FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Indian Law Resource Center, Inc.

December 31, 2013 and 2012

Indian Law Resource Center, Inc.

December 31, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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.

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Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Other Programs' Functional Support, Revenue and Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Galusha, Higgins & Galusha, PC

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

Helena, Montana
March 28, 2014

Indian Law Resource Center, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 742,793	$ 514,106
Certificates of deposit	50,000	50,000
Current grants receivable (net)	80,000	423,957
Other receivables	6,508	4,405
Prepaid expenses	12,849	18,122
Total current assets	892,150	1,010,590
PROPERTY AND EQUIPMENT - AT COST		
Net depreciable assets	15,883	21,032
OTHER ASSETS		
Deposits	1,325	1,325
Gar Creek Seminole land purchase	420,269	420,269
Investments, restricted	40,361	37,350
Restricted cash	30,352	27,324
Total other assets	492,307	486,268
TOTAL ASSETS	$ 1,400,340	$ 1,517,890

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Accounts payable	$ 26,439	$ 19,861
Accrued salaries and vacation payable	40,360	32,822
Payroll taxes payable	510	5,427
Total current liabilities	67,309	58,110
NET ASSETS		
Unrestricted	72,236	230,261
Temporarily restricted	702,928	1,173,752
Permanently restricted	557,867	55,767
Total net assets	1,333,031	1,459,780
TOTAL LIABILITIES AND NET ASSETS	$ 1,400,340	$ 1,517,890

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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 79,849	$ -	$ 2,100	$ 81,949
Grants	342,293	574,500	500,000	1,416,793
Bequests and trusts	6,946	-	-	6,946
Interest	1,011	1,321	-	2,332
Other	13,460	-	-	13,460
Realized and unrealized gains (losses) on investments	(3)	2,550	-	2,547
Loss on disposal of asset	(1,332)	-	-	(1,332)
Released from restrictions	1,049,195	(1,049,195)	-	-
Total support and revenue	1,491,419	(470,824)	502,100	1,522,695
EXPENSES				
Program services	1,068,169	-	-	1,068,169
Management and general	403,846	-	-	403,846
Fund raising	177,429	-	-	177,429
Total expenses	1,649,444	-	-	1,649,444
Change in net assets	(158,025)	(470,824)	502,100	(126,749)
Net assets at beginning of year	230,261	1,173,752	55,767	1,459,780
Net assets at end of year	$ 72,236	$ 702,928	$557,867	$ 1,333,031

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	1,205,837	(406,816)	4,806	803,827
EXPENSES				
Program services	998,121	-	-	998,121
Management and general	478,712	-	-	478,712
Fund raising	181,005	-	-	181,005
Total expenses	1,657,838	-	-	1,657,838
Change in net assets	(452,001)	(406,816)	4,806	(854,011)
Net assets at beginning of year	682,262	1,580,568	50,961	2,313,791
Net assets at end of year	$ 230,261	$ 1,173,752	$ 55,767	$ 1,459,780

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, 2013

	Program Services	Supporting Services			
	Total	Management and General	Fund Raising	Total	Total Program Services and Supporting Services
FUNCTIONAL EXPENSES					
Salaries and wages	$ 588,698	$ 174,255	$ 121,755	$296,010	$ 884,708
Employee fringe benefits and payroll taxes	171,115	45,446	35,561	81,007	252,122
Contract services	183,780	25,795	3,682	29,477	213,257
Travel	64,398	38,316	1,682	39,998	104,396
Occupancy expense	678	57,144	-	57,144	57,822
Hosting and meals	12,774	5,988	291	6,279	19,053
On-line services	20,526	582	3,429	4,011	24,537
Property and equipment expense	-	27,677	-	27,677	27,677
Duplicating and printing	7,599	195	6,238	6,433	14,032
Supplies	2,028	8,608	112	8,720	10,748
Telephone	3,555	11,018	134	11,152	14,707
Dues and registration	4,031	2,676	1,810	4,486	8,517
Postage and delivery	2,545	990	1,161	2,151	4,696
Insurance	3,336	2,469	-	2,469	5,805
Subscriptions and books	1,586	-	63	63	1,649
Miscellaneous	509	1,757	229	1,986	2,495
Staff development	861	930	1,282	2,212	3,073
Advertising	150	-	-	-	150
Totals	$1,068,169	$ 403,846	$ 177,429	$581,275	$ 1,649,444

