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EARL CARL INSTITUTE FOR LEGAL AND SOCIAL POLICY, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

DRAFT

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Earl Carl Institute for Legal and Social Policy, Inc.
Houston, Texas

We have audited the accompanying statement of financial position of Earl Carl Institute for Legal and Social Policy, Inc. (a nonprofit organization) as of December 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Earl Carl Institute for Legal and Social Policy, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 Earl Carl Institute for Legal and Social Policy, Inc. as of December 31, 2007, and the changes in its net assets and its cash flows for the then ended in conformity with accounting principles generally accepted in the United States of America.

August 8, 2008

EARL CARL INSTITUTE FOR LEGAL & SOCIAL POLICY, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2007

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ASSETS:

Cash	\$	<u>32,622</u>
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Total Assets	\$	<u>32,622</u>
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NET ASSETS:

Net Assets

Unrestricted	\$	<u>32,622</u>
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Total Net Assets	\$	<u>32,622</u>
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See accompanying notes to the financial statements.

EARL CARL INSTITUTE FOR LEGAL & SOCIAL POLICY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 39,070	\$ 0	\$ 39,070
Net assets released from restrictions	<u> </u>	<u> </u>	<u> </u>
Total Support and Revenue	<u>39,070</u>	<u> </u>	<u>39,070</u>
EXPENSES			
Program services	14,743		14,743
Management & general	<u>350</u>	<u> </u>	<u>350</u>
Total Expenses	<u>15,093</u>	<u> </u>	<u>15,093</u>
Increase (decrease) in net assets	<u>23,977</u>	<u> </u>	<u>23,977</u>
Net assets at beginning of year	<u>8,645</u>	<u> </u>	<u>8,645</u>
Net assets at end of year	<u>\$ 32,622</u>	<u>\$ 0</u>	<u>\$ 32,622</u>

See accompanying notes to the financial statements.

EARL CARL INSTITUTE FOR LEGAL & SOCIAL POLICY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2007

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	<u>Program Services</u>	<u>Management & General</u>	<u>Total</u>
Contractual	\$ 9,833	\$	\$ 9,833
Supplies	1,013		1,013
Professional fees	3,423	250	3,673
Office expenses	154	100	254
Other expenses	<u>320</u>	<u></u>	<u>320</u>
Total Expenses	<u>\$ 14,743</u>	<u>\$ 350</u>	<u>\$ 15,093</u>

See accompanying notes to the financial statements.

EARL CARL INSTITUTE FOR LEGAL & SOCIAL POLICY, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2007

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CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 23,977
Adjustments to reconcile change in net assets to net cash provided (used) for operating activities:	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>23,977</u>
NET INCREASE (DECREASE) IN CASH	<u>23,977</u>
CASH AT BEGINNING OF YEAR	<u>8,645</u>
CASH AT END OF YEAR	<u><u>\$ 32,622</u></u>

See accompanying notes to the financial statements.

EARL CARL INSTITUTE FOR LEGAL AND SOCIAL POLICY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

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A. Organization

Earl Carl Institute for Legal and Social Policy, Inc. was incorporated in the State of Texas on November 13, 1992, under the Texas Non-Profit Corporation Act. On April 14, 1993, the Internal Revenue Service determined that the organization was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

The organization's primary purpose is to solve legal and social problems facing the urban community through scholarship and advocacy.

B. Summary of Significant Accounting Policies

BASIS OF PRESENTATION:

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted; temporarily restricted; and permanently restricted. In addition, the Corporation is required to present a statement of cash flows.

SUPPORT AND REVENUE:

Support and revenue are recorded based on the accrual method.

CASH DONATIONS AND DONATED SERVICES:

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless a substantial number of volunteers have donated their time in connection with the program service and administration of the Organization.

CONTRIBUTIONS:

In accordance with Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

PLEDGES AND ACCOUNTS RECEIVABLE:

Contributions are recognized when the donor makes a promise to give to Earl Carl Institute for Legal and Social Policy, Inc. that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized.

EARL CARL INSTITUTE FOR LEGAL AND SOCIAL POLICY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

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B. Summary of Significant Accounting Policies (continued)

PLEDGES AND ACCOUNTS RECEIVABLE: (continued)

All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

FUNCTIONAL EXPENSES:

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the Organization's multiple function expenditures.

INCOME TAXES:

Earl Carl Institute for Legal and Social Policy, Inc. qualifies as a tax-exempt organization under section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

CASH AND CASH EQUIVALENTS:

Earl Carl Institute for Legal and Social Policy, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash is held in demand accounts at a bank. The account at this institution is insured by the Federal Deposit Insurance Corporation up to \$100,000. Earl Carl Institute for Legal and Social Policy, Inc. has not experienced any losses on such accounts.

ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires Earl Carl Institute for Legal and Social Policy Inc.'s management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.