FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Indian Law Resource Center, Inc.

December 31, 2011 and 2010

Indian Law Resource Center, Inc.

December 31, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Indian Law Resource Center, Inc.
Helena, Montana

We have audited the accompanying statements of financial position of the Indian Law Resource Center, Inc., (the Center) as of December 31, 2011 and 2010 and the related statements of activities, statements of functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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 the Indian Law Resource Center, Inc., as of December 31, 2011 and 2010, and the statements of activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Galusha, Higgins & Galusha, PC

GALUSHA, HIGGINS & GALUSHA, PC
Certified Public Accountants and Advisors

Helena, Montana
April 10, 2012

Indian Law Resource Center, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

CURRENT ASSETS	2011	2010
Cash and cash equivalents	$ 790,178	$ 730,880
Certificates of deposit	49,995	149,995
Current grants receivable (net)	850,000	299,311
Other receivables	2,485	1,425
Prepaid expenses	6,549	15,907
Total current assets	1,699,207	1,197,518
LONG-TERM GRANTS RECEIVABLE (NET)	173,182	-
PROPERTY AND EQUIPMENT - AT COST		
Net depreciable assets	30,309	37,388
OTHER ASSETS		
Deposits	1,325	1,325
Gar Creek Seminole land purchase	420,269	420,269
Investments, restricted	34,626	33,180
Restricted cash	20,543	22,762
Total other assets	476,763	477,536
TOTAL ASSETS	$ 2,379,461	$ 1,712,442

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	2011	2010
Accounts payable	$ 32,991	$ 18,787
Accrued salaries and vacation payable	27,740	32,619
Payroll taxes payable	4,691	13,566
Other accrued expenses	248	-
Total current liabilities	65,670	64,972
NET ASSETS		
Unrestricted	682,262	707,116
Temporarily restricted	1,580,568	889,633
Permanently restricted	50,961	50,721
TOTAL NET ASSETS	2,313,791	1,647,470
TOTAL LIABILITIES AND NET ASSETS	$ 2,379,461	$ 1,712,442

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

Indian Law Resource Center, Inc.

STATEMENT OF ACTIVITIES

for the year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 76,022	$ 9,045	$ 240	$ 85,307
Grants	393,500	1,716,678	-	2,110,178
Bequests and trusts	6,382	-	-	6,382
Conract services	50	-	-	50
Interest	2,606	1,022	-	3,628
Other	2,767	-	-	2,767
Realized and unrealized gains on investments	-	693	-	693
Released from restrictions	1,036,503	(1,036,503)	-	-
Total support and revenue	1,517,830	690,935	240	2,209,005
EXPENSES				
Program services	935,201	-	-	935,201
Management and general	412,596	-	-	412,596
Fund raising	194,887	-	-	194,887
Total expenses	1,542,684	-	-	1,542,684
Increase (decrease) in net assets	(24,854)	690,935	240	666,321
Net assets at beginning of year	707,116	889,633	50,721	1,647,470
Net assets at end of year	$ 682,262	$ 1,580,568	$ 50,961	$ 2,313,791

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

Indian Law Resource Center, Inc.

STATEMENT OF ACTIVITIES

for the year ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 78,357	$ 5,026	$ 2,482	$ 85,865
Grants	783,432	532,285	-	1,315,717
Bequests and trusts	6,690	-	-	6,690
Contract services	-	13,500	-	13,500
Interest	4,094	1,679	-	5,773
Other	30,404	-	-	30,404
Realized and unrealized gains on investments	-	1,483	-	1,483
Released from restrictions	875,358	(875,358)	-	-
Total support and revenue	1,778,335	(321,385)	2,482	1,459,432
EXPENSES				
Program services	960,544	-	-	960,544
Management and general	225,747	-	-	225,747
Fund raising	239,216	-	-	239,216
Total expenses	1,425,507	-	-	1,425,507
Increase in net assets	352,828	(321,385)	2,482	33,925
Net assets at beginning of year	354,288	1,211,018	48,239	1,613,545
Net assets at end of year	$ 707,116	$ 889,633	$ 50,721	$ 1,647,470

