



Moran & Company P.C.

Certified Public Accountants & Business Consultants

8100 Ashton Avenue, Suite 106, Manassas, Virginia 20109

703-330-0188 • FAX 703-330-0189

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, 2007 and 2006, 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, 2007 and 2006, 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
September 9, 2008

CHRISTIAN LEGAL SOCIETY
Consolidated Statement of Financial Position
December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash	138,611	162,628
Accounts and Grants Receivable	124,446	182,396
Pledges Receivable, net	136,756	119,425
Property held for sale	-	68,000
Prepaid expenses and other current assets	30,973	7,957
Total current assets	430,786	540,406
 PROPERTY & EQUIPMENT, net	 42,866	 60,403
 OTHER ASSETS	 15,842	 15,942
	489,493	616,751
 LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	109,497	67,559
Accrued Expenses	-	25,671
Line of Credit	-	59,739
Notes Payable	-	-
Notes Payable- Board Members	-	154,799
Payroll Liabilities	83,552	57,489
Accrued Vacation Expense	100,628	90,564
Deferred Expenses	36,414	-
Deferred Revenue	119,956	138,716
Total current liabilities	450,047	594,537
 LONG-TERM LIABILITIES		
Subtenant Security Deposit	7,212	7,212
Total Liabilities	457,259	601,749
 NET ASSETS:		
Unrestricted - undesignated	\$(1,688,021)	(1,246,562)
Temporarily restricted	\$ 1,720,255	1,261,565
Total Net Assets	32,234	15,003
	489,493	616,751

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, 2007 and 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT & REVENUE						
Contributions	771,250	180,325	951,575	\$ 542,207	\$ 236,960	779,167
Grants	152,750	586,736	739,486	184,906	725,308	910,214
Membership Dues	354,907	-	354,907	321,410	-	321,410
Conference Registration	155,126	-	155,126	190,200	-	190,200
Professional Fees	300,000	-	300,000	575,523	-	575,523
Released from restriction	308,371	(308,371)	-	451,056	(451,056)	-
Sale of Resources	17,295	-	17,295	13,825	-	13,825
Total Support & Revenue	2,059,699	458,690	2,518,390	2,279,127	511,212	2,790,339
EXPENSES						
Program Services						
Membership Ministries	671,162	-	671,162	533,117	-	533,117
Public Ministries	200,839	-	200,839	223,837	-	223,837
Conferences	342,479	-	342,479	282,767	-	282,767
Law Student Ministries	301,626	-	301,626	175,902	-	175,902
Center for Law and Religious Freedom	1,126,784	-	1,126,784	1,136,752	-	1,136,752
Total Program Services	2,642,890	-	2,642,890	2,352,375	-	2,352,375
Supporting Services:						
Administration	148,079	-	148,079	146,384	-	146,384
Development	213,892	-	213,892	175,538	-	175,538
Total Supporting Services	361,971	-	361,971	321,922	-	321,922
Total Expenses	3,004,860	-	3,004,860	2,674,297	-	2,674,297
Other Income	523,812	-	523,812	69,270	-	69,270
Prior Period Adjustment	(20,110)	-	(20,110)	-	-	-
CHANGE IN NET ASSETS	(441,459)	458,690	17,232	(325,900)	511,212	185,312
NET ASSETS, BEGINNING OF YEAR	\$(1,246,562)	\$ 1,261,565	\$ 15,003	(920,662)	750,353	(170,309)
NET ASSETS, END OF YEAR	\$(1,688,021)	\$ 1,720,255	\$ 32,235	\$(1,246,562)	\$ 1,261,565	\$ 15,003

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, 2007

	<u>Program Services</u>					<u>Total Program Services</u>	<u>Support Services</u>		
	<u>Attorney Ministries</u>	<u>Legal Aid Ministries</u>	<u>Conferences</u>	<u>Law Student Ministries</u>	<u>Center for Law & Religious Freedom</u>		<u>Administration</u>	<u>Development</u>	<u>Total</u>
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
CLNet 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 Statement of Functional Expenses
For the Year Ended December 31, 2006

