

FY 2023

ANNUAL FINANCIAL REPORT

SBM

STATE BAR OF MICHIGAN

AUDITED FINANCIAL STATEMENTS & SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2023
WITH REPORT OF INDEPENDENT AUDITORS

Audited Financial Statements
and Other Supplementary Information

State Bar of Michigan

*Year Ended September 30, 2023
with Report of Independent Auditors*

State Bar of Michigan
Audited Financial Statements
and Other Supplementary Information
Year Ended September 30, 2023

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Introductory Section



STATE BAR OF MICHIGAN

December 8, 2023

Honorable Elizabeth T. Clement
Chief Justice
Supreme Court of Michigan
Hall of Justice
925 W. Ottawa Street
Lansing, MI 48915

Pursuant to Rule 7 of the Rules Concerning the State Bar of Michigan, please accept the State Bar of Michigan’s FY 2023 Annual Financial Report, which covers the fiscal year that ended on September 30, 2023. The Annual Financial Report contains audited financial statements and other information required by accounting standards as well as information that highlights the operations and effectiveness of the State Bar of Michigan as a public body corporate operating pursuant to statute and rules set forth by the Michigan Supreme Court.

The State Bar of Michigan’s management is responsible for the information provided in this FY 2023 Annual Financial Report. The basic financial statements and related notes are audited by the independent accounting firm of Andrews Hooper Pavlik PLC in accordance with auditing standards generally accepted in the United States of America. Their opinion is provided as part of this report. Questions or comments about this report should be directed to the executive director of the State Bar of Michigan.

Daniel D. Quick
President

Peter Cunningham
Executive Director

Thomas H. Howlett
Treasurer

Tatiana Goodkin
Chief Financial Officer



OVERVIEW OF THE STATE BAR OF MICHIGAN

The State Bar of Michigan was established in 1935 by public act and is regulated by the Michigan Supreme Court. The State Bar of Michigan exists to aid in promoting improvements in the administration of justice and advancements in jurisprudence, improving relations between the legal profession and the public, and promoting the interests of the legal profession in Michigan. By law, all persons licensed to practice law in Michigan constitute the State Bar of Michigan's membership. The State Bar of Michigan is a public body corporate, funded by licensing fees and revenue generated by bar activities. It receives no appropriations from the state of Michigan.

The State Bar of Michigan works to promote the professionalism of lawyers; advocates for an open, fair, and accessible justice system; and provides services to members that enable them to best serve their clients.

GOVERNANCE

By integrating the Bar into the regulatory structure of the legal profession, the state of Michigan adopted a modified form of the self-governance of the legal profession common to England and Commonwealth countries. Pursuant to Rule 5 of the Rules Concerning the State Bar of Michigan (State Bar Rules), the State Bar is governed by a Board of Commissioners. The president, president-elect, vice president, secretary, and treasurer are the officers of the State Bar, elected by the Board of Commissioners.

BOARD OF COMMISSIONERS 2022-2023



JAMES W. HEATH
PRESIDENT



DANIEL D. QUICK
PRESIDENT-ELECT



JOSEPH P. MCGILL
VICE PRESIDENT



LISA J. HAMAMEH
SECRETARY



ERIKA L. BRYANT
TREASURER



David C. Anderson
District I



Yolanda M. Bennett
Vice Chair,
Representative Assembly



Kristina A. Bilowus
Chair ex-officio, Young
Lawyers Section



Aaron V. Burrell
District H



Hon. B. Chris Christenson
District B



Thomas P. Clement
Commissioner-at-Large



Tanya N. Cripps-Serra
Chair-elect, Young Lawyers
Section



Sherree L. Detzler
District D



Robert A. Easterly
District E



Hon. Kameshia D. Gant
District I



Thomas H. Howlett
District I



Suzanne C. Larsen
District A



James W. Low
District I



Gerard V. Mantese
District I



Gerrow D. Mason
Chair, Representative
Assembly



Thomas P. Murray, Jr.
District C



Valerie R. Newman
Commissioner-at-Large



Takura N. Nyamfukudza
Commissioner-at-Large



Nicholas M. Ohanesian
District C



Hon. David A. Perkins
District H



Coleman L. Potts
Chair, Young Lawyers
Section



John W. Reiser III
Clerk, Representative
Assembly



Hon. Kristen D. Simmons
District E



Delphia T. Simpson
Commissioner-at-Large



Matthew B. Van Dyk
District F



Danielle Walton
Commissioner-at-Large



Hon. Erane C. Washington
District G



Mark A. Wisniewski
District H

REPRESENTATIVE ASSEMBLY 2022-2023

State Bar Rule 6 provides for a 150-member Representative Assembly as the final policymaking body of the State Bar. Its elected officers are the chair, vice chair, and clerk.



Gerrow D. Mason
Chair



Yolanda M. Bennett
Vice Chair



John W. Reiser III
Clerk

STRUCTURE

The State Bar of Michigan helps lawyers, as officers of the court, fulfill their ethical obligations to improve the quality of legal services and assist in the regulation of the legal profession. The State Bar of Michigan accomplishes a substantial portion of this work through its volunteers, led by the leadership of the Board of Commissioners and Representative Assembly.

There are also 22 standing committees of the State Bar, created to advance the work of the State Bar as defined by court rule. Over 455 attorneys served on State Bar of Michigan committees, task forces, and work groups in FY 2023. The State Bar's 43 sections focus largely on excellence in specific practice areas, and each operates with its own bylaws approved by the Board of Commissioners. The work of the Young Lawyers Section and the Judicial Section is funded by the State Bar of Michigan, and the other 41 sections are funded through membership dues.

To carry out its mission, the State Bar of Michigan employs a paid staff that operates under the supervision of the executive director, who is appointed by the Board of Commissioners. The State Bar of Michigan employed 72 full-time equivalent employees (FTEs) at the end of FY 2023.



46,824

TOTAL ATTORNEY MEMBERS

41,985 ACTIVE MEMBERS

1,106 INACTIVE MEMBERS

3,733 EMERITUS MEMBERS

33

MEMBERS OF THE BOARD OF COMMISSIONERS

150

MEMBERS OF THE REPRESENTATIVE ASSEMBLY

455

ATTORNEYS SERVED ON COMMITTEES, TASK FORCES, AND WORK GROUPS

22

STANDING COMMITTEES

43

SECTIONS

72

EMPLOYEES

FY 2023 HIGHLIGHTS

PROMOTING THE PROFESSIONALISM OF LAWYERS

BAR ADMISSIONS AND LICENSING

The State Bar of Michigan administers the annual license renewal process for more than 46,000 member attorneys, including distributing funds as directed by the Michigan Supreme Court to the State Bar of Michigan, the Attorney Discipline System, and the Client Protection Fund. The State Bar also collects and distributes voluntary contributions and section dues. It uses an online renewal system to make the process quick and efficient for Michigan attorneys. This year, an additional website was developed and incorporated into the license renewal process to incorporate new requirements under Rule 21: Mandatory Interim Administrator Planning.

Character & Fitness: The State Bar processed 832 character and fitness applications for the February 2023 and July 2023 bar exams and conducted district committee interviews for 23 applicants. In addition, 21 matters were referred, with interviews or recommendations pending, and 50 matters are expected to be referred upon completion of the investigation. There were 19 formal Character & Fitness Standing Committee hearings and seven formal Board of Law Examiners hearings.

Pro Hac Vice: The State Bar received 839 online applications for out-of-state and foreign lawyers seeking to appear before a Michigan court, administrative tribunal or agency, or arbitration proceeding.

CLIENT PROTECTION FUND

Attorneys pay an annual fee to the Client Protection Fund as part of their annual license renewal. The fund reimburses clients who have been victimized by lawyers who violate the profession's ethical standards. The State Bar investigated 166 claims, of which the Board of Commissioners approved 51 claims totaling \$312,369 for reimbursement. The State Bar also successfully recouped \$137,752 through its subrogation efforts.

EDUCATING THE PUBLIC

The State Bar of Michigan's efforts to educate the public about the legal profession includes significant support for statewide programs, including the Michigan Center for Civic Education, Supreme Court Learning Center, Law Day and Constitution Day activities, and Michigan Legal Help as well as its own Michigan Legal Milestones and awards programs. A variety of materials are also available through SBM's website.

Awards: The State Bar of Michigan, through the Board of Commissioners and the Representative Assembly, honors the best of the legal profession by bestowing awards on Michigan attorneys who excel.

This year's award winners were:

- Roberts P. Hudson Award: Nancy J. Diehl, Joseph Kimble, and John M. Sier
- Frank J. Kelley Distinguished Public Service Award: Hon. Timothy Kenny
- Champion of Justice Award: Veronica Thronson
- John W. Reed Michigan Lawyer Legacy Award: Vivek Sankaran
- John W. Cummiskey Pro Bono Award: James R. Rinck
- Liberty Bell Award: Amy Iseler
- Michael Franck Award: Sheldon G. Larky
- Unsung Hero Award: Hon. Melissa L. Pope

Michigan Legal Milestones: The 44th Michigan Legal Milestone recognized Percy J. Langster, who in 1949 became the first Black prosecutor elected in the United States. More than 100 judges, other dignitaries, and local residents attended the unveiling of the bronze plaque commemorating Langster at the Yates Township Hall in Lake County. The State Bar also maintains a webpage that includes summaries of all milestones, a map of their locations, photos, and videos from events.

ETHICS OPINIONS

The Professional Ethics Committee and Judicial Ethics Committee published a total of seven ethics opinions and two guidebooks in FY2022-2023:

- RI-388 Ethical Duties to Safeguard Digital Property
- RI-387 Adhering to Ethical Rules for Motions to Withdraw
- RI-386 Ethical Representation of a Client Under a Disability
- JI-154 Eliciting of Information from Counsel to Adjudicate a Motion to Withdraw
- RI-385 An attorney may not utilize a keyword advertising campaign that involves using the name of another attorney, law firm or attorney's or law firm's tradenames without the express consent of the other attorney or law firm
- RI-384 Lawyers and law firms must ensure that all funds maintained within an IOLTA are accounted for
- JI-153 Disclosure to All Parties of Prior Relationship and Child in Common
- Ethics Guidebook: Changing Firms-Ethical Responsibilities for Lawyers and Law Firms

- Ethics Guidebook: Navigating Ethical Complexities-Child Protective Proceedings for L-Gals

Furthermore, the Professional Ethics Committee has published additional Cybersecurity FAQs addressing public charging stations and General Attorney FAQs addressing judgment liens, FOIA, law enforcement assistance, referral fees, appointments from the bench, law clerks, pending grievances, inadvertent emails mediation, and public charging stations. The Committee further submitted to the Michigan Supreme Court proposed amendments to MRPC 1.15, et seq, to the which is currently published for comment on the Court's website. The Committee oversaw 18 subcommittees of various topics to assist in the drafting and publication of the noted resources.