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

Indian Law Resource Center, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended December 31, 2011

	Program Services	Supporting Services			
	Total	Management and General	Fund Raising	Total	Total Program Services and Supporting Services
FUNCTIONAL EXPENSES					
Salaries and wages	$ 574,851	$ 106,645	$ 106,533	$ 213,178	$ 788,029
Employee fringe benefits and payroll taxes	144,910	37,939	27,640	65,579	210,489
Contract services	138,288	90,949	32,255	123,204	261,492
Travel	47,059	59,564	2,328	61,892	108,951
Occupancy expense	1,652	51,512	7,577	59,089	60,741
Property and equipment expense	1,675	20,518	5,789	26,307	27,982
Advertising	1,545	1,336	166	1,502	3,047
Dues and registration	2,400	3,305	1,872	5,177	7,577
Duplicating and printing	5,371	1,052	4,056	5,108	10,479
Filing fees and court costs	2	1,471	55	1,526	1,528
Hosting and meals	6,950	3,631	708	4,339	11,289
Insurance	1	1,470	659	2,129	2,130
Miscellaneous	223	1,238	498	1,736	1,959
On-line services	2,068	17,105	353	17,458	19,526
Postage and delivery	2,483	2,124	1,688	3,812	6,295
Staff development	185	87	474	561	746
Subscriptions and books	1,266	1,231	225	1,456	2,722
Supplies	2,741	6,137	1,050	7,187	9,928
Telephone	1,531	5,282	961	6,243	7,774
Totals	$ 935,201	$ 412,596	$ 194,887	$ 607,483	$ 1,542,684

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

Indian Law Resource Center, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended December 31, 2010

	Program Services	Supporting Services			
	Total	Management and General	Fund Raising	Total	Total Program Services and Supporting Services
FUNCTIONAL EXPENSES					
Salaries and wages	$ 529,296	$ 101,095	$ 147,970	$ 249,065	$ 778,361
Employee fringe benefits and payroll taxes	139,939	27,479	39,325	66,804	206,743
Contract services	144,891	21,017	12,003	33,020	177,911
Travel	47,798	34,825	5,568	40,393	88,191
Occupancy expense	32,474	9,346	15,609	24,955	57,429
Property and equipment expense	17,493	3,959	7,512	11,471	28,964
Advertising	-	1,004	158	1,162	1,162
Contribution expense	6,841	-	-	-	6,841
Dues and registration	886	6,476	1,424	7,900	8,786
Duplicating and printing	9,637	644	1,218	1,862	11,499
Filing fees and court costs	350	-	-	-	350
Hosting and meals	2,989	8,928	873	9,801	12,790
Insurance	2,725	1,075	689	1,764	4,489
Miscellaneous	72	377	663	1,040	1,112
On-line services	9,203	3,077	341	3,418	12,621
Postage and delivery	1,885	2,501	2,572	5,073	6,958
Staff development	-	364	-	364	364
Subscriptions and books	1,550	-	314	314	1,864
Supplies	6,305	1,984	1,657	3,641	9,946
Telephone	6,210	1,596	1,320	2,916	9,126
Totals	$ 960,544	$ 225,747	$ 239,216	$ 464,963	$ 1,425,507

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

Indian Law Resource Center, Inc.

STATEMENTS OF CASH FLOWS

for the years ended December 31,

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Increase in net assets	$ 666,321	$ 33,925
Adjustments to reconcile increase in net assets		
to net cash from operating activities		
Depreciation and amortization	12,443	14,356
Gains on investments	(693)	(1,483)
Receipt of permanently restricted net assets	(240)	(2,482)
Change in assets and liabilities		
(Increase) decrease in receivables	(724,931)	183,640
(Increase) decrease in prepaid expenses and deposits	9,358	(7,939)
Increase (decrease) in accounts payable	14,204	6,945
Increase (decrease) in accrued expenses	(4,879)	(17,303)
Increase (decrease) in payroll taxes payable	(8,875)	10,688
Increase (decrease) in other accrued expenses	248	-
Net cash from operating activities	(37,044)	220,347
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from sales of CD's and investments	100,000	260,001
Cash payments for equipment	(5,364)	(3,686)
Cash payments for CD's and investments	(753)	(254,974)
Net cash from investing activities	93,883	1,341
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in restricted cash	2,219	(13,080)
Receipt of permanently restricted net assets	240	2,482
Net cash from financing activities	2,459	(10,598)
NET CHANGE IN CASH	59,298	211,090
Cash balance, January 1,	730,880	519,790
Cash balance, December 31,	$ 790,178	$ 730,880

