



The accompanying financial statements and report are intended for the original recipient.

They must be presented in their entirety and may not be modified in any manner.

**MONTANA JUSTICE FOUNDATION**

**FINANCIAL STATEMENTS**

**March 31, 2010**

**(With Independent Auditor's Report Thereon)**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Montana Justice Foundation  
Missoula, Montana

We have audited the accompanying statement of financial position of the Montana Justice Foundation (a nonprofit organization) as of March 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Montana Justice Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Justice Foundation as of March 31, 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information presented in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson Zurmuehlen & Co., P.C.*

Missoula, Montana  
September 1, 2010

FINANCIAL STATEMENTS

MONTANA JUSTICE FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
March 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 323,418
Accounts receivable	19,962
Promises to give, current portion	21,062
Other current assets	<u>1,665</u>
Total current assets	<u>366,107</u>

INVESTMENTS	<u>290,420</u>
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PROMISES TO GIVE, net of current portion	<u>19,875</u>
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EQUIPMENT, net	<u>3,385</u>
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Total assets	<u>\$ 679,787</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 2,599
Accrued liabilities	<u>6,099</u>
Total current liabilities	<u>8,698</u>

NET ASSETS

Unrestricted	
Board designated reserves	250,000
Undesignated	<u>370,663</u>
	620,663
Temporarily restricted	43,734
Permanently restricted	<u>6,692</u>
Total net assets	<u>671,089</u>

Total liabilities and net assets	<u>\$ 679,787</u>
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The Notes to Financial Statements are an integral part of this statement.

**MONTANA JUSTICE FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended March 31, 2010

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<b>Revenue</b>				
IOLTA	\$ 296,887	\$ -	\$ -	\$ 296,887
Stock donation	352	-	-	352
Donations and contributions	80,724	64,928	-	145,652
Cy Pres & Bar Association	7,320	-	-	7,320
Dividends and interest	12,436	-	-	12,436
Realized loss on investments	(26,853)	-	-	(26,853)
Unrealized gains on investments	51,406	-	-	51,406
Other	1,224	-	-	1,224
Net assets released from restrictions	<u>26,029</u>	<u>(26,029)</u>	<u>-</u>	<u>-</u>
Funds available for supporting and program services	<u>449,525</u>	<u>38,899</u>	<u>-</u>	<u>488,424</u>
<b>Expenses</b>				
Program services	<u>426,185</u>	<u>-</u>	<u>-</u>	<u>426,185</u>
Supporting services				
Fundraising	23,070	-	-	23,070
Management and general	<u>58,796</u>	<u>-</u>	<u>-</u>	<u>58,796</u>
Total supporting services	<u>81,866</u>	<u>-</u>	<u>-</u>	<u>81,866</u>
Total expenses	<u>508,051</u>	<u>-</u>	<u>-</u>	<u>508,051</u>
Change in net assets	<u>(58,526)</u>	<u>38,899</u>	<u>-</u>	<u>(19,627)</u>
<b>Net assets</b>				
Beginning of year	<u>679,189</u>	<u>4,835</u>	<u>6,692</u>	<u>690,716</u>
End of year	<u>\$ 620,663</u>	<u>\$ 43,734</u>	<u>\$ 6,692</u>	<u>\$ 671,089</u>

The Notes to Financial Statements are an integral part of this statement.

MONTANA JUSTICE FOUNDATION  
STATEMENT OF CASH FLOWS  
For the Year Ended March 31, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in net assets	\$ <u>(19,627)</u>
Adjustments to reconcile change in net assets to cash used in operating activities:	
Depreciation	967
Non-cash donations	352
Changes in current assets and liabilities:	
Receivables	(20,823)
Other current assets	271
Accounts payable	(934)
Accrued liabilities	<u>2,627</u>
Total adjustments	<u>(17,540)</u>
Net cash used in operating activities	<u>(37,167)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from sale of investments	<u>152,009</u>
Net cash provided by investing activities	<u>152,009</u>
Net increase in cash and cash equivalents	<u>114,842</u>
Cash and cash equivalents	
Beginning of year	<u>208,576</u>
End of year	<u><u>\$ 323,418</u></u>

The Notes to Financial Statements are an integral part of this statement.

MONTANA JUSTICE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

The Montana Justice Foundation (the "Foundation") is a public nonprofit organization providing funding and support to qualified non-profit organizations committed to ensuring that all Montanans, especially the vulnerable and underserved, have meaningful access to the civil justice system. The Foundation serves as the charitable arm of the Montana legal community. By order of the Montana Supreme Court in 1996, the Foundation receives Interest on Lawyer Trust Accounts (IOLTA) funds from Montana law firms.

