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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, 2005 and 2004, 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 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 consolidated 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, 2005 and 2004, 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.

Our audit was 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 for 2005 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Moran & Company, PC

Moran & Company, PC
August 11, 2006

CHRISTIAN LEGAL SOCIETY
Consolidated Statements of Financial Position
December 31, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	\$ 159,090	\$ 85,980
Accounts and Grants Receivable	90,390	107,188
Pledges Receivable, net	67,127	169,312
Property held for sale	68,000	68,000
Prepaid expenses and other current assets	1,993	1,253
Total current assets	386,600	431,733
 PROPERTY & EQUIPMENT, net	 82,786	 102,828
 OTHER ASSETS	 16,874	 11,866
	486,260	546,427
 LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 140,470	\$ 106,453
Accrued Expenses	72,907	104,311
Line of Credit	61,000	61,000
Notes Payable	1,075	7,080
Notes Payable- Board Members	154,799	150,000
Accrued Vacation Expense	85,152	66,432
Deferred Revenue	133,954	133,056
Total current liabilities	649,357	628,332
 LONG-TERM LIABILITIES		
Subtenant Security Deposit	7,212	-
 NOTE PAYABLE	 -	 3,408
Total Liabilities	656,569	631,740
 NET ASSETS:		
Unrestricted - undesignated	(920,662)	(383,711)
Temporarily restricted	750,353	298,398
Total Net Assets	(170,309)	(85,313)
	486,260	546,427

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

CHRISTIAN LEGAL SOCIETY
Consolidated Statements of Activities
For the Years Ended December 31, 2005 and 2004

	2005		2004	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
SUPPORT & REVENUE				
Contributions	\$ 748,617	\$ 65,413	\$ 786,114	\$ 209,978
Grants	234,800	712,103	152,050	358,829
Membership Dues	332,321	-	339,853	-
Conference Registration	4,419	-	366,013	-
Professional Fees	32,824	-	50,740	-
Released from restriction	325,561	(325,561)	726,014	(726,014)
Sale of Resources	6,980	-	-	-
Total Support & Revenue	1,685,522	451,955	2,420,784	(157,207)
EXPENSES				
Program Services				
Membership Ministries	475,656	-	407,878	-
Public Ministries	349,508	-	349,945	-
Conferences	147,319	-	568,480	-
Law Student Ministries	136,904	-	148,726	-
Center for Law and Religious Freedom	853,441	-	722,011	-
Total Program Services	1,962,828	-	2,197,040	-
Supporting Services:				
Administration	143,302	-	149,953	-
Development	150,934	-	173,675	-
Total Supporting Services	294,236	-	323,628	-
Total Expenses	2,257,064	-	2,520,668	-
Other Income	34,591	-	-	-
CHANGE IN NET ASSETS	(536,951)	451,955	(99,884)	(157,207)
NET ASSETS, BEGINNING OF YEAR	(383,711)	298,398	(283,827)	455,605
NET ASSETS, END OF YEAR	<u>\$ (920,662)</u>	<u>\$ 750,353</u>	<u>\$ (383,711)</u>	<u>\$ 298,398</u>