The Judicial Ethics Committee has published additional Judicial Ethics FAQs addressing judicial campaigns, court-appointed counsel, and reporting requirements. The Committee further provided comment to the Michigan Supreme Court regarding continuing judicial education rules; worked in conjunction with the Judicial Tenure Commission in drafting an amendment to MCJC 7(C) addressing newly selected judges and their trust accounts, which is currently awaiting publication by the Court; and continually worked on amendments to MCJC 4(D), which will be forwarded for consideration in the next Bar year. Members of the Committee, on behalf of the Committee, also worked in conjunction with judges and with the Michigan Judicial Institute in reviewing drafted portions of the Michigan Code of Judicial Conduct-Annotated Bench Book. The Committee oversaw six subcommittees of various topics to assist in the drafting and publication of the noted resources.

JUDICIAL QUALIFICATIONS

The State Bar of Michigan Judicial Qualifications Committee assists the governor's office in evaluating candidates for possible appointment to judicial office when judicial vacancies arise. In 2023, the committee met 10 times and reviewed 64 candidates for possible appointment to judicial vacancies, as requested by the governor's office.

SPECIAL COMMITTEE ON PROFESSIONALISM & CIVILITY

The State Bar of Michigan's Special Committee on Professionalism & Civility develops and maintains materials intended to teach lawyers and judges the concepts that support the Michigan Supreme Court's "Professionalism Principles for Lawyers and Judges" (AO 2020-23), and the committee manages a Professionalism and Civility Speakers Bureau whose members lead discussions at law schools, law firms, state bar sections, courts, and bar associations across Michigan.

UNAUTHORIZED PRACTICE OF LAW

As part of its duties to protect the public, the State Bar of Michigan is empowered to prosecute the unauthorized practice of law. The State Bar received 94 complaints alleging the unauthorized practice of law in FY 2022-2023. Of these complaints, 59 were closed after investigation, either due to obtaining voluntary compliance or because there was insufficient evidence of UPL. Of the remaining matters, 27 remain under investigation, four are pending UPL Standing Committee review after investigation, and four are pending litigation approval by the Board of Commissioners. Two injunctive orders were obtained in the 2022-2023 bar year. There are currently no cases in active litigation.

ADVOCATING FOR AN OPEN, FAIR, AND ACCESSIBLE JUSTICE SYSTEM

ACCESS TO JUSTICE CAMPAIGN

The State Bar supports a centralized fundraising campaign in partnership with the Michigan State Bar Foundation to raise money for qualifying civil legal aid programs in Michigan. The Access to Justice Campaign revenue for FY 2022-2023 was \$1,514,231, including approximately \$76,690 in cy pres awards. In total, more than \$27 million has been received by the Access to Justice Fund since its launch in 1998. In the 2022 calendar year, 47 firms gave at the Leadership Firm level of \$300 or more per attorney, and 63 firms, corporate legal departments, and SBM sections gave at tiered levels between \$1,000 and \$100,000.

DIVERSITY AND INCLUSION

The State Bar of Michigan convened organizations from throughout the state working on pipeline programs in a Pipeline Summit in June. The summit was designed to share information and work collectively to identify needs to support the pipeline into the legal profession. Similarly,

the State Bar again hosted its Brunch for Bars to encourage networking and engagement among and between members of Michigan's recognized bar associations. The State Bar also hosted a Face of Justice program for law school students, providing networking and learning opportunities for students and mentors.

LAWYER REFERRAL SERVICE

The Lawyer Referral Service is a telephone-based referral system that matches people who are seeking a lawyer with an attorney in the practice area they need. Consumers pay a \$25 administrative fee and receive a 25-minute consultation from the attorney to whom they are referred at no additional cost. The call center also screens callers for eligibility for free or low-cost legal services and refers them (at no cost) to the appropriate services. If callers decline to pay the administrative fee, the call center connects them with alternate resources, including information on legal clinics, self-help centers, Michigan Legal Help, nonprofit organizations, and the online lawyer directory, to find their own attorney.

The Lawyer Referral Service received 29,504 calls in FY 2022-2023 and processed 2,979 paid referrals to 84 participating panel members. In addition, LRS processed 953 applications for Modest Means and referred 256 applicants to 17 participating Modest Means panel members. In FY 2022-2023, 98 Michigan attorneys participated in Lawyer Referral Service programs. Working with the Board of Commissioners' Strategic Planning Committee, LRS began working with the SBM communications team to develop a promotional campaign to increase the number of panel attorneys, which will launch in FY 2023-2024.

ONLINE DIRECTORY

The State Bar of Michigan website hosts two online directories: The classic directory provides basic member contact information, and the ReliaGuide enhanced profile directory provides a comprehensive platform for attorneys to showcase their experience, areas of practice, and accomplishments to assist potential clients with understanding their qualifications. The classic directory tallied just over 1,375,000 pageviews on its results page and nearly 1,137,000 on the directory homepage. Both were more than 40% increases in pageviews over the previous year. The ReliaGuide directory reported more than two million member profile views.

PRO BONO INITIATIVES

The State Bar published the fifth edition of the Pro Bono Honor Roll, which encourages more pro bono service by recognizing attorneys, law firms, and corporations that provide a significant level of pro bono service. The Honor Roll tallied more than 40,000 pro bono service hours provided by more than 1,000 Michigan-licensed attorneys in the 2022 calendar year. In addition, the State Bar continued to provide

Michigan attorneys with an easily accessible online calendar of upcoming legal clinics, events, and other pro bono opportunities as well as its Spring Pro Bono Workshop to support legal aid and pro bono providers in Michigan.

Malpractice Insurance for Pro Bono Program:

Provided professional liability malpractice insurance to 31 Michigan attorneys working on pro bono cases.

Patent Pro Bono Project: In partnership with the Intellectual Property Law Section, received 45 requests for pro bono patent legal assistance from low-income Michigan inventors.

Qualified Domestic Relations Order Referral Program:

Received 28 referrals from legal aid programs for the preparation of QDROs for low-income Michiganders.

Tax Pro Bono Program: A partnership of SBM's Justice Initiatives Committee and the Taxation Section, provided an all-day tax training on substantive tax issues, including audits, appeals, offers in compromise, currently non-collective, liens, levies, collection due process hearings, and other tax-related topics.

PUBLIC POLICY

The State Bar of Michigan engages in public policy that involves the regulation of the legal profession and the improvement of the quality of legal services. Pursuant to AO 2004-1, all advocacy is reported on the State Bar of Michigan Public Policy Resource Center webpage. The State Bar also publishes a weekly Public Policy Update newsletter sent to approximately 3,000 subscribers.

As part of its mission, the State Bar of Michigan also is proud to actively support and serve on commissions established by the Michigan Supreme Court.



Justice for All Commission
Committed to 100% access to Michigan's Civil Justice System



Commission on Diversity, Equity, and Inclusion
Working to eliminate disparities within the Michigan judiciary and justice system



Commission on Well-Being in the Law
Improving the mental health of attorneys, increasing well-being, and eliminating stigmas associated with getting help



The State Bar fully reviewed 138 public policy items—including legislation, court rules, and administrative rules—and took 109 formal policy positions. Highlights include successful advocacy for legislation implementing the recommendations of the Michigan Task Force on Juvenile Justice Reform, enhancing crime victims’ rights, and expanding eligibility for problem-solving court participation and programming.

RESEARCH

The State Bar of Michigan regularly conducts research to measure the effectiveness of its programs and to provide important information assessing the current state of Michigan’s legal profession.

Demographics Report: The State Bar annually develops a Demographics Report that offers an in-depth look at the

age, race/ethnicity, gender, practice and occupational areas, and location of Michigan attorneys. The National Association of Bar Executives awarded the State Bar a Luminary Award for the new online presentation of the Demographics launched in October 2022, which makes the data more easily accessible and provides graphic summaries of key information.

Economics of Law Report: Conducted for more than 40 years, the Economics of Law Report is based on a voluntary survey of Michigan attorneys conducted every three years. It helps determine county-by-county and statewide average billing rates and is used as a primary resource by courts to determine attorney fees. The updated 2023 report also included questions to measure the impact of COVID-19 on the legal profession.

PROVIDING SERVICES TO MEMBERS THAT ENABLE THEM TO BEST SERVE CLIENTS

ADMINISTRATIVE SUPPORT FOR SECTIONS

The State Bar of Michigan supports 43 sections, which serve the profession and the state by maintaining and building expertise in specific areas of law, hosting educational programs, publishing journals and newsletters, and mentoring and training new lawyers.

In FY 2022-2023, SBM’s sections tallied 48,547 total memberships, including 36,600 paid section memberships. A total of 24,478 individuals were members of at least one section, 19,470 of whom were paid members. Non-attorney section memberships totaled 405. Free section memberships are typically extended to law students, first-year licensees, and those who qualify for the Young Lawyers and Judicial sections.

The State Bar of Michigan provides infrastructure, information, communication tools, and consultation to all sections — including maintaining the sections’ financial accounts, membership databases, demographic profiles, and individual section websites. The State Bar also provides robust support for section events and programs through low-cost services.

All public policy advocacy by sections is financed entirely by voluntary section dues and is limited to the subject matter jurisdiction of the section.

ETHICS HELPLINE AND SEMINARS

The State Bar of Michigan staff responded to more than 1,500 inquiries from attorneys and judges seeking informal advice through the Ethics Helpline (877-558-4760), 307 email inquiries, and numerous direct contacts to staff. The questions ranged from simple advice to complex scenarios requiring

extensive research. Staff also provided a Tips and Tools Webinar, three Lawyer Trust Account Webinars, and several “Ethical Perspectives” columns for the Michigan Bar Journal.

GREAT LAKES LEGAL CONFERENCE

The Great Lakes Legal Conference premiered in June 2023, combining the best of the former Bar Leadership Forum and the Upper Michigan Legal Institute into one impactful event. The two-day conference included four learning tracks — Leadership, Legal Updates, Litigation, and Practice Management — and attendees could mix and match sessions from the tracks to fully personalize their experience. The event featured keynote speaker Joan W. Howard, dean emerita of MSU Law, who spoke about “Shaping an Inclusive & Client-Centered Profession.”

A total of 182 attorneys attended the inaugural event, a 16% increase over the previous year’s combined registration. Attendees included representation from at least 14 bar associations and 13 State Bar sections. Feedback from attendees showed a special appreciation for the variety and relevance of topics as well as the high quality of presentations. On a scale of 1 to 7 (poor to excellent), every session scored an average well above 6.

INTERIM ADMINISTRATOR PROGRAM

The State Bar of Michigan launched a new area on its website in July to implement the requirements of Rule 21: Mandatory Interim Administrator Planning and related amendments, which became effective September 1, 2023. The new system allows private practice attorneys to 1) either designate their own interim administrator or enroll in the State Bar of Michigan’s Interim Administrator Program and 2) identify their person with knowledge.