The Foundation is funded primarily through IOLTA funds, donations, and contributions. IOLTA funds and donations/contributions comprised approximately 67% and 27% of the Foundation's revenue in 2010, respectively. IOLTA funds, donations, and contributions can significantly be affected by economic conditions. It is at least reasonably possible that economic conditions could negatively impact revenue in the near term.

**Basis of Accounting:**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

**Cash and Cash Equivalents:**

The Foundation considers all highly liquid investments with an original maturity of three months or less as cash equivalents. The Foundation maintains cash balances in several financial institutions, which at times may exceed federally insured limits. The Foundation does not believe it is exposed to any significant risk with respect to its cash and cash equivalents. At March 31, 2010, all of the Foundation's accounts were within federally insured limits.

**Loan Repayment Assistance Program:**

The Foundation makes loans to individuals through the Foundation's Loan Repayment Assistance Program (legal aid loans). This program is for law school graduates dedicated to providing legal aid to low-income individuals and families in Montana, and assists legal aid lawyers working for Montana legal aid organizations by reducing the burden of significant debt incurred to finance their law school education. A maximum loan amount of \$2,500 per year may be awarded to each approved applicant with proceeds distributed semi-annually in April and November. Applicants must meet certain eligibility requirements. The Foundation expects to forgive substantially all of the loans. Accordingly, the outstanding loan balance is offset by an allowance.

MONTANA JUSTICE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
March 31, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Loan Repayment Assistance Program (Continued):**

Subsequent to March 31, 2010, the Foundation revised its policies and procedures regarding legal aid loans to better facilitate budgeting and financial reporting. Beginning in 2011, there will be two enrollment periods. The first enrollment period has an application deadline of April 15. Approved applicants will receive disbursements semi-annually in June and October. The second enrollment period has an application deadline of September 15. Approved applicants will receive disbursements semi-annually in November and March.

**Accounts Receivable:**

Accounts receivable consist primarily of billed IOLTA funds. Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The allowance is based on experience, economic conditions, and other circumstances. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management has determined an allowance account was not necessary for 2010. Due to inherent uncertainties in estimating an allowance for uncollectible receivables, it is at least reasonably possible that the estimates used will change in the near term.

**Promises to Give:**

Unconditional promises to give (pledges) are recorded as receivables and revenue when the pledge is received. The Foundation distinguishes between pledges received for each net asset category in accordance with donor restrictions, if any. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. Management considers historical collection rates, among other factors, in determining an allowance for uncollectible pledges. Management determined an allowance account of \$5,182 was necessary for 2010. Due to inherent uncertainties in estimating the allowance for uncollectible pledges, it is at least reasonably possible that the estimates used will change in the near term. The Foundation has no conditional pledges.

**Investments:**

Investments are carried at fair value and consist of stocks (Level 1 inputs) and mutual funds (Level 2 inputs). Level 1 inputs are quoted prices in active markets for identical assets or liabilities the Foundation has access to at the measurement date. Level 2 inputs are quoted prices in active markets for similar assets that are observable through the measurement date.

**Risks and Uncertainties:**

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit, and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of net assets.

MONTANA JUSTICE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
March 31, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment:**

Property and equipment are recorded at cost or fair value on the date of the contribution and are depreciated using the straight-line method over a period of 3 to 7 years. If a donor stipulates how long the asset must be used, the contribution is recorded as restricted support. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term. The Foundation generally capitalizes expenditures over \$1,000. Routine repairs and maintenance are expensed as incurred.

**Program Grants:**

Unconditional promises to pay (grants payable) are recognized as an expense in the period in which they are approved by the Board of Directors. If these grants payable are to be paid over a period exceeding one year, they are recorded at the net present value of the future cash payments, using an applicable rate determined by management. Grant refunds are recorded as a reduction of grant expense at the time the Foundation becomes aware the grant will be refunded. Program grants consisted of transactions with the following organizations for 2010:

Cascade County Law Clinic	\$ 3,000
CASA of Missoula	4,000
Eastern Montana CASA/GAL	7,750
Domestic Violence Education & Services (DOVES)	1,000
Community Mediation Center (Bozeman)	8,750
Community Dispute Resolution Center of Missoula	3,000
Montana Legal Services Association	250,000
The Nurturing Center	3,000
Western Montana Bar Association	5,900
Law Related Education (LRE) Discretionary Fund	<u>1,000</u>
	<u>\$ 287,400</u>

MONTANA JUSTICE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
March 31, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Classification of Net Assets:**

The Foundation classifies contributions as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor stipulations. Permanently restricted net assets consist of endowed gifts where donors have specified investment in perpetuity to support the Foundation's mission. Temporarily restricted net assets include gifts restricted as to purpose or time. When a donor restriction expires (time restriction ends or purpose restriction accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. All expenses are reported in unrestricted net assets, after applicable restrictions have been satisfied.