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Center's significant accounting policies consistently applied in the preparation of the accompanying financial statements:

1. Nature of Activities - The Indian Law Resource Center is a non-profit law and advocacy organization established and directed by Native Americans. The Center provides assistance to tribes and other indigenous peoples in the United States and in Central America and South America, who are working to protect their land, resources, human rights, environment and cultural heritage.

2. Basis of Accounting - The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

3. Financial Statement Presentation - The Center has adopted *Accounting for Contributions Received and Made*, and *Financial Statements of Not-for-Profit Organizations*. The first requires that unconditional promises to give (pledges) be recorded as receivables and revenues. It also requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. The second accounting standard establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

    Unrestricted net assets include assets which are available for general operations of the Center.

    Temporarily restricted net assets include gifts for which donor imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

    Permanently restricted net assets include gifts, trusts, and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

4. Property and Equipment - Furniture, fixtures, and equipment are recorded at cost less accumulated depreciation. Donated assets are recorded at fair market value at the time of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Asset lives range from 5 to 10 years.

5. Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

6. Recognition of Donor Restrictions - The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated 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.

7. Cash and Cash Equivalents - For the purpose of reporting cash flows, cash and cash equivalents include money market accounts and any highly liquid debt instruments that mature in three months or less.

8. Grants Receivable - For the purposes of recording grants receivable a present value factor is applied to arrive at the amounts reported. See Note C for further information. The Center considers grants receivable fully collectible; accordingly, no allowance for uncollectible grants has been provided.

9. Investments - The Center has adopted *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under this standard, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in unrestricted net assets unless the income or loss is restricted by donor or law.

10. General and Administrative Expenses - General and administrative expenses which are not directly chargeable to specific projects are reported as supporting services - management and general.

11. Advertising - The Center uses advertising to encourage contributions and to announce employment opportunities. The production costs of advertising are expensed as incurred. During 2011 and 2010, advertising costs totaled $3,047 and $1,162, respectively.

12. Income Taxes - The Center was incorporated on April 5, 1978 in Washington, D.C. pursuant to the D.C. non-profit corporation act and is exempt from federal taxation under Section 501 (c) (3) of the Internal Revenue Code. It is a publicly supported non-profit organization that is not a private foundation under Section 509 (a) (2) of Internal Revenue Code and qualifies for the 50% charitable contributions deduction for individual donors. The Center is also exempt from D.C. Corporate Franchise Tax. The Center conducts programs of public education and legal representation on issues concerning Indian peoples worldwide. It has offices in Washington D.C. and Helena, Montana.

    As a matter of law, Indian Law Resource Center, Inc. is subject to examination by federal and state taxing authorities for the 2008 through 2011 tax years. Although management believes that the amounts reflected in their tax returns substantially complies with the applicable federal and state tax regulations, both the IRS and the various state taxing authorities can take positions contrary to their position based on IRS interpretation of the law. A tax position that is challenged by a taxing authority could result in an adjustment, which would be recorded in the year assessed on the statement of activities.

Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

13. Compensated Absences - The Center accrues a liability for earned but unused vacation benefits.

14. Subsequent Events - Management has performed an analysis of the activities and transactions subsequent to December 31, 2011 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2011. Management has performed this analysis through April 10, 2012, the date the financial statements were available to be issued.