The online system includes confirmation for nominated interim administrators, and it allows private practice attorneys as well as designated interim administrators to update their previous selections at any time. Notifications are sent to attorneys through an automated email process. The requirements of Rule 21 were also fully incorporated into the FY 2023-2024 license renewal process, which launched in early September, to ensure Michigan attorneys' compliance with the new requirements. In addition, State Bar staff worked with the State Court Administrative Office to draft forms for use in the interim administrator process.

In addition to creating the new online system to implement Rule 21 requirements, the State Bar of Michigan also launched an extensive communications plan to educate Michigan attorneys about Rule 21. Outreach efforts included multiple webpages housed within michbar.org/Rule21, answers to frequently asked questions (updated regularly), and direct emails to private practice attorneys as well as presentations to bar associations, sections, and conferences, including the Great Lakes Legal Conference and the ICLE Family Institute. In addition, the State Bar collaborated with ICLE to create an on-demand seminar that is free to all members of the State Bar of Michigan and produced judicial training videos with the Michigan Judicial Institute.

A full report on the implementation of Rule 21 is being compiled and shared with the Michigan Supreme Court, as required by SBR 21(E).

LAWYERS & JUDGES ASSISTANCE PROGRAM

The Lawyers and Judges Assistance Program (LJAP) helps to protect the public by assisting legal professionals with mental health and substance-use concerns. The State Bar is devoted to the advancement of well-being in the legal profession, including offering services to those looking to optimize their overall well-being.

LJAP reached more than 5,100 law students, lawyers, and judges through professional presentations on topics related to well-being in the legal profession by delivering 48 presentations/educational training opportunities to law schools, legal employers, local and affinity bars, regulators, and other stakeholders. This is a 23% increase over the previous bar year. LJAP clinical staff also opened 48 new participant files and completed 33 biopsychosocial evaluations for members of the legal community seeking mental health or wellness-related services. LJAP received a record-high 130 requests for confidential services in FY 2022-2023, a 9% increase. State Bar staff also offered four

8-week virtual support groups, provided a monthly "Practicing Wellness" column for the Michigan Bar Journal, and co-produced the *On Balance* podcast, which was downloaded more than 19,000 times.

PRACTICE MANAGEMENT RESOURCE CENTER

The Practice Management Resource Center provides resources to attorneys and their staff to help them build and maintain professional competence. PMRC provides resources to attorneys on a variety of topics, including tech competency, through its website. Staff also responded to inquiries to the PMRC Helpline (800-341-9715) and provided one AGC/ADB onsite consultation. PMRC also provides the monthly "Law Practice Solutions" column for the Michigan Bar Journal, works with the Lawyers & Judges Assistance Program to produce the monthly *On Balance* podcast, and offered four virtual seminars in FY 2022-2023 on topics including using artificial intelligence and billing best practices.

PUBLICATIONS

State Bar of Michigan Publications include its flagship Michigan Bar Journal, available in print and online; the eJournal with summaries of Supreme Court, Court of Appeals, and 6th Circuit Court opinions; and multiple newsletters, including monthly news from the State Bar and Supreme Court in SBM Today, Public Policy Update, Practice Management Resource Center newsletter, and links to recent news in NewsLinks.

eJournal: Publishing five days a week, the eJournal provided 2,032 opinion summaries to almost 15,000 subscribers. The eJournal was one of the most frequented pages in the State Bar website, with more than 1 million pageviews cumulatively in FY 2022-2023.

Michigan Bar Journal: Written by attorneys for attorneys, the Michigan Bar Journal magazine is delivered 11 times per year to 19,000 print subscribers and 24,000 email subscribers. It includes feature articles based on themes developed and edited by the Michigan Bar Journal Committee as well as columns, articles, and news written by staff and other expert contributors. The Bar Journal is required to publish certain notices under the Rules Concerning the State Bar of Michigan and is also used to advertise SBM events and resources. The Michigan Bar Journal online tallied 288,000 pageviews cumulatively, a 78% increase over FY 2021-2022 (when the online version first launched).



FINANCIAL & MEMBERSHIP SUMMARY

FINANCIAL SUMMARY

As of September 30, 2023, the State Bar of Michigan's net position in the Administrative Fund totaled \$12,751,125—an increase of \$2,938,002, or 29.9%, in FY 2023. Excluding the net restricted assets associated with the retiree healthcare trust, the Administrative Fund totaled \$9,660,537—an increase of \$2,221,483, or 29.9%, in FY 2023. The Administrative Fund increase was driven by the \$80 license fee increase for active attorneys effective FY 2023. The Client Protection Fund's net position totaled \$2,521,993—an increase of \$400,202, or 18.9%. The sections' net position, calculated separately as it consists of voluntary section dues and other section funds, totaled \$2,883,841—a decrease of \$192,287, or 6.3%, in FY 2023. The State Bar operates with no outstanding debt.

APPROVED FY 2024 BUDGET

The State Bar Board of Commissioners approved a FY 2024 Administrative Fund budget in July 2023 totaling \$12,224,735, resulting in a projected surplus of \$893,220. The budget is aligned with the State Bar's strategic plan. A summary of the FY 2024 approved budget is in the December 2023 Michigan Bar Journal and can also be found on the State Bar's website at michbar.org/generalinfo.

MEMBERSHIP AND AFFILIATE STATISTICS

In FY 2023, the total number of State Bar of Michigan attorney members increased by 51, or 0.1%, over FY 2022. The number of active attorneys decreased by 410, or 1.0%. More than one-third of that decline is attributable to 140 fewer new attorneys in FY 2023. Below are the statistics for each type of member as well as affiliate members for the year that ended September 30, 2023:

ATTORNEY MEMBERS

Active members	41,985
Inactive members	1,106
Emeritus members	3,733

Total attorney members 46,824

AFFILIATE MEMBERS

Legal administrators	2
Legal assistants	194

Total affiliate members 196

NOTE: These figures reflect members and affiliates in good standing and do not include those disciplined, disbarred, resigned, deceased, or suspended for nonpayment of license fees.

Financial Section

Report of Independent Auditors

To the Board of Commissioners
State Bar of Michigan
Lansing, Michigan

Opinions

We have audited the accompanying financial statements of the business-type activities and each major fund of the State Bar of Michigan as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the State Bar of Michigan's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the State Bar of Michigan as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State Bar of Michigan and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar of Michigan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 State Bar of Michigan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State Bar of Michigan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit for the year ended September 30, 2023 was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Bar of Michigan's basic financial statements. The schedules presented in the Other Supplementary Information section listed in the table of contents for the year ended September 30, 2023 are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended September 30, 2023, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole for the year ended September 30, 2023.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the State Bar of Michigan as of and for the years ended September 30, 2019 through 2022 (not presented herein), and have issued our reports thereon, which contained unmodified opinions on the financial statements of the business-type activities and each major fund. The 2019 through 2022 information, as applicable, presented in the schedules in the Other Supplementary Information section of the table of contents (presented before any restatement of prior year's data) is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those 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 basic financial statements as a whole for the years ended September 30, 2019 through 2022, as applicable.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Okemos, Michigan
December 8, 2023

Andrews Hooper Paulik PLC

State Bar of Michigan

Management's Discussion and Analysis

September 30, 2023

Brief Description of the Financial Statements

This annual report contains State Bar of Michigan financial statements and notes to those statements. The statements detail the financial position of the State Bar of Michigan overall as well as each of the Bar's funds. Information in this report includes:

Report of Independent Auditors – Expresses the audit opinion of the independent accounting firm.

Management's Discussion and Analysis (MD&A) – Discusses the operations of the State Bar and provides expanded financial information and related analysis.

Basic Financial Statements:

- Statement of Net Position (Balance Sheet) – Provides the financial position of the State Bar and each fund.
- Statement of Revenue, Expenses, and Changes in Net Position (Income Statement) – Provides the sources of revenue, the various expenses, and impact on net position for the State Bar and each fund.
- Statement of Cash Flows – Shows the sources and uses of cash for the State Bar and each fund.

Notes to the Financial Statements – Provides integral information to explain the basis for the numbers used within the basic financial statements.

Required Supplementary Information – Provides additional information about the State Bar's participation in the State Employees' Retirement System for pension and other postemployment benefits.

Other Supplementary Information – Provides additional information to better understand the financial position of the State Bar.

Summary of FY 2023 Financial Information

The audited financial statements, including the statement of net position; the statement of revenue, expenses, and changes in net position; and the statement of cash flows, are shown on pages 25-27.

The following financial analyses compare the balance sheets and income statements for FY 2023 to FY 2022 as well as the income statements for FY 2023 actual to FY 2023 budget. "Other Supplementary Information" on pages 59-66 includes reference materials used in these analyses.

State Bar of Michigan

Management's Discussion and Analysis

September 30, 2023

Analysis of FY 2023 Statement of Net Position Compared to FY 2022

Administrative Fund	September 30		Increase (Decrease)	%
	2023	2022		
Current Assets	\$ 10,220,718	\$ 7,786,531	\$ 2,434,187	31.3%
Noncurrent Assets (net)	7,341,240	6,765,778	575,462	8.5%
Total Assets	17,561,958	14,552,309	3,009,649	20.7%
Deferred Outflows of Resources	1,105,588	654,255	451,333	69.0%
Current Liabilities	3,443,378	3,233,071	210,307	6.5%
Noncurrent Liabilities	1,522,940	1,104,912	418,028	37.8%
Total Liabilities	4,966,318	4,337,983	628,335	14.5%
Deferred Inflows of Resources	950,103	1,055,458	(105,355)	(10.0)%
Net Position – Net Investment in Capital Assets	3,228,115	3,193,128	34,987	1.1%
Net Position – Restricted for Retiree Health Care	3,090,588	2,374,069	716,519	30.2%
Net Position – Unrestricted	6,432,422	4,245,926	2,186,496	51.5%
Net Position	\$ 12,751,125	\$ 9,813,123	\$ 2,938,002	29.9%

Current assets increased by \$2,434,187, or 31.3 percent, primarily due to higher investments and lower balances due to sections. Noncurrent assets increased by \$575,462, or 8.5 percent, due to the increased value of the retiree health care trust investments. Deferred outflows of resources increased by \$451,333, or 69 percent, primarily due to OPEB adjustments related to changes in assumptions and proportions for valuation of OPEB healthcare liability.

Current liabilities increased by \$210,307, or 6.5 percent, primarily due to higher accounts payable and accrued expenses. Noncurrent liabilities increased by \$418,028, or 37.8 percent, due to increases in the net pension and OPEB liabilities. Deferred inflows of resources decreased by \$105,355, or 10 percent, due to deferred inflows of resources related to leases recorded in FY 2022 that were determined in FY 2023 to relate to a short-term lease and reclassified in FY 2023 and the OPEB and pension adjustments. Overall, net position increased by \$2,938,002, or 29.9 percent during FY 2023.

