

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Indian Law Resource Center, Inc.

December 31, 2012 and 2011

Indian Law Resource Center, Inc.

December 31, 2012 and 2011

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GALUSHA
HIGGINS
& GALUSHA^{PC}
EST. 1919

A PROFESSIONAL CORPORATION OF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

910 N. Last Chance Gulch, Helena, MT 59601
P.O. Box 1699, Helena, MT 59624

Phone (406) 442-5520
Fax (406)-443-1017

www.ghg-cpa.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Indian Law Resource Center, Inc., which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

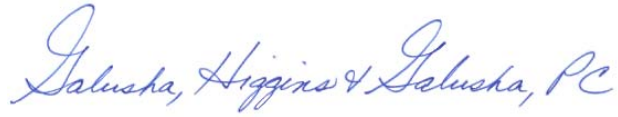
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Indian Law Resource Center, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Galusha, Higgins & Galusha, PC". The signature is written in a cursive, flowing style.

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

Helena, Montana
April 5, 2013

Indian Law Resource Center, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31,

ASSETS		
CURRENT ASSETS	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 514,106	\$ 790,178
Certificates of deposit	50,000	49,995
Current grants receivable (net)	423,957	850,000
Other receivables	4,405	2,485
Prepaid expenses	18,122	6,549
Total current assets	<u>1,010,590</u>	<u>1,699,207</u>
 LONG-TERM GRANTS RECEIVABLE (NET)	 -	 173,182
 PROPERTY AND EQUIPMENT - AT COST		
Net depreciable assets	21,032	30,309
 OTHER ASSETS		
Deposits	1,325	1,325
Gar Creek Seminole land purchase	420,269	420,269
Investments, restricted	37,350	34,626
Restricted cash	27,324	20,543
Total other assets	<u>486,268</u>	<u>476,763</u>
TOTAL ASSETS	<u><u>\$ 1,517,890</u></u>	<u><u>\$ 2,379,461</u></u>
LIABILITIES AND NET ASSETS		
 CURRENT LIABILITIES		
Accounts payable	\$ 19,861	\$ 32,991
Accrued salaries and vacation payable	32,822	27,740
Payroll taxes payable	5,427	4,691
Other accrued expenses	-	248
Total current liabilities	<u>58,110</u>	<u>65,670</u>
 NET ASSETS		
Unrestricted	230,261	682,262
Temporarily restricted	1,173,752	1,580,568
Permanently restricted	55,767	50,961
Total net assets	<u>1,459,780</u>	<u>2,313,791</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,517,890</u></u>	<u><u>\$ 2,379,461</u></u>

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, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 75,183	\$ -	\$ 4,806	\$ 79,989
Grants	372,873	335,926	-	708,799
Bequests and trusts	6,667	-	-	6,667
Interest	1,552	910	-	2,462
Other	3,267	-	-	3,267
Realized and unrealized gains on investments	548	2,095	-	2,643
Released from restrictions	745,747	(745,747)	-	-
Total support and revenue	<u>1,205,837</u>	<u>(406,816)</u>	<u>4,806</u>	<u>803,827</u>
EXPENSES				
Program services	998,121	-	-	998,121
Management and general	478,712	-	-	478,712
Fund raising	181,005	-	-	181,005
Total expenses	<u>1,657,838</u>	<u>-</u>	<u>-</u>	<u>1,657,838</u>
Change in net assets	<u>(452,001)</u>	<u>(406,816)</u>	<u>4,806</u>	<u>(854,011)</u>
Net assets at beginning of year	<u>682,262</u>	<u>1,580,568</u>	<u>50,961</u>	<u>2,313,791</u>
Net assets at end of year	<u>\$ 230,261</u>	<u>\$ 1,173,752</u>	<u>\$ 55,767</u>	<u>\$ 1,459,780</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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
Contract 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	<u>1,517,830</u>	<u>690,935</u>	<u>240</u>	<u>2,209,005</u>
EXPENSES				
Program services	935,201	-	-	935,201
Management and general	412,596	-	-	412,596
Fund raising	194,887	-	-	194,887
Total expenses	<u>1,542,684</u>	<u>-</u>	<u>-</u>	<u>1,542,684</u>
Change in net assets	(24,854)	690,935	240	666,321
Net assets at beginning of year	<u>707,116</u>	<u>889,633</u>	<u>50,721</u>	<u>1,647,470</u>
Net assets at end of year	<u>\$ 682,262</u>	<u>\$ 1,580,568</u>	<u>\$ 50,961</u>	<u>\$ 2,313,791</u>