NOTE B - CONCENTRATION OF CREDIT RISK

The Center has cash on deposit at D.A. Davidson of $232,526 in 2011 and $131,742 in 2010. Accounts at D.A. Davidson are insured by the Securities Investor Protection Corporation up to $500,000. This figure includes a maximum of $100,000 on claims for cash. During 2009, the Center elected to place their cash at D.A. Davidson in the bank insured deposit program which covers cash balances up to the FDIC limit of $250,000. At December 31, 2011 and 2010, the Center had no uninsured cash at D.A. Davidson.

The Center had cash on deposit at Valley Bank of $480,139 in 2011 and $428,702 in 2010. All accounts, with the exception of non-interest bearing transaction accounts, at Valley Bank were insured by the FDIC up to $250,000 during 2011 and 2010. Non-interest bearing transaction accounts at Valley Bank were fully insured during 2011 and 2010. At December 31, 2011 and 2010, the Center had no uninsured cash at Valley Bank.

NOTE C - GRANTS RECEIVABLE

	2011	2010
Within one year	$ 850,000	$ 300,000
Less: Discounts for the time-value of money	-	(689)
Amount on statement of financial position	$ 850,000	$ 299,311
Due in one to five years	$ 175,000	$ -
Less: Discounts for the time-value of money	(1,818)	-
Amount on statement of financial position	$ 173,182	$ -
Grants receivable:		
Current portion	$ 850,000	$ 299,311
Long-term portion	173,182	-
Total	$1,023,182	$ 299,311

Continued

NOTE D - PROPERTY AND EQUIPMENT, NET

A summary of property and equipment is as follows:

	2011	2010
Furniture and fixtures	$ 25,923	$ 25,923
Office equipment	79,177	73,813
Research library	28,787	28,787
Leasehold improvements	5,331	5,331
	139,218	133,854
Accumulated depreciation	(108,909)	(96,466)
Net property and equipment	$ 30,309	$ 37,388

NOTE E - GAR CREEK SEMINOLE LAND PURCHASE

The Center began work in 1998 to assist the Gar Creek Seminoles of Oklahoma in acquiring land for use for their cultural preservation and ceremonial purposes. To this end, 590 acres in Seminole County, Oklahoma were purchased with a grant from Lannan Foundation. A new non-profit corporation is being formed to which the land will be transferred.

NOTE F - INVESTMENTS

Investments are carried at fair market value. Investments for the years ending December 31, 2011 and 2010 are as follows:

	2011		2010	
	Cost	Fair Market Value	Cost	Fair Market Value
Mutual Funds	$ 36,690	$ 34,626	$ 35,936	$ 33,180

Continued

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets result from inflows whose use is restricted by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by action of the organization.

	2011	2010
Atlantic Philanthropies	$ 361,694	$ -
Bay and Paul Foundation	12,500	-
Cinnabar Foundation	-	5,072
Contract Services	-	13,500
Contributions	3,795	5,026
CS Mott Foundation	19,080	82,148
Ford Foundation	515,526	227,206
Haundenosaunee Central Fund	55,200	55,200
Indian Land Tenure Foundation	-	12,593
Jay Kenney Foundation	7,000	8,500
Lannan Foundation	15,445	16,558
Lannan Foundation (Seminole Land Purchase)	420,269	420,269
Mitsubishi Foundation	142,455	-
Philanthropic Collaborative	20,627	27,464
Tides Foundation	-	2,018
True North Foundation	-	8,817
Interest on Endowment	6,977	5,262
	$ 1,580,568	$ 889,633

Continued

NOTE G - TEMPORARILY RESTRICTED NET ASSETS, continued

Net assets released from restrictions by incurring expenses satisfying the purpose specified are as follows:

	2011	2010
Atlantic Philanthropies	$ 136,998	$ -
Bay and Paul Foundation	-	12,500
C.S. Mott Foundation	63,564	83,734
Cinnabar Foundation	5,072	6,217
Contract Services	13,500	13,500
Contributions	10,776	-
Fidelity Charitable Gift Fund	-	5,000
Ford Foundation	686,680	686,750
Indian Land Tenure Foundation	12,593	2,407
Jay Kenney Foundation	1,500	500
Lannan Foundation	1,113	28,301
Mitsubishi Foundation	7,035	-
Oak Foundation (Regranting)	-	6,650
OneFamily Foundation	7,000	12,348
Overbrook Foundation	35,000	-
Peace Development	3,000	-
Philanthropic Collaborative	6,837	2,536
San Manuel Band of Mission Indians	-	2,000
Swift Foundation	35,000	-
Tides Foundation	2,018	6,732
True North Foundation	8,817	6,183
	$ 1,036,503	$ 875,358

NOTE H - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets result from inflows whose use is restricted by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled by actions of the organization.

