



Moran & Company P.C.

Certified Public Accountants & Business Consultants

9324 West Street, Suite 201, Manassas, Virginia 20110-5198

703-330-0188 • FAX 703-330-0189

Independent Auditor's Report

To the Board of Directors, Christian Legal Society:

We have audited the accompanying Statements of Financial Position of Christian Legal Society as of December 31, 2006 and 2005, and the related consolidated Statements of Activities, Functional Expenses, and Cash Flows for the years 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, 2006 and 2005, 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 2006 and 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
May 31, 2007

CHRISTIAN LEGAL SOCIETY
Consolidated Statements of Financial Position
December 31, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash	162,628	\$ 159,090
Accounts and Grants Receivable	182,396	90,390
Pledges Receivable, net	119,425	67,127
Property held for sale	68,000	68,000
Prepaid expenses and other current assets	7,957	1,993
Total current assets	540,406	386,600
PROPERTY & EQUIPMENT, net	60,403	82,786
OTHER ASSETS	15,942	16,874
	616,751	486,260
 LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	67,559	\$ 140,470
Accrued Expenses	25,671	72,907
Line of Credit	59,739	61,000
Notes Payable	-	1,075
Notes Payable- Board Members	154,799	154,799
Payroll Liabilities	57,489	-
Accrued Vacation Expense	90,564	85,152
Deferred Revenue	138,716	133,954
Total current liabilities	594,537	649,357
 LONG-TERM LIABILITIES		
Subtenant Security Deposit	7,212	7,212
Total Liabilities	601,749	656,569
 NET ASSETS:		
Unrestricted - undesignated	(1,246,562)	(920,662)
Temporarily restricted	1,261,565	750,353
Total Net Assets	15,003	(170,309)
	616,751	486,260

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, 2006 and 2005

	2006		2005	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
SUPPORT & REVENUE				
Contributions	542,207	236,960	748,617	65,413
Grants	184,906	725,308	234,800	712,103
Membership Dues	321,410	-	332,321	-
Conference Registration	190,200	-	4,419	-
Professional Fees	575,523	-	32,824	-
Released from restriction	451,056	(451,056)	325,561	(325,561)
Sale of Resources	13,825	-	6,980	-
				6,980
Total Support & Revenue	<u>2,279,127</u>	<u>511,212</u>	<u>1,685,522</u>	<u>451,955</u>
				<u>2,137,477</u>
EXPENSES				
Program Services				
Membership Ministries	533,117	-	475,656	-
Public Ministries	223,837	-	349,508	-
Conferences	282,767	-	147,319	-
Law Student Ministries	175,902	-	136,904	-
Center for Law and Religious Freedom	1,136,752	-	853,441	-
Total Program Services	<u>2,352,375</u>	<u>-</u>	<u>1,962,828</u>	<u>-</u>
				<u>1,962,828</u>
Supporting Services:				
Administration	146,384	-	143,302	-
Development	175,538	-	150,934	-
Total Supporting Services	<u>321,922</u>	<u>-</u>	<u>294,236</u>	<u>-</u>
				<u>294,236</u>
Total Expenses	<u>2,674,297</u>	<u>-</u>	<u>2,257,064</u>	<u>-</u>
				<u>2,257,064</u>
Other Income	69,270	-	34,591	-
CHANGE IN NET ASSETS	<u>(325,900)</u>	<u>511,212</u>	<u>(536,951)</u>	<u>451,955</u>
NET ASSETS, BEGINNING OF YEAR	<u>\$ (920,662)</u>	<u>\$ 750,353</u>	<u>(383,711)</u>	<u>298,398</u>
NET ASSETS, END OF YEAR	<u>\$ (1,246,562)</u>	<u>\$ 1,261,565</u>	<u>\$ (920,662)</u>	<u>\$ 750,353</u>
				<u>\$ (170,309)</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, 2006