	<u>Program Services</u>						<u>Support Services</u>		
	<u>Attorney Ministries</u>	<u>Legal Aid Ministries</u>	<u>Conferences</u>	<u>Law Student Ministries</u>	<u>Center for Law & Religious Freedom</u>	<u>Total Program Services</u>	<u>Administration</u>	<u>Development</u>	<u>Total</u>
Salaries & Benefits	\$ 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
CLNet 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
	<u>533,117</u>	<u>223,837</u>	<u>282,767</u>	<u>175,902</u>	<u>1,136,752</u>	<u>2,352,375</u>	<u>146,384</u>	<u>175,538</u>	<u>2,674,297</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, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	17,232	\$ 185,312
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and Amortization	26,898	36,211
Loss on disposal of property and equipment	-	-
Contributed property and equipment	131,589	5,594
Changes in assets and liabilities affecting operations:		
Accounts and Grants receivable	57,949	(92,006)
Pledges receivable, net	(17,331)	(12,352)
Prepaid expenses and other current assets	(14,722)	5,964
Accounts Payable	41,938	(72,911)
Accrued Expenses	(25,671)	(47,236)
Accrued Vacation expense	10,065	5,412
Payroll Liabilities	26,062	637
Security Deposits Payable	-	-
Other Assets	100	932
Deferred Expenses	(36,414)	-
Deferred Revenue	(18,760)	4,762
Net cash used in operating activities	198,935	20,318
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(8,414)	(16,780)
Net cash used in investing activities	(8,414)	(16,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable-board members	-	-
Proceeds from line of credit	-	-
Repayments of notes payable	(214,538)	-
Net cash provided by financing activities	(214,538)	-
NET CHANGE IN CASH	(24,017)	3,538
CASH, BEGINNING OF YEAR	\$ 162,628	159,090
CASH, END OF YEAR	\$ 138,611	\$ 162,628
SUPPLEMENTAL DISCLOSURES:		
Interest paid during the year	15,551	27,065

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

**CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 47 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, 2007 AND 2006

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); 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 165 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, 2007 AND 2006

A. ORGANIZATION (continued)

religious freedom and human life through litigation and appellate work, aided by the prayers and giving of its supporters. In 2007, the Center:

- Commenced 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.
- Commenced 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.
- Commenced 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.
- 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 2007 the magazine covered the topics of adoption, non-profit law, religious freedom and much more.

CLS continues to serve between 3000-4000 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, 2007 AND 2006

A. ORGANIZATION (continued)

In 2007, 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 197 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 2007 LSM accomplished the following milestones:

- LSM continued to network, organize and encourage Christian law students and chapters in over 165 law schools across the country.
- LSM and Interservice 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 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 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, was held November 1-4, 2007 at the Hilton Sandestin Beach Golf Resort & Spa. The 2008 Global Convocation and CLS National Conference will be held in Washington, DC at the Hyatt Regency Washington on Capital Hill from October 9-12, 2008. For further information see www.clsnet.org.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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 7800 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 on different law school campuses throughout 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 7800 individuals and families in 2007 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, 2007 AND 2006

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, 2007 and 2006, donated materials and services totaled \$171,829 and \$40,250, 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, 2007 and 2006 there were no conditional promises to give, while unconditional promises to give were \$136,756 and \$120,250, 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, 2007 and 2006, the Society had no permanently restricted net assets, while temporarily restricted net assets totaled \$1,720,255 and \$1,261,565, respectively.