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, 2012

	Program	Supporting Services			Total Program Services and Supporting Services
	Services	Management	Fund	Total	
	Total	and General	Raising	Total	
FUNCTIONAL EXPENSES					
Salaries and wages	\$ 624,850	\$ 179,728	\$ 105,306	\$ 285,034	\$ 909,884
Employee fringe benefits and payroll taxes	140,668	76,052	25,554	101,606	242,274
Contract services	137,285	44,427	25,188	69,615	206,900
Travel	49,568	46,152	9,528	55,680	105,248
Occupancy expense	-	56,125	-	56,125	56,125
Hosting and meals	12,807	9,930	1,436	11,366	24,173
On-line services	10,284	9,143	1,162	10,305	20,589
Property and equipment expense	700	19,832	-	19,832	20,532
Duplicating and printing	10,500	706	5,689	6,395	16,895
Supplies	3,989	10,557	56	10,613	14,602
Telephone	1,931	9,438	246	9,684	11,615
Dues and registration	780	5,842	1,709	7,551	8,331
Postage and delivery	2,552	2,068	1,818	3,886	6,438
Insurance	-	4,928	-	4,928	4,928
Subscriptions and books	1,825	172	2,666	2,838	4,663
Miscellaneous	166	1,967	612	2,579	2,745
Staff development	-	1,645	-	1,645	1,645
Advertising	216	-	35	35	251
Totals	<u>\$ 998,121</u>	<u>\$ 478,712</u>	<u>\$ 181,005</u>	<u>\$ 659,717</u>	<u>\$ 1,657,838</u>

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

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,

	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ (854,011)	\$ 666,321
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	11,863	12,443
Gains on investments	(2,643)	(693)
Receipt of permanently restricted net assets	(4,806)	(240)
Change in assets and liabilities		
(Increase) decrease in receivables	597,305	(724,931)
(Increase) decrease in prepaid expenses and deposits	(11,573)	9,358
Increase (decrease) in accounts payable	(13,130)	14,204
Increase (decrease) in accrued expenses	5,082	(4,879)
Increase (decrease) in payroll taxes payable	736	(8,875)
Increase (decrease) in other accrued expenses	(248)	248
Net cash from operating activities	<u>(271,425)</u>	<u>(37,044)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from sales of CD's and investments	-	100,000
Cash payments for equipment	(2,586)	(5,364)
Cash payments for CD's and investments	(86)	(753)
Net cash from investing activities	<u>(2,672)</u>	<u>93,883</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in restricted cash	(6,781)	2,219
Receipt of permanently restricted net assets	4,806	240
Net cash from financing activities	<u>(1,975)</u>	<u>2,459</u>
NET CHANGE IN CASH	<u>(276,072)</u>	<u>59,298</u>
Cash balance, January 1	<u>790,178</u>	<u>730,880</u>
Cash balance, December 31	<u>\$ 514,106</u>	<u>\$ 790,178</u>

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

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 in excess of \$500 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

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 2012 and 2011, advertising costs totaled \$251 and \$3,047, 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 2009 through 2012 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

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2012 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2012. Management has performed this analysis through April 5, 2013, 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 \$239,974 in 2012 and \$232,526 in 2011. 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, 2012 and 2011, the Center had no uninsured cash at D.A. Davidson.

The Center had cash on deposit at Valley Bank of \$191,031 in 2012 and \$480,139 in 2011. 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.

NOTE C - GRANTS RECEIVABLE

	2012	2011
Within one year	\$ 425,000	\$ 850,000
Less: Discounts for the time-value of money	(1,043)	-
Amount on statement of financial position	<u>\$ 423,957</u>	<u>\$ 850,000</u>
Due in one to five years	\$ -	\$ 175,000
Less: Discounts for the time-value of money	-	(1,818)
Amount on statement of financial position	<u>\$ -</u>	<u>\$ 173,182</u>
Grants receivable:		
Current portion	\$ 423,957	\$ 850,000
Long-term portion	-	173,182
Total	<u>\$ 423,957</u>	<u>\$ 1,023,182</u>

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE D - PROPERTY AND EQUIPMENT, NET

A summary of property and equipment is as follows:

	2012	2011
Furniture and fixtures	\$ 25,923	\$ 25,923
Office equipment	81,762	79,177
Research library	28,787	28,787
Leasehold improvements	5,331	5,331
	<u>141,803</u>	<u>139,218</u>
Accumulated depreciation	<u>(120,771)</u>	<u>(108,909)</u>
Net property and equipment	<u>\$ 21,032</u>	<u>\$ 30,309</u>

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, 2012 and 2011 are as follows:

	2012		2011	
	Cost	Fair Market Value	Cost	Fair Market Value
Mutual Funds	<u>\$ 36,771</u>	<u>\$ 37,350</u>	<u>\$ 36,690</u>	<u>\$ 34,626</u>

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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.