In 2000, the Center's Board of Directors established a permanent endowment fund. As of December 31, 2011 and 2010, this fund has a permanently restricted balance of $50,961 and $50,721, respectively. See note O for more detail.

Continued

NOTE I - COMMITMENTS

1. Office Lease

The Center has the following lease agreements for office space:

Washington, DC - The Center entered into a three-year lease beginning July 1, 2008 and extending until June 30, 2011. Since June 30, 2011 the office has been rented on a month to month basis. The rent is $2,400 per month. There were no future minimum lease payments as of December 31, 2011.

Helena, Montana - The Center leases space under a five-year lease which expires April 30, 2015. The current rent is approximately $1,174 per month. As more fully described in Note K, the lease is with the Center's executive director.

2. Copier Lease

The Center is leasing a copier from Wells Fargo Bank. It is a 60-month lease beginning February 8, 2007 for $134 per month.

Future minimum lease payments on the copier lease are $134, all due in 2012, as of December 31, 2011.

NOTE J - ALLOCATION OF MANAGEMENT AND GENERAL EXPENSES

The Center allocates general and administrative expenses to its programs in order to accurately account for program costs. The allocation is based on direct expenses and direct time incurred by each program and has been allocated as follows for the year ended December 31:

	2011		
	Direct Operating Expenses	Management and General Expenses	Total
Program services	$ 935,201	$ 369,952	$ 1,305,153
Fundraising	194,887	42,644	237,531
Total expenses	$ 1,130,088	$ 412,596	$ 1,542,684

	2010		
	Direct Operating Expenses	Management and General Expenses	Total
Program services	$ 960,544	$ 180,292	$ 1,140,836
Fundraising	239,216	45,455	284,671
Total expenses	$ 1,199,760	$ 225,747	$ 1,425,507

Continued

NOTE K - RELATED PARTY TRANSACTIONS

Beginning May 15, 1995, the Center entered into a five-year lease to rent its Helena, Montana office space from related-party owners, the Center's executive director and his spouse. The lease was renewed for additional five-year terms beginning May 1, 2000 and May 1, 2005. Terms of the lease state that "the annual rent shall not exceed the total of principal, interest, taxes and insurance that is payable by Lessors each year." Thus, the rent amount is adjusted each year to reflect changes in these items. However, to limit the potential liability to the Center, the lease also sets a maximum monthly rent amount of $1,667. In 2011 and 2010, the Center paid an equivalent of $1,174 and $1,168 per month, respectively.

Future minimum lease payments are as follows as of December 31, 2011, assuming annual renewals going forward.

2012	$ 14,086
2013	14,086
2014	14,086
2015	4,696
Total	$ 46,954

NOTE L - PENSION PLAN

In July 1991, the Center started a defined contribution retirement plan. For the years ended December 31, 2011 and 2010, the Center contributed 7.0% of compensation of those eligible to participate in the plan. Total contributions for 2011 and 2010 were $40,587 and $40,024, respectively.

NOTE M - CHARITABLE REMAINDER ANNUITY TRUST

In October 1998, the Indian Law Resource Center was designated the beneficiary of a charitable remainder annuity trust in the amount of $100,000. As a condition of the trust, assets of the trust are owned by the Montana Community Foundation. In January 1999, the Center received a second trust from the same donor, also in the amount of $100,000. During 2002, the donor of the two trusts passed away. As established in the original trust agreements, the principal of the two trusts was then transferred to the Indian Law Resource Center Endowment at the Montana Community Foundation. As of December 31, 2011 and 2010, the principal balance of the Endowment was $164,551 and $177,856, respectively. The endowment is not carried as an asset on the statement of financial position since the Center does not have variance power over the endowment.