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, 2005

	Program Services					Center for Law & Religious Freedom		Total Program Services	Support Services		
	Attorney Ministries	Legal Aid Ministries	Conferences	Student Ministries	Law Student Ministries	Freedom	Program Services		Administration	Development	Total
Salaries & Benefits	\$ 244,813	\$ 187,194	\$ 86,565	\$ 86,642	\$ 522,798	\$ 1,128,012		\$ 84,778	\$ 109,234	1,322,024	
Computer Expenses	6,356	266	180	156	1,752	8,710		(1,568)	629	7,771	
Chapter/Membership Support	19,941	770	7,637	264	1,722	30,334		12	-	30,346	
Employee Related Expenses	12,879	641	126	225	8,329	22,200		3,359	1,290	26,849	
Bank Charges-ministry specific	1,632	1,125	830	1,130	2,058	6,775		292	631	7,698	
CLRF-Advocacy	-	-	-	-	93,665	93,665		-	-	93,665	
Office Expenses-ministry specific	38,238	94,987	6,402	12,625	31,820	184,072		19,486	6,379	209,937	
Travel	29,891	4,826	7,620	7,761	27,736	77,834		7,149	1,960	86,943	
Headquarters Facility Costs	9,715	7,000	3,226	5,528	33,901	59,370		4,402	6,992	70,764	
Equipment & Supplies	24,618	11,540	6,468	4,853	28,571	76,050		4,854	5,086	85,990	
Office Services	25,433	18,855	7,353	7,185	45,350	104,176		7,876	8,109	120,161	
Caging & Database Management	6,620	5,044	2,089	1,991	12,147	27,891		2,066	2,158	32,115	
CLSNNet Website Costs	21,094	15,771	6,319	6,145	37,698	87,027		6,399	6,745	100,171	
Publications:											
Christian Lawyer Conference	11,935	-	-	1,258	-	13,193		-	-	13,193	
Donor Appeal	-	-	12,278	-	-	12,278		-	-	12,278	
Dues Renewal	-	-	-	-	-	-		-	1,200	1,200	
Insider	300	-	-	-	-	300		-	-	300	
CL Digest	5,024	-	-	-	2,002	2,002		-	-	2,002	
LSM Friends Letter	-	-	-	-	-	5,024		-	-	5,024	
Miscellaneous	17,167	1,489	226	1,141	3,892	1,141		-	521	1,141	
	475,656	349,508	147,319	136,904	853,441	22,774		143,302	150,934	2,257,064	

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, 2004

	Program Services					Center for Law & Religious Freedom			Total Program Services
	Membership Ministries	Public Ministries	Conferences	Law Student Ministries	Religious Freedom	Administration	Development	Total	
Salaries & Benefits	\$ 236,665	\$ 158,977	\$ 100,822	\$ 89,716	\$ 439,608	\$ 1,025,788	\$ 91,677	\$ 108,279	\$ 1,225,744
Computer Expenses	3,832	426	-	611	1,987	6,856	2,323	925	10,104
Chapter/Membership Support	9,508	251	277,405	231	126	287,521	1,344	121	288,986
Employee Related Expenses	11,522	748	5,962	78	6,431	24,741	7,199	778	32,718
Bank Charges-ministry specific	2,981	2,525	1,742	2,634	3,556	13,438	1,296	963	15,697
CLRF-Advocacy	69	-	-	-	24,590	24,659	-	-	24,659
Office Expenses-ministry specific	33,226	113,694	103,441	16,933	44,342	311,636	9,447	8,417	329,500
Travel	16,060	7,143	11,101	6,103	13,788	54,195	3,438	5,243	62,876
Headquarters Facility Costs	15,469	9,075	8,374	6,793	51,879	91,590	6,375	10,385	108,350
Equipment & Supplies	12,188	10,768	9,158	4,521	21,163	57,798	3,820	5,595	67,213
Office Services	16,800	14,071	12,939	6,192	27,563	77,565	1,538	7,458	86,561
Caging & Database Management	8,929	5,998	3,804	3,385	16,586	38,702	7,972	4,956	51,630
CLSNat Website Costs	30,473	26,269	18,081	11,417	51,517	137,757	12,814	9,611	160,182
Publications:									
Christian Lawyer	5,191	-	-	-	-	5,191	-	-	5,191
Conference	-	-	15,651	-	-	15,651	-	319	15,970
Donor Appeal	-	-	-	-	-	-	-	2,989	2,989
Dues Renewal	360	-	-	-	-	360	-	-	360
Insider	-	-	-	-	1,373	1,373	-	-	6,539
Project Reach Out	-	-	-	-	17,502	17,502	-	2,452	19,954
Miscellaneous	4,605	-	-	112	-	4,717	710	18	5,445
	\$ 407,878	\$ 349,945	\$ 568,480	\$ 148,726	\$ 722,011	\$ 2,197,040	\$ 149,953	\$ 173,675	\$ 2,520,668