CHRISTIAN LEGAL SOCIETY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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>2007</u>	<u>2006</u>
Unconditional promises to give before unamortized discount and reserve	\$ 136,756	\$ 120,250
Less: Unamortized discount	-	-
Subtotal	<u>136,756</u>	<u>120,250</u>
Less: Reserve	-	(825)
Net unconditional promises to give	<u><u>136,756</u></u>	<u><u>119,425</u></u>
Amounts due in:		
Less than one year	\$ 136,756	\$ 120,250
One to five years	-	-
More than five years	-	-
Total gross unconditional promises to give	<u><u>\$ 136,756</u></u>	<u><u>\$ 120,250</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>2007</u>	<u>2006</u>
Leasehold Improvements	12,326	12,326
Furniture	14,421	14,421
Equipment	33,405	33,405
Website	493,062	491,890
Computers and Software	110,103	102,860
Trademarks	4,664	4,664
	<hr/>	<hr/>
	667,981	659,566
Less: Accumulated Depreciation and Amortization	625,115	599,163
	<hr/>	<hr/>
	42,866	60,403
	<hr/>	<hr/>

Depreciation and amortization expense for the years ended December 31, 2007 and 2006 totaled \$26,898 and \$36,211, respectively.

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, 2007 and 2006, the balance on the line of credit was \$0 and \$59,739 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 \$100,000. At December 31, 2007 and 2006, the Organization had uninsured cash balances of approximately \$23,603 and \$26,825, respectively.

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

	<u>2007</u>	<u>2006</u>
<p>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. Property was sold in May 2007 with payment to holder on May 31, 2007.</p>	\$0	\$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 April 1, 2007. The note is secured by a deed of trust on the property held for sale. Property was sold in May 2007 with payment to holder on May 31, 2007.</p>	\$0	\$50,000
<p>Note payable from a former board member's 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. Property was sold in May 2007 with payment to holder on May 31, 2007.</p>	\$0	\$54,799
<p>Total</p>	\$0	\$154,799

CHRISTIAN LEGAL SOCIETY
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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 September 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, 2007:

<u>For the years ending December 31,</u>	<u>Rent Out</u>	<u>Rents In</u>	<u>Net</u>
2008	205,487	98,010	107,477
2009	211,652	93,003	118,649
2010	162,559	86,218	76,341
Total	<u>\$ 579,698</u>	<u>\$ 277,231</u>	<u>\$ 302,467</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, 2007 and 2006, rent expense for Christian Legal Society totaled \$200,857 and \$193,213, 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 2007 and 2006, the Society was invoiced \$57,510 and \$56,150, respectively, for these services of which \$33,343 and \$45,207, respectively, was to be paid in cash and \$23,167 and \$10,943, respectively, was considered contributed services.

During 2007, the Society paid outstanding loans from three board members totaling \$154,799. See Note G.

J. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Program Assistance	\$ 34,134	\$ 46,126
Time restricted for future periods	1,686,121	1,215,439
Total temporarily restricted net assets	<u>\$ 1,720,255</u>	<u>\$ 1,261,565</u>

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

For the years ended December 31, 2007 and 2006, net assets in the amount of \$308,371 and \$451,056, 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 \$49,231 and \$30,822 for the years ended December 31, 2007 and 2006, respectively.

L. ALLOCATION OF JOINT ACTIVITIES

During 2007 and 2006, CLS incurred joint costs of approximately \$164,152 and \$169,775, 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>2007</u>	<u>2006</u>
Program Services	150,048	140,552
Supporting Services:		
Development	8,633	18,973
Administration	5,471	10,250
Total	<u>164,152</u>	<u>169,775</u>

M. PRIOR PERIOD ADJUSTMENT

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

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

CHRISTIAN LEGAL SOCIETY
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N. DEFERRED EXPENSES

The amount of Deferred Expenses for the year ended December 31, 2007 totaled \$36,414. This total comes from deferred rent for rent expenses from an operating lease, according to FAS 13.

O. OTHER INCOME

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
Honoria	4,300
Interest Income	7,180
Net Appreciation on Investments	1,105
Other Nonoperating/Royalties	3,023
Program Fees/Lectures	463
Refunds & Cancellations	2,682
Reimbursed Expenses	5,742
Returns & Allowances	4,557
Subtenant Copier Cost	8,555
Subtenant Furniture Cost	143
Subtenant IT Cost	26,468
Subtenant Phone Cost	4,825
Subtenant Leasehold Improvement	81
Subtenant Rent	(691)
AFBO Membership	1,865
Land Receivable Losses	(39,186)
Total	<u>525,613</u>