and \$171,829, 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, 2008 and 2007 there were no conditional promises to give, while unconditional promises to give were \$69,558 and \$136,756, 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, 2008 and 2007, the Society had no permanently restricted net assets, while temporarily restricted net assets totaled \$89,825 and \$49,870, respectively.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 – 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 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 M.

C. PLEDGES RECEIVABLE

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

	<u>2008</u>	<u>2007</u>
Unconditional promises to give before unamortized discount and reserve	\$ 69,558	\$ 136,756
Less: Unamortized discount	-	-
Subtotal	<u>69,558</u>	<u>136,756</u>
Less: Reserve	-	-
Net unconditional promises to give	<u><u>69,558</u></u>	<u><u>136,756</u></u>
Amounts due in:		
Less than one year	\$ 69,558	\$ 136,756
One to five years	-	-
More than five years	-	-
Total gross unconditional promises to give	<u><u>\$ 69,558</u></u>	<u><u>\$ 136,756</u></u>

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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>2008</u>	<u>Accum Depr</u>	<u>Net</u>
Leasehold Improvements	12,326	7,722	4,604
Furniture	14,421	14,421	-
Equipment	33,405	33,405	-
Website	70,501	51,393	19,108
Computers and Software	77,773	60,964	16,809
Trademarks	4,664	4,664	-
	<u>213,090</u>	<u>172,569</u>	<u>40,521</u>
	<u>2007</u>	<u>Accum Depr</u>	<u>Net</u>
Leasehold Improvements	12,326	6,458	5,868
Furniture	14,421	14,023	398
Equipment	33,405	33,405	-
Website	493,062	484,529	8,533
Computers and Software	110,103	82,039	28,064
Trademarks	4,664	4,661	3
	<u>667,981</u>	<u>625,115</u>	<u>42,866</u>

Depreciation and amortization expense for the years ended December 31, 2008 and 2007 totaled \$20,649 and \$26,898, respectively. Website and Computer assets that were fully depreciated and had no further use were disposed of on December 31, 2008. There were no gains or losses from the dispositions.

E. LINE 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, 2008 and 2007, the balance on the line of credit was \$60,841 and \$0 respectively.

F. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash. The Organization maintains all of their cash accounts at various commercial banks located in Northern Virginia. Cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2008 and 2007, the Organization had uninsured cash balances of approximately \$0 and \$23,603, respectively.

**CHRISTIAN LEGAL SOCIETY
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G. NOTES PAYABLE – BOARD MEMBERS/FORMER BOARD MEMBER SPOUSE

	<u>2008</u>	<u>2007</u>
Note payable (\$65,000) from a board member and spouse, dated September 22, 2008. The entire principle balance and all accrued interest and unpaid interest at a rate of 7% are payable in full December 31, 2011. Interest shall be payable as follows: (1) \$1,429.17 December 31, 2008; (2) \$5,250.00 December 31, 2009; (3) \$5,250.00 December 31, 2010; and (4) \$5,250.00 December 31, 2011.	\$65,000	\$0
Note payable (\$25,000) from a board member, dated September 15, 2008. The entire principle balance and all accrued interest and unpaid interest at a rate of 7% are payable in full December 31, 2011. Interest shall be payable as follows: (1) \$1,429.17 December 31, 2008; (2) \$1,750.00 December 31, 2009; (3) \$1,750.00 December 31, 2010; and (4) \$1,750.00 December 31, 2011.	\$25,000	\$0
Note payable (\$15,000) from a former board member, dated September 10, 2008. The entire principle balance and all accrued interest and unpaid interest at a rate of 7% are payable in full December 31, 2011. Interest shall be payable as follows: (1) \$320.83 December 31, 2008; (2) \$1,050.00 December 31, 2009; (3) \$1,050.00 December 31, 2010; and (4) \$1,050.00 December 31, 2011.	\$15,000	\$0
Note payable (\$10,000) from a board member, dated September 23, 2008. The entire principle balance and all accrued interest and unpaid interest at a rate of 6% are payable in full December 31, 2009. Interest shall be payable as follows: (1) \$161.67 December 31, 2008; and (2) \$600.00 December 31, 2009.	\$10,000	\$0
Note payable (\$25,000) from a former board member, dated December 23, 2008. The entire principle balance and all accrued interest and unpaid interest at a rate of 7% are payable in full December 31, 2011. Interest shall be payable as follows: (1) \$38.89 December 31, 2008; (2) \$1,750.00 December 31, 2009; (3) \$1,750.00 December 31, 2010; and (4) \$1,750.00 December 31, 2011.	<u>\$25,000</u>	<u>\$0</u>
Total	<u>\$140,000</u>	<u>\$0</u>

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H. LEASES

The Organization is 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 runs through the end of October 2010. The base rent increases at a rate of 3% per year. The following is a schedule for future minimum lease payments at December 31, 2008:

<u>For the years ending December 31,</u>	<u>Rent Out</u>	<u>Rents In</u>	<u>Net</u>
2009	211,652	93,003	118,649
2010	162,559	86,218	76,341
Total	<u>\$ 374,211</u>	<u>\$ 179,221</u>	<u>\$ 194,990</u>

Christian Legal Society also subleases portions of this facility to three other organizations: Child Evangelism Fellowship, Advocates International, and C.S. Lewis Institute. All of these subleases run through the end of October 2010, and their base rent increases at 3% per year. Child Evangelism Fellowship subleases 722 square feet, Advocates International subleases 1,755 square feet, and C S Lewis Institute subleases 2,118 square feet.