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, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (84,996)	\$ (257,091)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and Amortization	72,653	113,347
Loss on disposal of property and equipment	-	1,783
Contributed property and equipment	(5,194)	(22,825)
Changes in assets and liabilities affecting operations:		
Accounts and Grants receivable	16,798	27,655
Pledges receivable, net	102,185	104,197
Prepaid expenses and other current assets	(740)	4,986
Accounts Payable	34,017	(22,981)
Accrued Expenses	(31,404)	16,032
Accrued Vacation expense	18,720	10,708
Security Deposits Payable	7,212	-
Other Assets	(5,088)	-
Deferred Revenue	898	(7,367)
Net cash used in operating activities	125,061	(31,556)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(49,179)	(34,338)
Net cash used in investing activities	(49,179)	(34,338)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable-board members	4,799	-
Proceeds from line of credit	-	45,000
Repayments of notes payable	(7,571)	(6,995)
Net cash provided by financing activities	(2,772)	38,005
NET CHANGE IN CASH	73,110	(27,889)
CASH, BEGINNING OF YEAR	85,980	113,869
CASH, END OF YEAR	\$ 159,090	\$ 85,980
SUPPLEMENTAL DISCLOSURES:		
Interest paid during the year	\$ 31,084	\$ 19,628

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

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

A. ORGANIZATION

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. CLS is a membership 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 45 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."
8. "To cooperate with bar associations and other organizations in asserting and maintaining high standards of legal ethics."

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

A. ORGANIZATION (continued)

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 five ministries: the Law Student Ministries (campus ministry); the Center for Law and Religious Freedom (public education and legal advocacy); 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' 30 attorney and 165 law student chapters and fellowships located in 10 foreign countries, all fifty states and 1,100 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 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 religious freedom and human life through litigation and appellate work, aided by the prayers and giving of its supporters. In 2005, the Center:

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

A. ORGANIZATION (continued)

- Successfully completed litigation against Arizona State University, the University of Toledo, Washburn University and Penn State University securing the freedom of religious student groups to maintain their religious character as acknowledged university groups.
- Continues to challenge discrimination against student religious groups at the University of California and Southern Illinois University.
- Continues to challenge the Montgomery County School Board's unconstitutional refusal to give Child Evangelism Fellowship the same equal access given to secular community groups.
- Successfully defended an Illinois pharmacist from being terminated from his job for refusing to perform a practice violating his health care right of conscience otherwise protected by state law but threatened by the governor's unconstitutional executive order.
- 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.
- Filed "Friend of the Court" briefs in five religious liberty and sanctity of life cases before the U.S. Supreme court.
- Expended 15,000 hours working on 23 matters in defense of life and liberty, thanks to the charitable support of 500 donors.

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 and taught.

- CLS saw change in 2005. We moved all of our ministries to new offices in northern Virginia after 18 years in Annandale. Additionally, we changed our logo and pin after 20 years.
- CLS produced and published its new The Christian Lawyer magazine, a bi-annual publication, which will be mailed to CLS members every September and March. It will include topics such as discipleship, apologetics, religious freedom and much more.
- CLS chaplain Phil Asheby wrote "A Modest Proposal for Christ-Following Attorneys," which attorneys can use, along with the suggested resources, as a discipleship model for all CLS chapters and attorneys.
- CLS continues to serve between 3000-4000 dues paying members, over 30 chapters, and influencing nearly 12,000 Christian lawyers, law students, judges, professors and friends through prayer, fellowship, networking, conferences, chapter meetings, websites and referrals.