	Program Services						Support Services			Total
	Attorney Ministries	Legal Aid Ministries	Conferences	Law		Center for Law & Religious Freedom	Program Services	Administration	Development	
				Student Ministries	Ministries					
Salaries & Benefits	\$ 274,333	\$ 123,258	\$ 68,133	\$ 121,085	\$ 598,869	1,185,678	\$ 81,926	\$ 114,668	1,382,272	
Computer Expenses	8,911	497	28	511	2,287	12,233	2,602	1,106	15,942	
Chapter/Membership Support	16,854	52,515	135,707	472	2,183	207,731	8,200	62	215,993	
Employee Related Expenses	2,437	765	2,536	1,606	6,511	13,856	4,908	1,755	20,519	
Bank Charges-ministry specific	4,316	3,227	2,427	2,806	3,976	16,752	201	2,539	19,492	
CLRF-Advocacy	-	-	-	-	288,804	288,804	-	-	288,804	
Office Expenses-ministry specific	66,925	2,639	16,602	7,769	37,280	131,215	8,130	4,034	143,378	
Travel	15,652	4,468	21,296	11,523	34,313	87,251	4,271	5,643	97,165	
Headquarters Facility Costs	17,852	10,219	5,582	5,811	42,800	82,264	6,859	11,246	100,369	
Equipment & Supplies	20,143	8,185	5,523	6,890	36,614	77,355	10,862	6,520	94,738	
Office Services	21,501	8,331	4,519	8,062	40,041	82,454	6,403	6,905	95,763	
Caging & Database Management	6,746	2,590	2,038	2,201	12,653	26,228	1,772	2,087	30,087	
CLSNet Website Costs	15,367	5,453	3,156	5,487	27,723	57,187	5,796	4,619	67,602	
Publications:										
Christian Lawyer	34,565	-	-	-	-	34,565	-	-	34,565	
Conference	-	-	15,220	-	-	15,220	-	-	15,220	
Donor Appeal	-	-	-	-	-	-	-	7,554	7,554	
Dues Renewal	2,825	-	-	-	-	2,825	-	-	2,825	
Insider	-	-	-	-	-	-	-	1,500	1,500	
CL Digest	20,365	-	-	-	-	20,365	-	-	20,365	
LSM Friends Letter	-	-	-	1,678	-	1,678	-	-	1,678	
Miscellaneous	4,325	1,689	-	-	2,697	8,711	4,455	5,300	18,466	
	533,117	223,837	282,767	175,902	1,136,752	2,352,375	146,384	175,538	2,674,297	

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					Support Services			Total
	Attorney Ministries	Legal Aid Ministries	Conferences	Student Ministries	Center for Law & Religious Freedom	Program Services	Administration	Development	
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
CLNet Website Costs	21,094	15,771	6,319	6,145	37,698	87,027	6,399	6,745	100,171
Publications:									
Christian Lawyer	11,935	-	-	1,258	-	13,193	-	-	13,193
Conference	-	-	12,278	-	-	12,278	-	-	12,278
Donor Appeal	-	-	-	-	-	-	-	-	-
Dues Renewal	300	-	-	-	-	300	-	1,200	1,200
Insider	-	-	-	-	-	-	-	-	300
CL Digest	5,024	-	-	-	2,002	2,002	-	-	2,002
LSM Friends Letter	-	-	-	1,141	-	5,024	-	-	5,024
Miscellaneous	17,167	1,489	226	-	3,892	1,141	4,197	521	1,141
	475,656	349,508	147,319	136,904	853,441	1,962,828	143,302	150,934	2,257,064