The Board of Directors has designated a reserve representing approximately six months of operating expenses. In the May 7, 2009 Board meeting, the Finance and Audit Committee recommended, and the Board approved, the reserve minimum threshold be \$250,000.

**Expense Allocations:**

Certain expenses are allocated to program services according to the portion of cost benefiting each program, principally on the basis of staff time.

**Income Taxes:**

The Foundation is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. This code section enables the Foundation to accept donations that qualify as charitable contributions to the donor.

With few exceptions, the Foundation's information returns are not subject to examination for years prior to 2006.

**Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. Actual results could differ from those estimates.

**Subsequent Events:**

Management has evaluated subsequent events through September 1, 2010, the date which the financial statements were available for issue.

MONTANA JUSTICE FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 March 31, 2010

**NOTE 2. RECEIVABLES**

Accounts receivable, legal aid loans, and promises to give at March 31, 2010, consist of :

IOLTA and other	\$	19,962
Legal aid loans		23,800
Promises to give		<u>51,820</u>
Total receivables before discount and allowances		95,582
Less discount on promises to give		(5,701)
Less allowance for uncollectible promises to give		(5,182)
Less valuation allowance on legal aid loans		<u>(23,800)</u>
Total receivables, net of discount and allowance		<u>60,899</u>
Current portion		
Accounts receivable, net		19,962
Promises to give, net		<u>21,062</u>
Total current portion		<u>41,024</u>
Noncurrent portion of promises to give, net	\$	<u><u>19,875</u></u>

The discount on long-term promises to give is based on a present value calculation (income approach utilizing Level 3 inputs) using a different rate depending on the term that is higher than the risk-free rate of return but lower than the Fund's estimated borrowing rate in accordance with GAAP. The applicable rates at March 31, 2010, were 1.81% to 3.93%.

The aggregate annual maturities of promises to give as of March 31, 2010, are as follows:

2011	\$	31,945
2012		18,250
2013		1,075
2014		300
2015		100
Thereafter		<u>150</u>
Total promises to give		51,820
Less allowance		(5,182)
Less discount factor		<u>(5,701)</u>
Net promises to give	\$	<u><u>40,937</u></u>

Two donors accounted for approximately 43% of all pledges at March 31, 2010.

MONTANA JUSTICE FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 March 31, 2010

**NOTE 2. RECEIVABLES (CONTINUED)**

As a result of the passing of time, the discount applied to unconditional promises to give was reduced by \$739, which was recorded as an increase to contribution revenue during the year ended March 31, 2010.

The table below summarizes the change in fair value of promises to give for 2010.

Balance, beginning of year	\$ 20,642
Discount included in revenue	739
New promises to give, net	46,502
Payments received	<u>(26,946)</u>
Balance, end of year	<u>\$ 40,937</u>

The table below summarizes legal aid loan activity for 2010.

Balance, beginning of year	\$ 24,230
Repayments	(430)
Valuation allowance	<u>(23,800)</u>
Balance, end of year	<u>\$ -</u>

**NOTE 3. INVESTMENTS**

The following summarizes investment losses in the statement of activities at March 31, 2010:

Dividends and interest	\$ 12,436
Realized loss	(26,853)
Unrealized gains—net	<u>51,406</u>
	<u>\$ 36,989</u>

Investment revenues are reported net of related investment expenses in the statement of activities.