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 Services	Supporting Services			
	Total	Management and General	Fund Raising	Total	Total Program Services and Supporting Services
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	$ 998,121	$ 478,712	$ 181,005	$659,717	$ 1,657,838

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,

	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	$ (126,749)	$ (854,011)
Adjustments to reconcile change in net assets		
to net cash from operating activities		
Depreciation and amortization	9,942	11,863
Gains on investments	(2,547)	(2,643)
Loss on disposal of equipment	1,332	-
Receipt of permanently restricted net assets	(502,100)	(4,806)
Change in assets and liabilities		
(Increase) decrease in receivables	341,854	597,305
(Increase) decrease in prepaid expenses and deposits	5,273	(11,573)
Increase (decrease) in accounts payable	6,578	(13,130)
Increase (decrease) in accrued expenses	7,538	5,082
Increase (decrease) in payroll taxes payable	(4,917)	736
Increase (decrease) in other accrued expenses	-	(248)
Net cash from operating activities	(263,796)	(271,425)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash payments for equipment	(6,125)	(2,586)
Cash payments for CD's and investments	(464)	(86)
Net cash from investing activities	(6,589)	(2,672)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in restricted cash	(3,028)	(6,781)
Receipt of permanently restricted net assets	502,100	4,806
Net cash from financing activities	499,072	(1,975)
NET CHANGE IN CASH	228,687	(276,072)
Cash balance, January 1	514,106	790,178
Cash balance, December 31	$ 742,793	$ 514,106

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 Indian Law Resource Center's significant accounting policies consistently applied in the preparation of the accompanying financial statements:

1. Nature of Activities - The Indian Law Resource Center (the 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

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 2013 and 2012, advertising costs totaled $150 and $251, 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 2010 through 2013 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, 2013 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2013. Management has performed this analysis through March 28, 2014, 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 $243,197 in 2013 and $239,974 in 2012. 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. 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, 2013 and 2012, the Center had no uninsured cash at D.A. Davidson.

The Center had cash on deposit at Valley Bank of $528,816 in 2013 and $191,031 in 2012. All accounts at Valley Bank were insured by the FDIC up to $250,000 during 2013 and 2012. Valley Bank held uninsured balances of $278,816 and $0 for the periods ending December 31, 2013 and 2012, respectively.

NOTE C - GRANTS RECEIVABLE

	2013	2012
Within one year	$ 80,000	$ 425,000
Less: Discounts for the time-value of money	-	(1,043)
Amount on statement of financial position	$ 80,000	$ 423,957
Grants receivable:		
Current portion	$ 80,000	$ 423,957
Total	$ 80,000	$ 423,957

Continued

NOTE D - PROPERTY AND EQUIPMENT, NET

A summary of property and equipment is as follows:

	2013	2012
Furniture and fixtures	$ 25,923	$ 25,923
Office equipment	79,003	81,762
Research library	28,787	28,787
Leasehold improvements	5,331	5,331
	139,044	141,803
Accumulated depreciation	(123,161)	(120,771)
Net property and equipment	$ 15,883	$ 21,032

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, 2013 and 2012 are as follows:

	2013		2012	
	Cost	Fair Market Value	Cost	Fair Market Value
Mutual Funds	$ 37,235	$ 40,361	$ 36,771	$ 37,350

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.