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, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	185,312	\$ (84,996)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and Amortization	36,211	72,653
Loss on disposal of property and equipment	-	-
Contributed property and equipment	5,594	(5,194)
Changes in assets and liabilities affecting operations:		
Accounts and Grants receivable	(92,006)	16,798
Pledges receivable, net	(12,352)	102,185
Prepaid expenses and other current assets	5,964	(740)
Accounts Payable	(72,911)	34,017
Accrued Expenses	(47,236)	(31,404)
Accrued Vacation expense	5,412	18,720
Payroll Liabilities	637	-
Security Deposits Payable	-	7,212
Other Assets	932	(5,088)
Deferred Revenue	4,762	898
Net cash used in operating activities	20,318	125,061
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(16,780)	(49,179)
Net cash used in investing activities	(16,780)	(49,179)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable-board members	-	4,799
Proceeds from line of credit	-	-
Repayments of notes payable	-	(7,571)
Net cash provided by financing activities	-	(2,772)
NET CHANGE IN CASH	3,538	73,110
CASH, BEGINNING OF YEAR	\$ 159,090	85,980
CASH, END OF YEAR	\$ 162,628	\$ 159,090
SUPPLEMENTAL DISCLOSURES:		
Interest paid during the year	27,065	\$ 31,084

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

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 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."*

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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: 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' 36 attorney and 165 law student chapters and fellowships located in 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 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 2006, the Center:

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

A. ORGANIZATION (continued)

- Successfully completed litigation against the University of Georgia securing the freedom of religious student groups to maintain their religious character as acknowledged university groups.
- Continued to challenge discrimination against student religious groups at the University of California and Southern Illinois University.
- Successfully challenged the exclusion of religious charities from Wisconsin's state employee charitable campaign.
- Commenced a challenge to the exclusion of religious charities from Michigan's state employee charitable campaign.
- Continued to challenge the exclusion of religious charities from Florida's state employee charitable campaign.
- Represented faith-based organizations in challenges to their participation in government social service funding programs.
- Continued 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 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 three religious liberty and sanctity of life cases before the U.S. Supreme court.
- Continued to challenge Colorado's discriminatory exclusion from state student aid programs of students attending colleges deemed by the state to be "too religious"

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 produced and published its new *The Christian Lawyer* magazine, a bi-annual publication, which is mailed to CLS members every September and March. In 2006 the magazine covered the topics of discipleship, Christian apologetics, religious freedom and much more.

CLS continues to serve between 3000-4000 dues paying members, organized in over 30 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, 2006 AND 2005**

A. ORGANIZATION (continued)

In 2006, AM accomplished the following milestones:

- AM continues to network, organize and encourage Christian lawyers and chapters in over 35 metropolitan areas across the country.
- AM held Northeast and Texas regional attorney conferences. In 2007, they will hold a Northeast, Texas, Midwest and Southwest regional conferences for attorneys and their families.

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 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 2006 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 2006. The total attendance was nearly 300 students between the two retreats in Pennsylvania and North Carolina. CLS conducted the same two retreats in 2007 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 2006 CLS conducted a number of regional conferences, and its national conference in San Antonio, Texas, attended by more than 550 people was held November 2-5, 2006 at the Crowne Plaza River Walk Hotel. The 2007 CLS National Conference will be held in Destin, Florida at the Sandestin Hilton from November 1-4, 2007. For further information see www.CLSnet.org.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 7200 indigent clients representing more than 60,000 family members annually served by the CLA staff and volunteer network which in 2006 provided approximately 36,000 volunteer legal service hours, valued to be worth more than an estimated \$6.3 million, having trained more than 750 attorneys and 150 law students, who are now working through 57 projects in 52 cities, 26 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 \$150,000, 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 57 Christian legal aid projects serving 52 cities in 26 states, including three projects in Uganda, Kenya and South Africa helping an estimated 7200 individuals and families in 2006 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.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. The use of facilities in Birmingham, Alabama, and attorney volunteer hours make up this total. For the years ended December 31, 2006 and 2005, donated materials and services totaled \$40,250 and \$201,891, 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, 2006 and 2005 there were no conditional promises to give.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2006 and 2005, 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.

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 or more other functions, such as program or general and administrative). The pronouncement requires that the criteria of purpose, audience and content be met in order to allocate any portion of the costs of joint activities to a functional area other than fundraising. See Note M.