Law Student Ministries (LSM) - CLS' Law Student Ministry is a national ministry committed in a concerted way to reaching the nation's 192 law school campuses for Christ. LSM is beginning to disciple the next generation of lawyers for Christ by supporting Christian law fellowships or student groups at over 165 law schools and at a handful of

**CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

strategic Christian colleges. In ministering to students contemplating careers in the law, LSM seeks to achieve two fundamental goals:

A. ORGANIZATION (continued)

- 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 2005 LSM accomplished the following milestones:

- LSM continues to network, organize and encourage Christian law students and chapters in over 165 law schools across the country.
- LSM and Intervarsity Christian Fellowship (IVCF) graduate and faculty ministries continue to work closely together to reach more law school campuses and law school student chapters, using LSM's resources and IVCF campus workers.
- LSM and North American Mission Board held two weekend retreats in 2005. The total attendance was nearly 200 students between the two retreats in Pennsylvania and North Carolina. CLS conducted the same two retreats in 2006 and doubled our attendance to nearly 400 law students.
- CLS Law Student Ministries and Regent University continue 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 local 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 2005 CLS conducted a number of regional conferences, but its national conference in Naples, Florida was cancelled when the conference hotel was closed due to damage caused by hurricane Wilma. CLS' next national conference will be held November 2-5, 2006 at the Crowne Plaza River Walk hotel in San Antonio, Texas. For further information see www.CLSnet.org.

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.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

A. ORGANIZATION (continued)

- Elizabeth, who is doing well, is one of an estimated 7200 indigent clients representing more than 60,000 family members annually served by the CLA staff and volunteer network which in 2005 provided approximately 36,000 volunteer legal service hours, valued to be worth more than an estimated \$6.3 million, having trained more than 600 attorneys and 100 law students, who are now working through 52 projects in 44 cities, 25 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.
- CLA received unprecedented opportunities in the form of two “new money” matching grants totaling \$125,000, which when “matched” on a dollar for dollar basis were used to increase the scope of Project Upgrade and help CLS train more volunteers and add new CLA projects.

- **Geographic Scope** - CLS has members located in all 50 states and 10 foreign nations. In addition, its Law School Ministries has 165 chapters on different law school campuses throughout the U.S. CLS’ Legal Aid Ministries currently sponsors 52 Christian legal aid projects serving 44 cities in 25 states, including three projects in Uganda, Kenya and South Africa helping an estimated 7200 individuals and families in 2005 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.

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.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. For the years ended December 31, 2005 and 2004, donated materials and services totaled \$201,891 and \$317,067, 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, 2005 and 2004 there were no conditional promises to give.

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, 2005 and 2004, 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 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.

CHRISTIAN LEGAL SOCIETY
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B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 L.

C. PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give:

	<u>2005</u>	<u>2004</u>
Unconditional promises to give before unamortized discount and reserve	\$ 70,127	\$ 187,343
Less: Unamortized discount	-	-
Subtotal	<u>70,127</u>	<u>187,343</u>
Less: Reserve	<u>(3,000)</u>	<u>(18,031)</u>
Net unconditional promises to give	<u><u>67,127</u></u>	<u><u>169,312</u></u>
Amounts due in:		
Less than one year	\$ 70,127	\$ 187,343
One to five years	-	-
More than five years	-	-
Total gross unconditional promises to give	<u><u>\$ 70,127</u></u>	<u><u>\$ 187,343</u></u>

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D. PROPERTY AND EQUIPMENT

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

	<u>2005</u>	<u>2004</u>
Leasehold Improvements	12,326	\$ 3,476
Furniture	14,421	14,421
Equipment	33,405	33,405
Website	480,922	470,906
Computers and Software	97,050	65,657
Trademarks	4,664	4,664
	642,788	592,529
Less: Accumulated Depreciation and Amortization	559,066	485,037
	83,722	107,492

Depreciation and amortization expense for the years ended December 31, 2005 and 2004 totaled \$72,653 and 113,347, respectively.