State Bar of Michigan

Management's Discussion and Analysis

September 30, 2023

Analysis of FY 2023 Statement of Net Position Compared to FY 2022 (continued)

Client Protection Fund	September 30		Increase (Decrease)	%
	2023	2022		
Assets	\$ 2,680,499	\$ 2,297,782	\$ 382,717	16.7%
Liabilities	158,506	175,991	(17,485)	(9.9)%
Net Position	\$ 2,521,993	\$ 2,121,791	\$ 400,202	18.9%

Assets increased by \$382,717, or 16.7 percent, primarily due to higher investments. Liabilities decreased by \$17,485, or 9.9 percent, primarily due to lower accounts payable and unearned revenue. As a result, net position increased by \$400,202, or 18.9 percent, during FY 2023.

Sections	September 30		Increase (Decrease)	%
	2023	2022		
Total Assets	\$ 2,883,841	\$ 3,076,128	\$ (192,287)	(6.3)%
Net Position	\$ 2,883,841	\$ 3,076,128	\$ (192,287)	(6.3)%

All of the individual assets and liabilities of the sections are held within the Administrative Fund and are shown as assets in "due from (to) other funds." Both assets and net position decreased by \$192,287, or 6.3 percent, as a result of section expenses being higher than section revenues during FY 2023. The increase in expenses is primarily due to an increase in section meetings and events.

Analysis of FY 2023 Statement of Revenue, Expenses, and Changes in Net Position Compared to FY 2022

Administrative Fund	Year Ended September 30		Increase (Decrease)	%
	2023	2022		
Operating Revenue	\$ 12,659,081	\$ 9,193,538	\$ 3,465,543	37.7%
Operating Expenses:				
Labor	7,637,022	6,958,619	678,403	9.7%
Nonlabor	3,238,700	3,040,859	197,841	6.5%
Total Operating Expenses	10,875,722	9,999,478	876,244	8.8%
Operating Income (Loss)	1,783,359	(805,940)	2,589,299	321.3%
Nonoperating Revenue (Expenses)	1,154,643	(1,154,157)	2,308,800	200.0%
Change in Net Position	\$ 2,938,002	\$ (1,960,097)	\$ 4,898,099	249.9%

State Bar of Michigan

Management's Discussion and Analysis

September 30, 2023

Analysis of FY 2023 Statement of Revenue, Expenses, and Changes in Net Position Compared to FY 2022 (continued)

Retiree healthcare trust income is presented net of the trust advisor fees of \$19,610 for FY 2023 and \$18,504 for FY 2022.

The Administrative Fund's operating income increased by \$2,589,299, or 321.3 percent, due to an increase in operating revenues of \$3,465,543, or 37.7 percent offset by an increase in operating expenses of \$876,244, or 8.8 percent.

The Administrative Fund's operating revenue increased by \$3,465,543, or 37.7 percent, primarily due to \$80 increase in FY 2023 license fees for active attorneys, Character and Fitness fees, Attorney Discipline System and Client Protection Fund administration fees, event and advertising revenues, and other revenues such as credit card processing fees, offset by lower Lawyer Referral Services revenue and Lawyer Services revenues.

The Administrative Fund's operating expenses increased by \$876,244, or 8.8 percent, due to higher labor expenses of \$678,403, or 9.7 percent, and higher nonlabor expenses of \$197,841, or 6.5 percent. Labor expenses were higher primarily due to budgeted increases and lower vacancies when compared to FY 2022 and higher retiree healthcare and pension benefit expenses (GASB 68/75). Nonlabor expenses were primarily higher due to higher operating expenses in Board of Commissioners, Facilities, Outreach, Research & Development, IT, Finance, Diversity, and Great Lakes Legal Conference (combined BLF and UMLI in FY 2023), offset by lower expenses in General Counsel, Executive Office and depreciation.

The Administrative Fund's nonoperating revenue increased by \$2,308,800, or 200 percent, due to change in market value of retiree health care trust investments and higher interest earned on invested balances.

As a result, the Administrative Fund's net position increased by \$2,938,002 in FY 2023 compared to a decrease of \$1,960,097 in FY 2022. The primary drivers for this increase were an increase in operating income of \$2,589,299 and an increase in nonoperating income of \$2,308,800.

Client Protection Fund	Year Ended September 30		Increase (Decrease)	%
	2023	2022		
Operating Revenue	\$ 815,011	\$ 701,330	\$ 113,681	16.2%
Operating Expenses	523,024	425,976	97,048	22.8%
Operating Income	291,987	275,354	16,633	6.0%
Nonoperating Revenue	108,215	12,318	95,897	778.5%
Change in Net Position	\$ 400,202	\$ 287,672	\$ 112,530	39.1%

State Bar of Michigan

Management's Discussion and Analysis

September 30, 2023

Analysis of FY 2023 Statement of Revenue, Expenses, and Changes in Net Position Compared to FY 2022 (continued)

The Client Protection Fund experienced an increase in net position of \$400,202 in FY 2023 compared to an increase of \$287,672 in FY 2022, resulting in a year-over-year change of \$112,530, or 39.1 percent. Operating revenue increased by \$113,681, or 16.2 percent, primarily due to higher claim recoveries and contributions received. Operating expenses increased by \$97,048, or 22.8 percent primarily due to higher claims payments and increased administrative costs. Nonoperating revenue increased by \$95,897, or 778.5 percent, due to higher investment income.

Sections	Year Ended September 30		Increase (Decrease)	%
	2023	2022		
Operating Revenue	\$ 1,863,754	\$ 1,691,448	\$ 172,306	10.2%
Operating Expenses	2,056,041	1,598,655	457,386	28.6%
Operating Income	(192,287)	92,793	(285,080)	(307.2)%
Change in Net Position	\$ (192,287)	\$ 92,793	\$ (285,080)	(307.2)%

Sections saw an increase in operating revenue and operating expenses in FY 2023 due to higher non-dues revenue and higher expenses due to resumption of meetings and events. Net position decreased by \$192,287 in FY 2023.

Analysis of FY 2023 Revenue, Expenses, and Changes in Net Position as Compared to FY 2023 Approved Budget – Administrative Fund

Administrative Fund	Year Ended September 30		Favorable/ (Unfavorable) Variance	%
	2023 Actual	2023 Budget		
Operating Revenue	\$ 12,659,081	\$ 12,676,935	\$ (17,854)	(0.1)%
Operating Expenses:				
Labor	7,637,022	7,907,316	270,294	3.4%
Nonlabor	3,238,700	3,849,945	611,245	15.9%
Total Operating Expenses	10,875,722	11,757,261	881,539	7.5%
Operating Income (Loss)	1,783,359	919,674	863,685	93.9%
Nonoperating Revenue (Expenses)	1,154,643	194,000	960,643	495.2%
Change in Net Position	\$ 2,938,002	\$ 1,113,674	\$ 1,824,328	163.8%

State Bar of Michigan

Management's Discussion and Analysis

September 30, 2023

Analysis of FY 2023 Revenue, Expenses, and Changes in Net Position as Compared to FY 2023 Approved Budget – Administrative Fund (continued)

The Administrative Fund's operating income was favorable to budget by \$863,685, or 93.9 percent, largely due to a favorable variance in operating expenses of \$881,539, or 7.5 percent, and an unfavorable variance in operating revenues of \$17,854, or 0.1 percent.

The Administrative Fund's operating revenue was unfavorable to budget by \$17,854, or 0.1 percent, primarily due to lower license fees and credit card processing fees, offset by higher Character and Fitness, Client Protection Fund, Digital, Bar Journal, Lawyer Referral Services and Lawyer Services revenues.

The Administrative Fund's operating expenses were favorable to budget by \$881,539, or 7.5 percent, due to a favorable variance in labor expenses of \$270,294, or 3.4 percent, and a favorable variance in nonlabor expenses of \$611,245, or 15.9 percent. Labor expenses were mainly lower than budget due to lower salaries and payroll tax expenses due to vacancies, lower employee health insurance expenses, and lower retiree healthcare expense per GASB 75 offset by a higher pension expense per GASB 68. Nonlabor expenses were lower than budget across all three divisions and a majority of teams due to a combination of cost savings, continuation of hybrid (office/remote) operations and lower travel and meeting costs (Executive Office, Board of Commissioners, Representative Assembly, and Great Lakes Legal Conference). IT expenses were lower than budget due to delayed software purchases and accounting system implementation, as well as lower repair and maintenance expenses. Facilities expenses were lower than budget due to lower repair expenses, postage and electricity. Finance team expenses were lower than budget due to lower depreciation and credit card processing expenses. Communications teams (Bar Journal, Digital, Print and Design, and General Communications) recognized savings due to lower design services, lower contractor fees, lower in-house and outsourced printing expenses, equipment maintenance, promotion of the Bar and website maintenance.

The Administrative Fund's nonoperating revenue was favorable to budget by \$960,643, or 495.2 percent, primarily due to higher market value of investments of the retiree health care trust, which was not budgeted, and higher interest income on short-term funds.

The Administrative Fund's increase in net position in FY 2023 was favorable to budget by \$1,824,328 due to an increase in net position of \$2,938,002 compared to a budgeted increase of \$1,113,674. In summary, the larger than budgeted growth in net position was due to favorable variances in budgeted operating expenses of \$881,539 and nonoperating revenue of \$960,643.

State Bar of Michigan

Management's Discussion and Analysis

September 30, 2023

Analysis of Capital Assets

Capital assets (net of accumulated depreciation) consisting of land, building, furniture and equipment, and computer equipment/software (including work in progress) increased by \$34,987 during FY 2023. This increase is primarily due to a difference between fixed asset additions of \$455,968 and depreciation expense of \$420,981. More detailed information about the State Bar's capital assets is presented in Note 5 to the financial statements.

Risks and Uncertainties

The Michigan Supreme Court approved an \$80 fee increase for active licensed attorneys for the 2022-2023 fiscal year. The fee increase enabled the State Bar of Michigan to sustain its current operations and to stay in compliance with the financial safety policy adopted by the Board of Commissioners. In July 2023 the Board adopted the FY 2024 budget aligning it with the goals of the SBM Strategic Plan.

SBM's revenues, 85% of which comes from mandatory licensing fees, largely depend on the number of active attorneys. Although other operating revenues have recovered from their lowest point in FY 2020, growth prospects remain limited. In FY 2023, SBM faced increased operating costs due to inflation, particularly in labor, utilities, paper, postage, professional services, and IT. These were partially offset by greater investment income due to higher interest rates and investment balances. The State Bar's future financial stability will be affected by uncertainties in several areas, including the future number of active attorneys, fluctuations in the labor market, interest rates, and inflation. However, SBM is prepared to adapt to these changes by analyzing trends, embracing innovation, and using its strategic plan to effectively serve the public and Michigan attorneys.