C. PLEDGES RECEIVABLE

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

Less: Unamortized discount	-	-
Subtotal	120,250	70,127
Less: Reserve	(825)	(3,000)
Net unconditional promises to give	<u>119,425</u>	<u>67,127</u>

Amounts due in:		
Less than one year	\$ 120,250	\$ 70,127
One to five years	-	-
More than five years	-	-
Total gross unconditional promises to give	<u>\$ 120,250</u>	<u>\$ 70,127</u>

**CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

D. PROPERTY AND EQUIPMENT

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

	<u>2006</u>	<u>2005</u>
Leasehold Improvements	12,326	12,326
Furniture	14,421	14,421
Equipment	33,405	33,405
Website	491,890	480,922
Computers and Software	102,860	97,050
Trademarks	4,664	4,664
	<hr/>	<hr/>
	659,566	642,788
Less: Accumulated Depreciation and Amortization	599,163	559,066
	<hr/>	<hr/>
	<u>60,403</u>	<u>83,722</u>

Depreciation and amortization expense for the years ended December 31, 2006 and 2005 totaled \$ 36,211 and 72,653, respectively.

E. NOTE PAYABLE

Outstanding note payable is summarized as follows at December 31, 2006:

	<u>2006</u>	<u>2005</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
Less: Current portion	-	(3,408)
Total	<hr/>	<hr/>
	<u>-</u>	<u>-</u>

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, 2006 and 2005, the balance on the line of credit was \$59,739 and \$61,000 respectively.

**CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

G. NOTES PAYABLE BOARD MEMBERS/FORMER BOARD MEMBER SPOUSE

	<u>2006</u>	<u>2005</u>
Note payable from a board member, 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 August 1, 2007. The note is secured by a deed of trust on the property held for sale. Expect to close on the sale of the property May 30, 2007 with payment to holder in June 2007. Holder has stated he will not demand payment if there is a delay in selling the land.	\$50,000	\$50,000
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 April 1, 2007. The note is secured by a deed of trust on the property held for sale. Expect to close on the sale of the property May 30, 2007 with payment to holder in June 2007. Holder has stated he will not demand payment if there is a delay in selling the land.	\$50,000	\$50,000
Note payable from a former board member <input type="checkbox"/> spouse 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 April 1, 2007. The note is secured by a deed of trust on the property held for sale. Expect to close on the sale of the property May 30, 2007 with payment to holder in June 2007. Holder has stated he will not demand payment if there is a delay in selling the land.	<u>\$54,799</u>	<u>\$54,799</u>
Total	<u>\$154,799</u>	<u>\$154,799</u>

H. 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 \$100,000. At December 31, 2006 and 2005, the Organization had uninsured cash balances of approximately \$26,825 and \$0, respectively.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

I. 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,

2007	<u>3,964</u>
Total	<u>\$ 3,964</u>

For the years ended December 31, 2006 and 2005, rent expense totaled \$118,369 and \$161,081, respectively.

J. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2006</u>	<u>2005</u>
Program Assistance	\$ 46,126	\$ 30,351
Time restricted for future periods	1,215,439	720,002
Total temporarily restricted net assets	<u>\$ 1,261,565</u>	<u>\$ 750,353</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, 2006 and 2005, net assets in the amount of \$451,056 and \$325,561, 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. 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 2006 and 2005, the Society was invoiced \$56,150 and \$61,259, respectively, for these services of which \$45,207 and \$40,000, respectively, was to be paid in cash and \$10,943 and \$21,259, respectively, was considered contributed services.

During 2006, the Society had outstanding loans from three board members totaling \$154,799. See Note G.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

L. 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 \$30,822 and \$25,517 for the years ended December 31, 2006 and 2005, respectively.

M. ALLOCATION OF JOINT ACTIVITIES

During 2006 and 2005, CLS incurred joint costs of approximately \$169,775 and \$162,801, 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>2006</u>	<u>2005</u>
Program Services	140,552	143,739
Supporting Services:		
Development	18,973	8,466
Administration	10,250	10,596
Total	<u>169,775</u>	<u>162,801</u>

N. 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.

CLS had a piece of property for sale recorded in the books at \$68,000 with a listed price of \$625,000. The sale of this property was finalized on May 30, 2007 for \$1,125,000, of which the Organization will receive \$562,000.