NOTE N - FAIR VALUE MEASUREMENTS

Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this standard are described as follows:

Continued

NOTE N - FAIR VALUE MEASUREMENTS, continued

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.
Level 2	Inputs to the valuation methodology include: - quoted prices for similar assets or liabilities in active markets; - quoted prices for identical or similar assets or liabilities in inactive markets; - inputs other than quoted prices that are observable for the asset or liability; - inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Grants Receivables: Valued at the amount of actual cash flows expected to be received by the Center discounted to present value.

Investments: Valued at quoted market prices for those investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Continued

NOTE N - FAIR VALUE MEASUREMENTS, continued

The following tables sets forth by level, within the fair value hierarchy, the Center's assets at fair value:

	Assets at Fair Value as of December 31, 2011:			
	Level 1	Level 2	Level 3	Total
Grants receivable	$ -	$ -	$ 173,182	$ 173,182
Investments	34,626	-	-	34,626
	$ 34,626	$ -	$ 173,182	$ 207,808

	Assets at Fair Value as of December 31, 2010:			
	Level 1	Level 2	Level 3	Total
Grants receivable	$ -	$ -	$ 299,311	$ 299,311
Investments	33,180	-	-	33,180
	$ 33,180	$ -	$ 299,311	$ 332,491

The following is a reconciliation of the beginning and ending balances for grants receivable measured at fair value on a non-reoccurring basis using significant unobservable inputs (Level 3) during the period ended December 31, 2010:

Balance, beginning of year	$ 299,311
Present value discount recognized as grant revenue	689
Payments received on outstanding grants receivable	(300,000)
Amounts recorded as long-term receivable during the year	175,000
Present value discount on amounts recorded as receivable	(1,818)
Balance, end of year	$ 173,182

NOTE O - ENDOWMENT NET ASSETS

The endowment consists of numerous individual funds established for a variety of purposes. The Center's endowment includes both donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

Continued

NOTE O - ENDOWMENT NET ASSETS, continued

Interpretation of Relevant Law

The Board of Directors of the Center has interpreted the Montana Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of the prudence prescribed by the MUPMIFA. In accordance with the MUPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Center and the donor-restricted endowment fund;
3. General economic conditions;
4. The expected total return from income and the appreciation of investments;
5. Other resources of the Center; and
6. The investment policies of the Center.

Continued

NOTE O - ENDOWMENT NET ASSETS, continued

Change in net asset composition by type of fund for the years ended December 31, 2011 and 2010 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2010	$ 2,100	$ 48,239	$ 50,339
Investment return:			
Investment income	1,679	-	1,679
Net appreciation (depreciation)	1,483	-	1,483
Total investment return	3,162	-	3,162
Contributions	-	2,482	2,482
Endowment net assets, December 31, 2010	$ 5,262	$ 50,721	$ 55,983
Investment return:			
Investment income	1,022	-	1,022
Net appreciation (depreciation)	693	-	693
Total investment return	1,715	-	1,715
Contributions	-	240	240
Endowment net assets, December 31, 2011	$ 6,977	$ 50,961	$ 57,938

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or MUPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature would be reported in unrestricted net assets. There were no such deficiencies as of December 31, 2011 or 2010.

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

Continued

NOTE O - ENDOWMENT NET ASSETS, continued

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve endowment capital. Funds shall be invested such that no less than 50% and no more than 70% of such funds shall be invested in equities, with the balance invested in fixed income securities, while assuming a moderate level of investment risk. The Center expects its endowment funds, over time, to provide a reasonable current rate of return.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Center targets a diversified asset allocation including cash equivalents, fixed income, and equity securities to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How Investment Objectives Relate to Spending Policy

The Center has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 3 years through the calendar year-end preceding the fiscal year in which the distribution is planned, assuming this does not result in withdrawal of principle. In establishing this policy, The Center considered the long-term expected return on its endowment. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Concluded