Basic Financial Statements

State Bar of Michigan

Statement of Net Position

September 30, 2023

	Administrative Fund	Client Protection Fund	Sections	Total
Assets				
Current assets:				
Cash for operations	\$ 775,835	\$ 147,342	\$ -	\$ 923,177
Investments	11,776,776	2,546,363	-	14,323,139
Accounts receivable:				
Trade	44,919	-	-	44,919
Foundation	3,459	-	-	3,459
Due from (to) other funds	(2,870,635)	(13,206)	2,883,841	-
Prepaid expenses	490,364	-	-	490,364
Total current assets	10,220,718	2,680,499	2,883,841	15,785,058
Retiree healthcare trust investments	4,113,125	-	-	4,113,125
Capital assets, net	3,228,115	-	-	3,228,115
Total assets	17,561,958	2,680,499	2,883,841	23,126,298
Deferred outflows of resources				
Deferred outflows related to pensions	24,225	-	-	24,225
Deferred outflows related to OPEB	1,081,363	-	-	1,081,363
Total deferred outflows of resources	1,105,588	-	-	1,105,588
Liabilities				
Current liabilities:				
Accounts payable	463,715	43,268	-	506,983
Accrued expenses	697,379	-	-	697,379
Unearned revenue	2,282,284	115,238	-	2,397,522
Total current liabilities	3,443,378	158,506	-	3,601,884
Net pension liability	365,770	-	-	365,770
Net OPEB liability	1,157,170	-	-	1,157,170
Total liabilities	4,966,318	158,506	-	5,124,824
Deferred inflows of resources				
Deferred inflows related to pensions	3,373	-	-	3,373
Deferred inflows related to OPEB	946,730	-	-	946,730
Total deferred inflows of resources	950,103	-	-	950,103
Net position				
Net investment in capital assets	3,228,115	-	-	3,228,115
Restricted for retiree health care	3,090,588	-	-	3,090,588
Unrestricted	6,432,422	2,521,993	2,883,841	11,838,256
Total net position	\$ 12,751,125	\$ 2,521,993	\$ 2,883,841	\$ 18,156,959

See accompanying notes.

State Bar of Michigan

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2023

	Administrative		Client Protection		Total
	Fund	Fund	Sections	Total	
Operating revenue					
License Fees, Section Dues, and Affiliate Dues	\$ 10,830,970	\$ 641,066	\$ 1,228,610	\$	12,700,646
Character and Fitness	356,580	-	-	-	356,580
Lawyer Services	218,868	-	-	-	218,868
Client Protection Fund administration fee	210,235	-	-	-	210,235
Bar Journal	169,561	-	-	-	169,561
Lawyer Referral Service	162,396	-	-	-	162,396
Attorney Discipline System fee	115,962	-	-	-	115,962
Lawyers and Judges Assistance	61,064	-	-	-	61,064
Digital	60,781	-	-	-	60,781
Print and Design	45,082	-	-	-	45,082
Michigan State Bar Foundation rent	41,402	-	-	-	41,402
Great Lakes Legal Conference	36,305	-	-	-	36,305
e-Journal	28,085	-	-	-	28,085
Inaugural and Awards Luncheon	17,885	-	-	-	17,885
50 Year Honoree Celebration	5,960	-	-	-	5,960
Practice Management Resource Center	2,880	-	-	-	2,880
Ethics	2,475	-	-	-	2,475
Other revenue	292,590	173,945	635,144	-	1,101,679
Total operating revenue	<u>12,659,081</u>	<u>815,011</u>	<u>1,863,754</u>	<u>-</u>	<u>15,337,846</u>
Operating expenses					
Labor expenses:					
Salaries	5,789,720	-	-	-	5,789,720
Employee benefits and payroll taxes	1,847,302	-	-	-	1,847,302
Total labor expenses	<u>7,637,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,637,022</u>
Nonlabor expenses:					
Legal	144,735	-	-	-	144,735
Public and Bar Services	889,777	-	-	-	889,777
Operations and Policy	2,204,188	-	-	-	2,204,188
Claims payments	-	312,369	-	-	312,369
Client Protection Fund administrative expenses	-	210,655	-	-	210,655
Sections expenses	-	-	2,056,041	-	2,056,041
Total nonlabor expenses	<u>3,238,700</u>	<u>523,024</u>	<u>2,056,041</u>	<u>-</u>	<u>5,817,765</u>
Total operating expenses	<u>10,875,722</u>	<u>523,024</u>	<u>2,056,041</u>	<u>-</u>	<u>13,454,787</u>
Operating income (loss)	<u>1,783,359</u>	<u>291,987</u>	<u>(192,287)</u>	<u>-</u>	<u>1,883,059</u>
Nonoperating revenue					
Investment income	579,659	108,215	-	-	687,874
Investment income – retiree healthcare trust, net	574,984	-	-	-	574,984
Total nonoperating revenue	<u>1,154,643</u>	<u>108,215</u>	<u>-</u>	<u>-</u>	<u>1,262,858</u>
Change in net position	2,938,002	400,202	(192,287)	-	3,145,917
Net position at beginning of year	9,813,123	2,121,791	3,076,128	-	15,011,042
Net position at end of year	<u>\$ 12,751,125</u>	<u>\$ 2,521,993</u>	<u>\$ 2,883,841</u>	<u>\$</u>	<u>18,156,959</u>

See accompanying notes.

State Bar of Michigan

Statement of Cash Flows

Year Ended September 30, 2023

	Administrative Fund	Client Protection Fund	Sections	Total
Cash flows from operating activities				
License Fees, Section Dues, and Affiliate Dues	\$ 10,762,354	\$ 636,844	\$ 1,228,610	\$ 12,627,808
Other receipts	1,712,731	192,843	635,144	2,540,718
Payments to employees	(7,670,319)	(210,655)	-	(7,880,974)
Payments to suppliers and others	(2,803,411)	-	(1,863,754)	(4,667,165)
Payments for claims	-	(325,632)	-	(325,632)
Net cash from operating activities	<u>2,001,355</u>	<u>293,400</u>	<u>-</u>	<u>2,294,755</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(455,968)	-	-	(455,968)
Cash flows from investing activities				
Purchases of investments – net	(3,382,183)	(362,067)	-	(3,744,250)
Sales of retiree healthcare trust investments – net	22,796	-	-	22,796
Investment income	138,716	5,544	-	144,260
Net cash from investing activities	<u>(3,220,671)</u>	<u>(356,523)</u>	<u>-</u>	<u>(3,577,194)</u>
Net change in cash	(1,675,284)	(63,123)	-	(1,738,407)
Cash at beginning of year	2,451,119	210,465	-	2,661,584
Cash at end of year	<u>\$ 775,835</u>	<u>\$ 147,342</u>	<u>\$ -</u>	<u>\$ 923,177</u>

Reconciliation of operating income (loss) to net cash from operating activities is as follows:

Operating income (loss)	\$ 1,783,359	\$ 291,987	\$ (192,287)	\$ 1,883,059
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	420,981	-	-	420,981
Pension expense	72,498	-	-	72,498
OPEB expense	29,698	-	-	29,698
Investment expenses paid (netted against investment income)	(19,610)	-	-	(19,610)
Other reconciling items	(551)	-	-	(551)
Deferred outflows of resources related to pension – contributions subsequent to the measurement date	(24,225)	-	-	(24,225)
Deferred outflows of resources related to OPEB – contributions subsequent to the measurement date	(174,444)	-	-	(174,444)
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable	6,353	1,625	-	7,978
Prepaid expenses	(93,451)	-	-	(93,451)
Accounts payable	127,369	(13,263)	-	114,106
Accrued expenses	63,833	-	-	63,833
Due (to) from other funds	(209,560)	17,273	192,287	-
Unearned revenue	19,105	(4,222)	-	14,883
Net cash from operating activities	<u>\$ 2,001,355</u>	<u>\$ 293,400</u>	<u>\$ -</u>	<u>\$ 2,294,755</u>

During 2023, there were no noncash investing, capital, or financing activities.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

1. Summary of Significant Accounting Policies

The accounting policies of the State Bar of Michigan (State Bar) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the State Bar:

A. Reporting Entity

The State Bar of Michigan is the association of the members of the bar of this state, organized and existing as a public body corporate pursuant to powers of the Supreme Court over the State Bar of the State. The State Bar of Michigan shall, under the rules of the Supreme Court, aid in promoting improvements in the administration of justice and advancements in jurisprudence, in improving relations between the legal profession and the public, and in promoting the interests of the legal profession in this state.

No component units are required to be reported in the State Bar of Michigan's financial statements. The State Bar of Michigan's financial statements are included in the State of Michigan Annual Comprehensive Financial Report as a component unit. For accountability purposes, the accounts of the State Bar of Michigan are organized into three distinct funds, each of which is considered a separate accounting entity:

Administrative Fund – The Administrative Fund is the main operating fund for the State Bar of Michigan and accounts for all of the activities that are not accounted for in another fund. The Administrative Fund also accounts for the cash and investments of the Retiree Health Care Trust, that can only be used to pay State Employees' Retirement System (SERS) costs of retiree healthcare for eligible participants when they retire and become eligible for such benefit as calculated by the Michigan Office of Retirement Services (ORS).

Client Protection Fund – The Client Protection Fund is a voluntary program established for the purpose of reimbursing clients who have been victimized by the few lawyers who violate the profession's ethical standards and misappropriate funds entrusted to them. It is funded primarily by license fee assessments and, to a lesser extent, by investment income, unspent judicial election campaign funds, and recoveries. The Client Protection Fund concerns itself with investigation of claims, the distribution of authorized payments, and the institution and prosecution of all subrogation actions seeking to recoup monies paid from the fund.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Sections – With the exception of the Young Lawyers Section and the Judicial Section, the sections are self-funded, voluntary memberships that promote the particular interests of attorneys practicing in their respective specialty areas of law. Each section operates within the definitions of its own set of bylaws, which must be approved by the Board of Commissioners of the State Bar of Michigan. Sections plan and carry out programs, publications, and activities of interest to their members. Financial services such as receipts and disbursements processing, financial reporting, and dues processing, as well as other related support services are provided to the sections and charged against the Administrative Fund. The investment income on a section’s funds is retained within the Administrative Fund to help offset the cost of support services. Certain services provided to sections that are in addition to basic support services and that may increase the variable costs of the Administrative Fund are charged back to the sections.

B. Basis of Presentation

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The State Bar of Michigan follows the “business-type activities” reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the State Bar’s financial activities.