For the years ended December 31, 2008 and 2007, rent expense for Christian Legal Society totaled \$214,341 and \$200,857, respectively.

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 2008 and 2007, the Society was invoiced \$48,395 and \$57,510, respectively, for these services of which \$36,957 and \$33,343, respectively, was to be paid in cash and \$11,438 and \$23,167, respectively, was considered contributed services.

J. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Program Assistance	\$ 52,325	\$ 34,134
Time restricted for future periods	37,500	15,736
Total temporarily restricted net assets	<u>\$ 89,825</u>	<u>\$ 49,870</u>

Net assets restricted for program assistance include items for the Alliance Defense Fund, Christian legal aid, conference and scholarships.

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J. TEMPORARILY RESTRICTED NET ASSETS (continued)

For the years ended December 31, 2008 and 2007, net assets in the amount of \$615,429 and \$718,523, 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.

K. 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 \$41,040 and \$49,231 for the years ended December 31, 2008 and 2007, respectively.

L. ALLOCATION OF JOINT ACTIVITIES

During 2008 and 2007, CLS incurred joint costs of approximately \$103,688 and \$164,152, respectively, for website costs and informational materials primarily related to mailings that included fundraising appeals. Pursuant to SOP 98-2 (See Note B) these costs were allocated to the functional areas as follows:

	2008	2007
Program Services	85,628	150,048
Supporting Services:		
Development	9,595	8,633
Administration	8,465	5,471
Total	103,688	164,152

M. PRIOR PERIOD ADJUSTMENT

The amount of Prior Period Adjustment for the year ended December 31, 2008 and 2007 totaled \$0 and \$20,110, respectively. This comes from an adjustment on rent expense and income for operating leases, according to FAS 13. The breakdown for 2007 is as follows:

Deferred Rent Expense for 2006 and prior:	38,358
Less: Deferred Rental Income from Subtenants for 2006 and prior:	18,248
	20,110

N. DEFERRED EXPENSES

The amount of Deferred Expenses for the year ended December 31, 2008 and 2007 totaled \$28,485 and \$36,414, respectively. This total comes from deferred rent for rent expenses from an operating lease.

CHRISTIAN LEGAL SOCIETY
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O. OTHER INCOME

Items included in Other Income on the Statement of Activities for the year ended December 31, 2008 are listed below:

Honoraria	\$ 3,025
Interest income	190
Net apprec (deprec) investments	(856)
Other Nonoperating/Royalties	4,468
Refunds & Cancellations	332
Reimbursed Expenses	6,637
Returns, Rebates & Allowances	(460)
Subtenant Copier Cost	6,733
Subtenant IT Costs	30,816
Subtenant Phone Cost	7,299
Subtenant Rent	(3,552)
AFBO Membership	525
Receivable Losses	(103,855)
Total	<u>(48,697)</u>

Items included in Other Income on the Statement of Activities for the year ended December 31, 2007 are listed below:

Gain on Sale of Land	\$ 494,500
Honoraria	4,300
Interest income	7,180
Net apprec (deprec) investments	1,105
Other Nonoperating/Royalties	3,023
Program Fees & Lectures	463
Refunds & Cancellations	2,682
Reimbursed Expenses	5,742
Returns, Rebates & Allowances	4,557
Subtenant Copier Cost	8,555
Subtenant Furniture Cost	143
Subtenant IT Costs	26,468
Subtenant Phone Cost	4,825
Subtenant Leasehold Improvement	81
Subtenant Rent	(691)
AFBO Membership	64
Land Receivable Losses	(39,186)
Total	<u>\$ 523,812</u>

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P. RESTATEMENT 2007 - NET ASSETS AND RELEASED FROM RESTRICTIONS

Net Assets beginning balance for the year ended December 31, 2007 has been restated to reflect the proper relief of prior years temporarily restricted assets in the amount of \$1,260,233. The 2007 released from restriction amount shown on the statement of activity has been restated from (\$308,371) to (\$718,523) to reflect an additional (\$410,152) of assets relived from restrictions during 2007.

12/31/2007

As previously reported

		Temporarily Restricted	
	Unrestricted		Total
Net Assets Beginning of Year	(1,246,562)	1,261,565	15,003
Changes in Net Assets-fy 2007	(441,459)	458,690	17,231
Net Assets End of Year	<u>\$(1,688,021)</u>	<u>\$ 1,720,255</u>	<u>\$ 32,234</u>

12/31/2007

As restated

		Temporarily Restricted	
	Unrestricted		Total
Net Assets Beginning of Year	13,671	1,332	15,003
Changes in Net Assets-fy 2007	(31,307)	48,538	17,231
Net Assets End of Year	<u>\$ (17,636)</u>	<u>\$ 49,870</u>	<u>\$ 32,234</u>