MONTANA JUSTICE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
March 31, 2010

**NOTE 3. INVESTMENTS (CONTINUED)**

A summary of the cost and fair value of investments at March 31, 2010, follows:

	Cost	Unrealized Gains (Losses)	<b>Fair Value</b>
Level 1			
Equities			
Financial	\$ 21,498	\$ (4,983)	\$ 16,515
Exchange Traded Funds			
Index / Diversified Equity Funds	114,935	(7,066)	<b>107,869</b>
Total Level 1 Investments	136,433	(12,049)	<b>124,384</b>
Level 2			
Mutual Funds			
Diversified Broad Market	16,650	(885)	<b>15,765</b>
Government	121,969	1,021	<b>122,990</b>
Corporate Debt	25,788	1,493	<b>27,281</b>
Total Level 2 Investments	164,407	1,629	<b>166,036</b>
	\$ 300,840	\$ (10,420)	<b>\$ 290,420</b>

The Foundation has certain investments that are in an unrealized loss position cause primarily by downturns in the financial markets. These investments generally have been in a loss position for at least one year. Based on the Foundation's evaluation of the near-term outlook for the financial markets and the Foundation's ability to hold the investments for a reasonable period of time sufficient for a recovery of fair value, the Foundation does not consider these investments to be other-than-temporarily impaired at March 31, 2010.

**NOTE 4. EQUIPMENT**

Equipment consisted of the following at March 31, 2010:

Computers and office equipment	\$ 4,836
Less accumulated depreciation and amortization	1,451
	<b>\$ 3,385</b>

Depreciation expense totaled \$967 in 2010.

MONTANA JUSTICE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
March 31, 2010

**NOTE 5. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at March 31, 2010, consist of are available for the following uses:

Purpose and time restrictions—

Pledges receivable – for operations	\$ 40,937
SMBLAP – for operations	200
Cy Pres – for operations	2,547
Lunch for Justice	<u>50</u>
Total temporarily restricted net assets	<u>\$ 43,734</u>

**NOTE 6. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of a contribution from ALPS to establish an endowment fund. The donor agreement does not limit the use of earnings on the funds.

**NOTE 7. RELATED PARTY TRANSACTIONS**

Due to common management between the Foundation, ALPS Corporation, and the State Bar of Montana, the following transactions are deemed to be related party transactions.

The Foundation maintains its investment accounts with Peak Investment Management, LTD (Peak). Peak is a wholly owned subsidiary of ALPS Corporation.

The Foundation has a contract with ALPS Corporation to provide payroll and technical services. The Foundation paid ALPS Corporation \$38,704 in 2010 for these services.

The Foundation paid the State Bar of Montana \$1,683 as reimbursement for attorney compliance services and printing costs.

The Foundation rents its office space from ALPS Corporation on a monthly basis. Rent paid under this arrangement totaled \$12,240 in 2010. The Foundation also rents storage and parking space as needed from an unrelated party. Total rent paid in 2010 for these services totaled \$1,915.

SUPPLEMENTARY INFORMATION

MONTANA JUSTICE FOUNDATION  
SCHEDULE 1  
SCHEDULE OF FUNCTIONAL EXPENSE  
For the Year Ended March 31, 2010

	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL
		FUNDRAISING	MANAGEMENT & GENERAL	
<b>Personnel Expenses</b>				
Salaries and wages	\$ 64,375	\$ 9,401	\$ 29,850	\$ 103,626
Payroll taxes and employee benefits	16,394	2,386	7,659	26,439
Total personnel expenses	<u>80,769</u>	<u>11,787</u>	<u>37,509</u>	<u>130,065</u>
<b>Direct Expenses</b>				
Program grants	287,400	-	-	287,400
Loan repayment assistance	24,230	-	-	24,230
Contracted services	4,272	486	2,873	7,631
Professional fees	-	-	6,377	6,377
Travel	4,501	1,053	1,248	6,802
Rent and parking	7,868	1,393	4,564	13,825
Equipment leases	984	173	559	1,716
Insurance	-	-	1,614	1,614
Dues, fees, and registration	1,455	-	815	2,270
Gifts and awards	378	-	113	491
Meals and hosting	4,424	4,120	893	9,437
Postage and delivery	130	1,726	55	1,911
Printing and photocopying	669	1,581	-	2,250
Professional development	17	-	166	183
Office supplies	606	51	198	855
Telecommunications	1,089	52	636	1,777
Bad debts	6,832	-	-	6,832
Other	7	550	861	1,418
Total direct expenses	<u>344,862</u>	<u>11,185</u>	<u>20,972</u>	<u>377,019</u>
<b>Total expenses before depreciation</b>	<u>425,631</u>	<u>22,972</u>	<u>58,481</u>	<u>507,084</u>
Depreciation	554	98	315	967
<b>Total expenses after depreciation</b>	<u>\$ 426,185</u>	<u>\$ 23,070</u>	<u>\$ 58,796</u>	<u>\$ 508,051</u>