C. Basis of Accounting

The State Bar of Michigan follows the accounting rules promulgated by the Governmental Accounting Standards Board. The periodic determination of revenue earned, expenses incurred, and changes in net position is appropriate for management control and accountability; therefore, the proprietary fund model is followed, and the full accrual basis of accounting is used.

Statement of Cash Flows – For purposes of the statement of cash flows, the State Bar considers all highly liquid investments (including restricted assets) with a maturity of three months or less to be cash equivalents.

Investments – Investments include all monies other than bank deposits (checking and savings accounts) and petty cash, net of amounts held on behalf of the Attorney Discipline System. As of September 30, 2023, assets in the State Bar of Michigan Retiree Health Care Trust consist of various mutual funds and other investments in accordance with the investment policies. Investments are recorded at fair market value, except for certificates of deposit which are recorded at cost.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

1. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

Accounts Receivable – Accounts receivable are stated at net invoice or net recovery amounts. The Administrative Fund’s allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal member payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. As of September 30, 2023, the Administrative Fund’s allowance for doubtful accounts was \$1,025.

Subscriptions – Liabilities related to subscription-based information technology arrangements (SBITAs) are recognized at the commencement of the subscription term and are measured based on the present value of payments expected to be made during subscription term, discounted based on the interest rate specified in the contract or the implicit rate. Subscription assets are recognized at the commencement of the subscription term and are measured based on the initial measurement of the subscription liability plus payments made to the SBITA vendor at or before the commencement of the subscription term and capitalizable initial implementation costs.

Prepaid Expenses – Prepaid expenses reported in the Administrative Fund represent advance payment for future year expenses.

Capital Assets – All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is charged as an expense on a straight-line basis based on the appropriate depreciation schedule for each class of capital assets. It is the policy of the State Bar to capitalize all assets that have useful lives of two or more years with an acquisition cost of \$5,000 or more per item.

Unearned Revenue – Income is recognized as revenue as it is earned. Prepayments of annual license fees are recorded as unearned until the revenue is earned over the fiscal year.

Deferred Outflows and Inflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The State Bar has two items that qualify for reporting in this category, which are deferred outflows of resources related to pensions and deferred outflows of resources related to other postemployment benefits (OPEB).

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

1. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The State Bar has two items that qualify for reporting in this category, which are deferred inflows of resources related to pensions and deferred inflows of resources related to OPEB.

Operating Revenue – All revenue from programmatic sources is considered to be operating revenue.

Nonlabor Expenses – All operating expenses except salaries, employee benefits, and payroll taxes are considered to be nonlabor expenses. These expenses include travel, supplies, utilities, postage, printing, contractor and outside services, and other items.

Pensions (Defined Benefit Retirement Plan) and Postemployment Benefits Other Than Pensions – For purposes of measuring the net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the SERS and additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

D. Change in Accounting Principles

On October 1, 2022, the State Bar implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides guidance on the accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. Implementation of this statement did not result in a restatement of beginning of year net position.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

2. Deposits and Investments

The State Bar of Michigan has designated a total of 9 financial institutions for the deposit of its cash and investments as of September 30, 2023. The State Bar of Michigan's cash and investments, except for the Client Protection Fund, are combined with the sections. The cash and investments of the Client Protection Fund are maintained in separate accounts. The Finance Committee of the Board of Commissioners monitors the investments according to its investment policy. At year end, investments (other than investments held in the retiree health care trust fund) consisted of certificates of deposit and U.S. Treasury Bills. The retiree health care trust funds that are restricted to paying retiree health care premiums have a separate investment policy that allows for investment in equities and fixed income mutual funds.

The State Bar of Michigan's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the State Bar of Michigan's deposits may not be returned. The State Bar of Michigan's investment policy for its surplus and operating funds (other than the restricted retiree health care trust funds that has a separate investment policy) is guided by PA 20 of 1943 as amended. The State Bar updated its investment policy in fiscal year 2020, allowing up to \$5 million in deposits in any bank as long as the bank meets certain size and rating criteria, or in any amount if the deposits are FDIC insured. At year end, the State Bar of Michigan had \$3,878,810 of bank deposits in checking, savings, and certificates of deposit accounts, and of that balance 32 percent was insured.

Custodial Credit Risk of Investments – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the State Bar will not be able to recover the value of its investments that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name. As of September 30, 2023, no securities were exposed to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The State Bar's investment policy provides that cash and investments may be held in instruments with maturities not to exceed three years without express approval from the Finance Committee. The retiree health care trust investment policy does not limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

2. Deposits and Investments (continued)

As of September 30, 2023, the fair values and the weighted average maturities for the State Bar's investments and the fixed income securities in the retiree health care trust are as follows:

	Investment Maturities (in Years)				
	Balance as of September 30, 2023	Less Than or Equal to 1	Greater Than 1 to 5	Greater Than 5 to 10	More Than 10
Investments:					
U.S. Treasury Bills	\$ 10,485,180	\$ 10,485,180	\$ -	\$ -	\$ -
Government money market fund	845,483	845,483	-	-	-
Certificates of deposit	2,992,476	2,992,476	-	-	-
Retiree healthcare trust investments:					
Government securities	1,378,244	1,378,244	-	-	-
Mutual funds	867,251	-	-	867,251	-
Government money market fund	2,576	2,576	-	-	-
Total	\$ 16,571,210	\$ 15,703,959	\$ -	\$ 867,251	\$ -

Credit Risk – Credit risk refers to the ability of the issuer to make timely payments of interest and principal. The retiree health care investment policy provides that fixed income funds may include any combination of fixed income funds including bond mutual funds or money market funds with a Morningstar rating of at least 4 stars, or below 4 stars with regular monitoring. Mutual funds held in the retiree health care trust that invest primarily in fixed income securities are not rated as to credit quality by a nationally recognized statistical rating organization.

Fair Value Measurements – The State Bar categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The State Bar's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

2. Deposits and Investments (continued)

The State Bar has the following recurring fair value measurements as of September 30, 2023:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
U.S. Treasury Bills	\$ 10,485,180	\$ 10,485,180	\$ -	\$ -
Government money market fund	845,483	845,483	-	-
Retiree healthcare trust investments:				
Government securities	1,378,244	1,378,244	-	-
Mutual funds	2,732,219	2,732,219	-	-
Government money market fund	2,576	2,576	-	-
Cash	86	N/A	N/A	N/A
Total	\$ 15,443,788	\$ 15,443,702	\$ -	\$ -

The State Bar's investments in certificates of deposit totaling \$2,992,476 as of September 30, 2023 meet the criteria to be valued at cost.

3. Related Party

The State Bar of Michigan provides employee and financial services to the Attorney Discipline System for a fee. The Attorney Discipline System is the adjudicative arm of the Supreme Court that is empowered to discipline and reinstate attorneys in accordance with the Court Rules. The State Bar of Michigan and the Attorney Discipline System have a common bank savings account and share the same employer tax ID number. The fee billed to the Attorney Discipline System for the year ended September 30, 2023 was \$115,962.

4. Leases and Subscriptions

State Bar as Lessor

As of September 30, 2023, State Bar of Michigan, as a lessor, was leasing 1,548.50 square feet of office space to Michigan State Bar Foundation (MSBF). The lease term started on October 1, 2021 and expires on September 30, 2026. The lease is classified as a short-term lease as it can be cancelled by either party at any time upon providing a 180-day notice.

State Bar of Michigan
Notes to Financial Statements

September 30, 2023

4. Leases and Subscriptions (continued)

Subscriptions

The State Bar has committed to two SBITAs, one for a cloud accounting system and one for a cloud budgeting and planning tool. The accounting software SBITA is currently being implemented and the State Bar has paid a total of \$36,188 related to this agreement. The cloud budgeting and planning tool implementation is contingent on the go-live of the accounting system and the State Bar has paid a total of \$15,724 related to the agreement. These outflows are recorded as prepaid expenses as of September 30, 2023. The State Bar will be required to make additional payments under the accounting software SBITA totaling \$54,689, to be paid on a quarterly basis during the years ended September 30, 2024 and 2025. The State Bar will be required to make additional payments under the budgeting and planning tool SBITA totaling \$36,689, to be paid on a quarterly basis during the years ended September 30, 2024 and 2025.

5. Capital Assets

A summary of capital assets as of September 30, 2023 follows:

	Beginning Balance	Additions	Disposals	Transfers and Write-Off	Ending Balance	Depreciable Life-Years
Capital assets not being depreciated:						
Land	\$ 380,545	\$ -	\$ -	\$ -	\$ 380,545	-
Work in progress	109,121	455,968	-	(443,489)	121,600	-
Capital assets being depreciated:						
Building	8,204,314	-	-	101,010	8,305,324	10-50
Furniture and equipment	1,913,227	-	(45,542)	100,036	1,967,721	5-20
Computer equipment/software	1,482,825	-	(19,600)	242,443	1,705,668	3-5
Total capital assets	12,090,032	455,968	(65,142)	-	12,480,858	
Less accumulated depreciation:						
Building	5,925,751	184,083	-	-	6,109,834	
Furniture and equipment	1,784,087	39,470	(45,542)	-	1,778,015	
Computer equipment/software	1,187,066	197,428	(19,600)	-	1,364,894	
Total accumulated depreciation	8,896,904	420,981	(65,142)	-	9,252,743	
Total net capital assets	\$ 3,193,128	\$ 34,987	\$ -	\$ -	3,228,115	
Depreciation expense					\$ 420,981	

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

6. Risk Management

The State Bar of Michigan is exposed to various risks and loss related to property loss, torts, errors and omissions, employee theft, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The State Bar of Michigan has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The State Bar's Finance Committee reviews risks and insurance coverage on its director's and officer's liability policy, fiduciary liability policy, cyber liability policy, property and general liability policy, umbrella policy, and other policies.

7. Legal Issues

There are legal issues pending for the State Bar of Michigan; however, management believes the likelihood of an unfavorable outcome is remote.

8. Retirement Plans

Overview – The State Bar of Michigan participates in the State of Michigan's defined benefit (DB) plan pursuant to the State Employees Retirement Plan Act (PA 240 of 1943, as amended) that covers most state employees, as well as eligible and former employees of related component units such as the State Bar of Michigan. The defined benefit plan is available to employees and former employees hired on or before March 31, 1997, and who have not elected the defined contribution (DC) plan (collectively known as Tier 1 employees). The plan provides defined benefits for retirement, disability, death benefits, and annual costs of living adjustment to plan members whose eligibility is subject to age, retirement, years of service, and vesting requirements. The State Legislature establishes the benefit provisions and employer payments to the State for the plan. As of September 30, 2023, there were two active employees in the defined benefit plan.