E. NOTE PAYABLE

Outstanding note payable is summarized as follows at December 31, 2005:

	<u>2005</u>	<u>2004</u>
Note payable from a financial institution for the Society's telephone system due June 2006. Payments of \$641 are due monthly including principle and interest at 7.5%. The note is collateralized by the Society's phone system.	3,408	10,488
Less: Current portion	(3,408)	(7,080)
Total	-	3,408

Future maturity of the note payable at December 31 is as follows:

For the years ending December 31,

2006	\$	3,408
Total	\$	3,408

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F. 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, 2005 and 2004, the balance on the line of credit was \$61,000.

G. NOTES PAYABLE – BOARD MEMBERS/FORMER BOARD MEMBER SPOUSE

	<u>2005</u>	<u>2004</u>
<p>Note payable from a board member, who has since retired from the board, dated March 18, 2003. The entire principle balance and all accrued interest and unpaid interest at a rate of 6% are payable in full on April 1, 2006. The note is secured by a deed of trust on the property held for sale. Subsequent to year-end, the maturity date was extended to August 1, 2007 with all other terms remaining the same.</p>	\$ 50,000	\$ 50,000
<p>Note payable from a board member dated June 15, 2003. The entire principle balance and all accrued interest and unpaid interest at a rate of 6% are payable in full on June 15, 2006. The note is secured by a deed of trust on the property held for sale. Subsequent to year-end, the maturity date was extended to April 1, 2007 with all other terms remaining the same.</p>	50,000	50,000
<p>Note payable from a former board member dated August 1, 2003. The entire principle balance and all accrued interest and unpaid interest at a rate of 6% are payable in full on August 1, 2006. The note is secured by a deed of trust on the property held for sale. Subsequent to year-end, the former board member's spouse purchased the note payable and extended the maturity date to April 1, 2007 with all other terms remaining the same.</p>	54,799	50,000
<p style="padding-left: 40px;">Total</p>	\$154,799	\$150,000

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H. 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 are as follows:

For the years ending December 31,

2006	\$ 5,285
2007	<u>3,964</u>
Total	<u><u>\$ 9,249</u></u>

For the years ended December 31, 2005 and 2004, rent expense totaled \$161,081 and \$172,062, respectively.

I. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2005</u>	<u>2004</u>
Program Assistance	\$ 30,351	\$ 26,147
Time restricted for future periods	720,002	272,251
Total temporarily restricted net assets	<u><u>\$ 750,353</u></u>	<u><u>\$ 298,398</u></u>

Net assets restricted for program assistance include items for the Alliance Defense Fund, Public Ministries Director, conference and scholarships.

For the years ended December 31, 2005 and 2004, net assets in the amount of \$325,561 and \$726,014, 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.

J. 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 2005 and 2004, the Society was invoiced \$61,259 and \$104,063, respectively, for these services of which \$40,000 and \$51,233, respectively, was to be paid in cash and \$21,259 and \$52,830, respectively, was considered contributed services.

During 2005, the Society had outstanding loans from three board members totaling \$154,799. See Note G.

**CHRISTIAN LEGAL SOCIETY
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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 \$25,517 and \$26,453 for the years ended December 31, 2005 and 2004, respectively.

L. ALLOCATION OF JOINT ACTIVITIES

During 2005 and 2004, CLS incurred joint costs of approximately \$162,801 and \$214,406, 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:

	<u>2005</u>		<u>2004</u>
Program Services	143,739	\$	180,967
Supporting Services:			
Development	8,466		20,624
Administration	10,596		12,815
Total	162,801		214,406

M. SUBSEQUENT EVENTS

In February 2006, the maturity dates for two board member loans were extended fourteen months. One maturity date for a board member loan was extended 18 months. See Note G.

In January 2006, CLS received \$191,000 in attorneys fee from Montgomery County pursuant to a judgment awarded against it in favor of CLS' client, Child Evangelism Fellowship (CEF), in a case in which CLS' Center for Law and Religious Freedom successfully vindicated CEF's constitutional right to equal access to the County's public school extracurricular activity notification system.

CLS has a piece of property for sale recorded in the books at \$68,000 with a listed price of \$625,000. The goal is to sell the property by the end of 2006.