	<u>2012</u>	<u>2011</u>
Atlantic Philanthropies	\$ 230,658	\$ 361,694
Bay and Paul Foundation	-	12,500
Contributions	-	3,795
CS Mott Foundation	75,000	19,080
Ford Foundation	225,000	-
Ford Foundation	40,428	515,526
Ford Land Law	79,292	-
Haundenosaunee Central Fund	55,200	55,200
Jay Kenney Foundation	-	7,000
Lannan Foundation	8,066	15,445
Lannan Foundation (Seminole Land Purchase)	420,269	420,269
Mitsubishi Foundation	30,932	142,455
Philanthropic Collaborative	-	20,627
Interest on Endowment	8,907	6,977
	<u>\$ 1,173,752</u>	<u>\$ 1,580,568</u>

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE G - TEMPORARILY RESTRICTED NET ASSETS, continued

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

	2012	2011
Atlantic Philanthropies	\$ 131,036	\$ 136,998
Bay and Paul Foundation	12,500	-
C.S. Mott Foundation	19,080	63,564
Cinnabar Foundation	-	5,072
Contract Services	-	13,500
Contributions	3,795	10,776
Ford Foundation	396,732	686,680
Indian Land Tenure Foundation	-	12,593
Jay Kenney Foundation	7,000	1,500
Lannan Foundation	7,379	1,113
Mitsubishi Foundation	111,523	7,035
OneFamily Foundation	-	7,000
Overbrook Foundation	35,000	35,000
Peace Development	-	3,000
Philanthropic Collaborative	20,627	6,837
Swift Foundation	-	35,000
Tides Foundation	-	2,018
True North Foundation	-	8,817
Interest on Endowment	1,075	-
	<u>\$ 745,747</u>	<u>\$ 1,036,503</u>

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, 2012 and 2011, this fund has a permanently restricted balance of \$55,767 and \$50,961, respectively. See note O for more detail.

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 \$2,500 per month. There were no future minimum lease payments as of December 31, 2012.

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, 2012.

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:

	2012		
	Direct Operating Expenses	Management and General Expenses	Total
Program services	\$ 998,121	\$ 405,226	\$ 1,403,347
Fundraising	181,005	73,486	254,491
Total expenses	<u>\$ 1,179,126</u>	<u>\$ 478,712</u>	<u>\$ 1,657,838</u>

	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	<u>\$ 1,130,088</u>	<u>\$ 412,596</u>	<u>\$ 1,542,684</u>

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 2012 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, 2012, assuming annual renewals going forward.

2013	\$ 14,086
2014	14,086
2015	4,696
Total	<u>\$ 32,868</u>

NOTE L - PENSION PLAN

In July 1991, the Center started a defined contribution retirement plan. For the years ended December 31, 2012 and 2011, the Center contributed 7.0% of compensation of those eligible to participate in the plan. Total contributions for 2012 and 2011 were \$44,283 and \$35,090, 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, 2012 and 2011, the principal balance of the Endowment was \$173,050 and \$164,551, 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

The Financial Accounting Standards Board, FASB, 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 the framework are described as follows:

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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 plan 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 active 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.

Investments: Mutual Funds 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

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

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, 2012:				
	Level 1	Level 2	Level 3	Total
Investments	\$ 37,350	\$ -	\$ -	\$ 37,350
	<u>\$ 37,350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,350</u>

Assets at Fair Value as of December 31, 2011:				
	Level 1	Level 2	Level 3	Total
Investments	\$ 34,626	\$ -	\$ -	\$ 34,626
	<u>\$ 34,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,626</u>

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.

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.

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE O - ENDOWMENT NET ASSETS, continued

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.

Change in net asset composition by type of fund for the years ended December 31, 2012 and 2011 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
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
Investment return:			
Investment income	910	-	910
Net appreciation (depreciation)	2,095	-	2,095
Total investment return	3,005	-	3,005
Contributions	-	4,806	4,806
Released from restriction	(1,075)	-	(1,075)
Endowment net assets, December 31, 2012	\$ 8,907	\$ 55,767	\$ 64,674

Continued

Indian Law Resource Center, Inc.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE O - ENDOWMENT NET ASSETS, continued

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, 2012 or 2011.

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.

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