Employees not covered by the defined benefit plan (collectively known as Tier 2 employees) are covered by the State Bar of Michigan Retirement Plan (defined contribution plan) administered by the State Bar. The State Bar of Michigan contributes 4.0 percent of each employee's pay with a match of up to 3.0 percent of each employee's pay based on employee contributions, subject to plan limits. The State Bar of Michigan's contributions to the plan for the year ended September 30, 2023 were \$389,880.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

General Information about the Defined Benefit Plan

A. Plan Description

The Michigan State Employees Retirement System (System or SERS) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The board consists of nine members – five appointed by the Governor which consist of one member or retirant of the System; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions; one retirant member of the System; and one member of the general public; and the attorney general, state treasurer, legislative auditor general, and state personnel director.

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111.

B. Benefits Provided

Introduction – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability, and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

B. Benefits Provided (continued)

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997, to elect the defined benefit plan instead of the defined contribution plan.

Pension Reform of 2012 – On December 15, 2011, the Governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: Defined Benefit (DB) Classified. Members voluntarily elected to remain in the DB plan for future service and contribute 4 percent of their annual compensation to the pension fund until they terminate state employment. The 4 percent contribution began on April 1, 2012. As of September 30, 2023, the State Bar of Michigan has two eligible active employees who selected this option.
- Option 2: DB 30. Members voluntarily elected to remain in the DB plan for future service and contribute 4 percent of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's Defined Contribution (DC) plan. The 4 percent contribution began April 1, 2012 and continues until they switch to the DC plan or terminate employment, whichever comes first. The State Bar of Michigan has no active employees who selected this option.
- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4 percent and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant, they receive a 4 percent employer contribution to their DC account and are eligible for an additional dollar-for-dollar employer match of up to 3 percent of pay to the plan. The State Bar of Michigan has no active employees who selected this option.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the State on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

B. Benefits Provided (continued)

Former nonvested members (with less than 10 years of service) of the DB plan who are reemployed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2 percent of their compensation to a 401(k) or 457 account, earning a matching 2 percent employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old at termination.

Regular Retirement – The retirement benefit is based on a member’s years of credited service (employment) and FAC. The normal benefit equals 1.5 percent of a member’s FAC multiplied by the years and partial year of credited service and is payable monthly over the member’s lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime – for the six-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.

For members who switch to the DC plan for future service, the pension calculation (FAC times 1.5 percent times years of service) will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 10 or more years of credited service; or
2. age 55 with 30 or more years of credited service; or
3. age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5 percent for each month from the member’s age on the effective date of retirement to the date the member will attain age 60.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

B. Benefits Provided (continued)

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

In either case, the three years immediately preceding retirement must have been in a covered position.

Deferred Retirement – Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Health and Human Services employees subject to reduction in force layoffs by reason of deinstitutionalization.

Non-Duty Disability Benefit – A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Duty Disability Benefit – A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension, is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of \$6,000 payable annually. At age 60 the benefit is recomputed under service retirement.

Survivor Benefit – Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of Duty Death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to \$6,000.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

B. Benefits Provided (continued)

Pension Payment Options – When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100 percent, 75 percent, or 50 percent of the retiree’s pension benefit after the retiree’s death. The decision is irrevocable. A description of the options follows.

Regular Pension – The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

100 Percent Survivor Pension – Under this option, after the retiree’s death, the beneficiary will receive 100 percent of the pension for the remainder of the beneficiary’s lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension “pops-up” to the regular pension amount; another beneficiary cannot be named.

75 Percent Survivor Pension – Under this option, after the retiree’s death, the beneficiary will receive 75 percent of the pension for the remainder of the beneficiary’s lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent option previously described. If the beneficiary predeceases the retiree, the pension “pops-up” to the regular pension amount; another beneficiary cannot be named.

50 Percent Survivor Pension – Under this option, after the retiree’s death, the beneficiary will receive 50 percent of the pension for the remainder of the beneficiary’s lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent or 75 percent option previously described. If the beneficiary predeceases the retiree, the pension “pops-up” to the regular pension amount; another beneficiary cannot be named.

Equated Pension – An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100 percent, 75 percent, or 50 percent option. At age 65 the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

B. Benefits Provided (continued)

In order to calculate this benefit, members choosing this option must provide the State of Michigan Office of Retirement Services with an estimate from the Social Security Administration Office. The actual amount received from social security may vary from the estimate.

Post Retirement Adjustments – One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning October 1, 1988, a 3 percent non-compounding increase, up to a maximum of \$25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8 percent annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3 percent increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987 are not eligible for the supplemental payment.

C. Contributions

Member Contributions – Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4 percent of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions – The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles, so the contribution rates do not have to increase over time. For fiscal year 2023, the State Bar of Michigan's contribution rate was 23.11 percent of the defined benefit employee wages. The State Bar of Michigan's contribution to the System for the fiscal year ending September 30, 2023 was \$24,225.

D. Actuarial Assumptions

The State Bar's net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021 and rolled-forward using generally accepted actuarial procedures.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

D. Actuarial Assumptions (continued)

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	2.75 percent
Projected Salary Increases	2.75 – 11.75 percent, including wage inflation at 2.75 percent
Investment Rate of Return	6.0 percent, net of investment expenses
Cost-of-Living Pension Adjustment	3 percent Annual Non-Compounded with Maximum Annual Increase of \$300 for those eligible

Mortality rates for retirees were based on RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 93% for males and 98% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. Mortality rates for disabled retirees were based on RP-2014 Male and Female Disabled Annuitant Mortality Table scaled by 100% for males and 100% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. Mortality rates for active employees were based on RP-2014 Male and Female Employee Annuitant Mortality Table scaled by 100% for males and 100% for females adjusted for mortality improvements using projection scale MP-2017 from 2006.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the determination of the total pension liability beginning with the September 30, 2017 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2022, are summarized in the following table:

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

D. Actuarial Assumptions (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic equity pools	25.0 %	5.1 %
Private equity pools	16.0	8.7 %
International equity pools	15.0	6.7 %
Fixed income pools	13.0	(0.2) %
Real estate and infrastructure pools	10.0	5.3 %
Absolute return pools	9.0	2.7 %
Real return and opportunistic pools	10.0	5.8 %
Short term investment pools	2.0	(0.5) %
Total	<u>100.0 %</u>	

*Long term rates of return are net of administrative expenses and 2.2 percent inflation.

E. Discount Rate

A discount rate of 6.0 percent was used to measure the total pension liability for the September 30, 2021 valuation. A discount rate of 6.7 percent was used to measure the total pension liability for the September 30, 2020 valuation. This discount rate for the September 30, 2021 valuation was based on the long-term expected rate of return on pension plan investments of 6.0 percent. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Net Pension Liability

As of September 30, 2023, the State Bar of Michigan reported a liability of \$365,770 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021 and rolled-forward using generally accepted actuarial procedures.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

F. Net Pension Liability (continued)

The State Bar of Michigan's proportion of the net pension liability was based on the State Bar of Michigan's required pension contributions received by the System during the measurement period October 1, 2021, through September 30, 2022, relative to the total required employer contributions from all of the System's participating employers. As of September 30, 2022, the State Bar of Michigan's proportion was 0.005663 percent.

G. Pension Liability Sensitivity

The following presents the State Bar of Michigan's proportionate share of the net pension liability, calculated using the discount rate of 6.0 percent as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

	1 Percent Decrease 5.0 Percent	Current Discount 6.0 Percent	1 Percent Increase 7.0 Percent
State Bar of Michigan's proportionate share of net pension liability	\$ 477,743	\$ 365,770	\$ 270,580

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the SERS Annual Comprehensive Financial Report that may be obtained by visiting www.michigan.gov/ors.

State Bar of Michigan
Notes to Financial Statements

September 30, 2023

8. Retirement Plans (continued)

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2023, the State Bar of Michigan recognized pension expense of \$72,498. As of September 30, 2023, the State Bar of Michigan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ -
Difference between expected and actual experience	-	-
Net difference between projected and actual earnings on investments	-	3,373
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	-
State Bar of Michigan contributions subsequent to the measurement date	24,225	-
Total	\$ 24,225	\$ 3,373

Amounts reported as deferred outflows of resources related to pensions resulting from the State Bar of Michigan contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense (credit) as follows:

Year Ended September 30:	Pension Expense (Credit) Amount
2024	\$ (4,622)
2025	\$ (7,220)
2026	\$ (9,409)
2027	\$ 17,878

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

9. Postemployment Benefits

A. Plan Description

The Michigan State Employees' Retirement System (System or SERS) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) and created under Public Act 240 of 1943, as amended.

Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. Executive Order 2015-13 signed by the Governor on October 27, 2015 established the State of Michigan Retirement Board. The board consists of nine members – five appointed by the Governor, which consist of two members of the State Employees' Retirement System at least one of whom is a retiree; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retiree under the Military Retirement Provisions; and one member of the general public; and the attorney general, state treasurer, legislative auditor general, and state personnel director. The System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees' Retirement Act.

The Michigan State Employees' Retirement System is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111.

B. Benefits Provided

Benefit provisions of the other postemployment benefit (OPEB) plan are established by State statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined Benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined Contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health, prescription drug, dental, and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the Premium Subsidy benefit contribute 20 percent of the monthly premium amount for the health (including prescription coverage), dental and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earning a 30 percent subsidy with ten years of service, with an additional 3 percent subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80 percent. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by the Michigan Department of Technology, Management, and Budget (DTMB) and the Civil Service Commission to make changes to retiree medical benefit plans.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

9. Postemployment Benefits (continued)

B. Benefits Provided (continued)

Defined Contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011, and those hired on or after January 1, 2012, are not eligible for any subsidized health, prescription drug, dental or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy but will become a participant in the Personal Healthcare Fund.

This plan is closed to new hires.

C. Contributions

The statute requires the employer to contribute to finance the benefits of plan members. Effective January 1, 2004, pursuant to a settlement agreement with the State of Michigan, the State Bar of Michigan assumed responsibility for paying the actual cost of the postemployment benefits to the State of Michigan for eligible retirees instead of being assessed a fee each year by the State of Michigan based on the State Bar of Michigan's active payroll. The State Bar's contribution to SERS for the fiscal year ending September 30, 2023 was \$174,444. The State Bar is not required to contribute to SERS for postemployment benefits for active employees.