	2013	2012
Atlantic Philanthropies	$ 44,208	$ 230,658
CS Mott Foundation	-	75,000
Debley Inc.	4,000	-
Ford Foundation	-	225,000
Ford Foundation	80,000	40,428
Ford Land Law	13,407	79,292
Haundenosaunee Central Fund	55,200	55,200
Lannan Foundation	73,066	8,066
Lannan Foundation (Seminole Land Purchase)	420,269	420,269
Mitsubishi Foundation	-	30,932
Interest on Endowment	12,778	8,907
	$ 702,928	$ 1,173,752

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

	2013	2012
Atlantic Philanthropies	$ 186,450	$ 131,036
Bay and Paul Foundation	-	12,500
Christensen Foundation	50,000	-
C.S. Mott Foundation	75,000	19,080
Contributions		3,795
Ford Foundation	651,313	396,732
Jay Kenney Foundation	-	7,000
Lannan Foundation	-	7,379
Mitsubishi Foundation	30,932	111,523
OneFamily Foundation	5,500	-
Overbrook Foundation	35,000	35,000
Philanthropic Collaborative	-	20,627
US Human Rights Fund	15,000	-
Interest on Endowment	-	1,075
	$ 1,049,195	$ 745,747

Continued

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, 2013 and 2012, this fund has a permanently restricted balance of $557,867 and $55,767, respectively. See note O for more detail.

In 2013, the center received a grant from the Ford Foundation of $500,000 for an operating reserve fund, which is required to be classified as permanently restricted net assets. Funds are available for a forty month period starting September 1, 2013 and can be withdrawn for operational expenses. However, when funds are withdrawn from the reserve, a plan for repayment of the funds is established. At the end of the grant term, the grant could remain restricted indefinitely, the restriction could be removed, or the grant could revert back to the Ford Foundation, at the discretion of the Foundation.

NOTE I - COMMITMENTS

The Center has the following lease agreements for office space:

Washington, DC - The Center entered into a three-year lease beginning June 1, 2012 and extending until May 31, 2015. The rent is $2,500 per month. The future minimum lease payments are as follows:

2014	$ 30,000
2015	12,500
Total	$ 42,500

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.

Continued

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:

	2013		
	Direct Operating Expenses	Management and General Expenses	Total
Program services	$ 1,068,169	$ 346,320	$ 1,414,489
Fundraising	177,429	57,526	234,955
Total expenses	$ 1,245,598	$ 403,846	$ 1,649,444

	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	$ 1,179,126	$ 478,712	$ 1,657,838

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 2013 and 2012, the Center paid $1,174 and $1,168 per month, respectively.

Future minimum lease payments are as follows as of December 31, 2013, assuming annual renewals going forward.

2014	$ 14,086
2015	4,696
Total	$ 18,782

Continued

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 2013 and 2012 were $52,418 and $44,283, 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, 2013 and 2012, the principal balance of the Endowment was $197,322 and $173,050, 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:

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.

Continued

NOTE N - FAIR VALUE MEASUREMENTS, continued

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.

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, 2013:			
	Level 1	Level 2	Level 3	Total
Investments	$ 40,361	$ -	$ -	$ 40,361
	$ 40,361	$ -	$ -	$ 40,361

	Assets at Fair Value as of December 31, 2012:			
	Level 1	Level 2	Level 3	Total
Investments	$ 37,350	$ -	$ -	$ 37,350
	$ 37,350	$ -	$ -	$ 37,350

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.

Continued

NOTE O - ENDOWMENT NET ASSETS, continued

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, 2013 and 2012 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
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
Investment return:			
Investment income	1,321	-	1,321
Net appreciation (depreciation)	2,550	-	2,550
Total investment return	3,871	-	3,871
Grants and contributions	-	502,100	502,100
Endowment net assets, December 31, 2013	$ 12,778	$ 557,867	$ 570,645

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, 2013 and 2012.

Continued

NOTE O - ENDOWMENT NET ASSETS, continued

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% 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