The State Bar has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, the Plan may be financed on a "pay-as-you-go" basis). The State Bar may make contributions to accumulate funds for payment of SERS cost as recommended by staff and approved by the State Bar Finance Committee. The State Bar has established an irrevocable trust for the purpose of accumulating funds for the retiree healthcare SERS costs. This trust is presented as part of employer assets in the Administrative Fund within the State Bar's financial statements rather than as a fiduciary fund because benefit payments cannot be made to plan participants from this trust and therefore, the trust does not meet the criteria as a qualifying trust under GASB Statement No. 75 or to be reported as a fiduciary fund. The employer assets within the trust have not been used to reduce the State Bar's net OPEB liability as only the fiduciary net position of the SERS OPEB plan can offset the employer's SERS net OPEB liability. As of September 30, 2023, the State Bar's assets in the trust amounted to \$4,113,125 which has been presented as a component of restricted net position as of September 30, 2023. The balance of restricted net position for retiree healthcare has been increased by deferred outflows of resources related to OPEB and reduced by the net OPEB liability and deferred inflows of resources related to OPEB, as follows:

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

9. Postemployment Benefits (continued)

C. Contributions (continued)

Assets in OPEB trust	\$ 4,113,125
Net OPEB liability	(1,157,170)
Deferred outflows of resources related to OPEB	1,081,363
Deferred inflows of resources related to OPEB	(946,730)
Net position restricted for retiree health care	<u>\$ 3,090,588</u>

D. Actuarial Assumptions

The State Bar's SERS net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the SERS net OPEB liability was determined by an actuarial valuation as of September 30, 2021 and rolled-forward using generally accepted actuarial procedures. The total SERS OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation Rate	2.75 percent
Investment Rate of Return	6.20 percent, net of investment expenses
Projected Salary Increases	2.75 - 11.75 percent, including wage inflation at 2.75 percent
Health Care Cost Trend Rate	Pre-65: 7.50 percent year 1 graded to 3.5 percent year 15; 3.0 percent year 120 Post-65: 6.25 percent year 1 graded to 3.5 percent year 15; 3.0 percent year 120
Mortality	RP-2014 Male and Female Annuitant Mortality Table used for retirees (scaled by 93% for males and 98% for females), active employees and disabled retirees, with adjustments for mortality improvements using projection scale MP-2017 from 2006.

Assumption changes as a result of an experience study covering the period 2012 through 2017 have been adopted by the System for use in the determination of the SERS total OPEB liability beginning with the September 30, 2017 valuation.

The long-term expected rate of return on SERS OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of SERS OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

9. Postemployment Benefits (continued)

D. Actuarial Assumptions (continued)

Best estimates of arithmetic real rates of return for each major asset class included in the SERS OPEB plan's target asset allocation as of September 30, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic equity pools	25.0 %	5.1 %
Private equity pools	16.0	8.7 %
International equity pools	15.0	6.7 %
Fixed income pools	13.0	(0.2)%
Real estate and infrastructure pools	10.0	5.3 %
Absolute return pools	9.0	2.7 %
Real return and opportunistic pools	10.0	5.8 %
Short term investment pools	2.0	(0.5)%
Total	<u>100.0 %</u>	

*Long term rates of return are net of administrative expenses and 2.2 percent inflation.

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on SERS OPEB plan investment, net of SERS OPEB plan investment expense, was (3.1) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Discount Rate

A single discount rate of 6.2 percent was used to measure the total SERS OPEB liability for the September 30, 2021 valuation. A discount rate of 6.9 percent was used to measure the total SERS OPEB liability for the September 30, 2020 valuation. This single discount rate for the September 30, 2021 valuation was based on the expected rate of return on SERS OPEB plan investments of 6.2 percent. The projection of cash flows used to determine this single discount rate assumed that in the future, plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member (retiree) rate. Based on these assumptions, the SERS OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on SERS OPEB plan investments was applied to all periods of projected benefit payments to determine the total SERS OPEB liability.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

9. Postemployment Benefits (continued)

F. SERS Net OPEB Liability

As of September 30, 2023, the State Bar reported a liability of \$1,157,170 for its proportionate share of SERS net OPEB liability. The SERS net OPEB liability was measured as of September 30, 2022, and the SERS total OPEB liability used to calculate the SERS net OPEB liability was determined by an actuarial valuation as of September 30, 2021 and rolled-forward using generally accepted actuarial procedures. The State Bar's proportion of the SERS net OPEB liability was based on the State Bar's required OPEB contributions received by SERS during the measurement period October 1, 2021, through September 30, 2022, relative to the total required employer contributions from all of SERS's participating employers. As of September 30, 2022, the State Bar's proportion was 0.02972889 percent.

For the proportionate share calculation, the sum of the retiree premiums invoiced to the State Bar during the measurement period October 1, 2021, through September 30, 2022, comprises the State Bar's required OPEB contributions, which is not representative of the total expected contribution effort of the State Bar to SERS for OPEB benefits because it does not include contributions that will be required in the future when currently active participants begin receiving OPEB benefits. This is due to the previously mentioned settlement agreement effective January 1, 2004. As active participants begin receiving OPEB benefits, it is expected that the State Bar's required annual OPEB contributions will increase, which may increase the State Bar's proportionate share of the SERS net OPEB liability.

The allocated SERS net OPEB liability is not fully representative of the amounts the State Bar will be required to pay the State of Michigan for the actual cost of postemployment benefits, due to the previously mentioned settlement agreement effective January 1, 2004. Also, per the settlement agreement, the State Bar's payments for the actual cost of postemployment benefits are not funded from the SERS OPEB fiduciary assets, although the State Bar is allocated SERS net OPEB liability which takes into consideration SERS OPEB investments. The State Bar will fund future premium payments from the assets of the retiree health care trust.

State Bar of Michigan

Notes to Financial Statements

September 30, 2023

9. Postemployment Benefits (continued)

G. Sensitivity of the SERS Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the State Bar’s SERS net OPEB liability calculated using a single discount rate of 6.2 percent, as well as what the State Bar’s SERS net OPEB liability would be if it were calculated using a single discount rate that is one percent lower or one percent higher:

	1 Percent Decrease 5.2 Percent	Current Discount 6.2 Percent	1 Percent Increase 7.2 Percent
State Bar’s proportionate share of SERS net OPEB liability	\$ 1,469,157	\$ 1,157,170	\$ 895,193

The following presents the State Bar’s SERS net OPEB liability calculated using the assumed trend rates, as well as what the State Bar’s SERS net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	1 Percent Decrease	Current Healthcare Cost Trend	1 Percent Increase
State Bar’s proportionate share of SERS net OPEB liability	\$ 883,809	\$ 1,157,170	\$ 1,471,648

H. OPEB Plan Fiduciary Net Position

Detailed information about the SERS OPEB plan’s fiduciary net position is available in the SERS Annual Comprehensive Financial Report that may be obtained by visiting www.michigan.gov/ors.

State Bar of Michigan
Notes to Financial Statements

September 30, 2023

9. Postemployment Benefits (continued)

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the State Bar recognized OPEB expense of \$29,698. As of September 30, 2023, the State Bar reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 860,403
Changes of assumptions	366,059	42,558
Net difference between projected and actual earnings on investments	28,115	-
Changes in proportion and differences between actual contributions and proportionate share of contributions	512,745	43,769
State Bar's contributions subsequent to the measurement date	174,444	-
Total	\$ 1,081,363	\$ 946,730

Amounts reported as deferred outflows of resources related to OPEB resulting from State Bar contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense (credit) as follows:

Year Ended September 30:	OPEB Expense (Credit) Amount
2024	\$ (55,136)
2025	\$ (52,955)
2026	\$ (33,099)
2027	\$ 69,163
2028	\$ 32,216

State Bar of Michigan
Notes to Financial Statements

September 30, 2023

10. Line of Credit

In September 2019, the State Bar negotiated a two-year line of credit facility for \$500,000 for liquidity purposes at a rate of Wall Street Journal prime minus 0.5 percent adjusted daily and pledging certificates of deposit as collateral for the loan. The line of credit facility was renewed in October 2021 for another two-year term. The line is due on demand but if no demand is made then in monthly payments with final payment due October 20, 2023. As of September 30, 2023, there were no outstanding amounts on this line of credit. In addition, in August 2019, the State Bar negotiated an agreement for credit cards for a line of credit of \$175,000 at a fixed rate of 14.9% for balances not paid within the billing cycle. In October 2021, the line of credit was increased to \$225,000. Collateral securing the line of credit also secures this loan. As of September 30, 2023, there were no outstanding amounts on the credit card line.

Required Supplementary Information

State Bar of Michigan

Required Supplementary Information

State Employees' Retirement System – Pension

Schedule of the State Bar's Proportionate Share of Net Pension Liability (amounts determined as of the prior fiscal year)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
The State Bar's proportionate share of the net pension liability:									
As a percentage	0.00566%	0.00572%	0.00597%	0.00546%	0.00547%	0.00508%	0.00509%	0.00498%	0.00486%
Amount	\$ 365,770	\$ 232,483	\$ 402,467	\$ 364,363	\$ 330,798	\$ 263,680	\$ 269,288	\$ 274,261	\$ 250,159
The State Bar's covered payroll	\$ 162,350	\$ 157,164	\$ 152,533	\$ 154,442	\$ 145,438	\$ 141,100	\$ 139,598	\$ 134,080	\$ 130,515
The State Bar's proportionate share of the net pension liability, as a percentage of its covered payroll	225.30%	147.92%	263.86%	235.92%	227.45%	186.87%	192.90%	204.55%	191.67%
Plan fiduciary net position as a percentage of total pension liability	66.92%	78.08%	64.07%	64.71%	67.22%	69.45%	67.48%	66.11%	68.07%

Schedule of the State Bar's Pension Contributions (amounts determined as of the current fiscal year)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 24,225	\$ 38,227	\$ 37,617	\$ 36,627	\$ 34,117	\$ 35,778	\$ 36,226	\$ 36,351	\$ 37,573
Contributions in relation to the actuarially determined statutorily required contributions	24,225	38,227	37,617	36,627	34,117	35,778	36,226	36,351	37,573
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
The State Bar's covered payroll	\$ 116,236	\$ 162,350	\$ 157,164	\$ 152,533	\$ 154,442	\$ 145,438	\$ 141,100	\$ 139,597	\$ 134,080
Contributions as a percentage of covered payroll	20.84%	23.55%	23.93%	24.01%	22.09%	24.60%	25.67%	26.04%	28.02%

State Bar of Michigan

Required Supplementary Information

State Employees' Retirement System – Pension

Notes to Pension Required Supplementary Information

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The Schedule of Contributions for Pension is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

The Schedule of the Proportionate Share of the Net Pension Liability and Schedule of Contributions for Pension are schedules that are required in implementing GASB Statement No. 68. The Schedule of the Proportionate Share of the Net Pension Liability represents in actuarial terms, the accrued liability less the market value of assets. The Schedule of Contributions for Pension is a comparison of the employer's contributions to the actuarially determined contributions.

The actuarially determined contributions presented in the Schedule of Contributions for Pension are calculated as of September 30, four years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the fiscal year 2023 contributions reported in that schedule.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2023

Valuation Date	September 30, 2019
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Dollar, Closed Period
Remaining Amortization Period	15 years, as of October 1, 2021, ending Sept. 30, 2036
Asset Valuation Method	5-Year Smoothed Fair Value
Price Inflation	2.25 percent
Projected Salary Increases	2.75 – 11.75 percent, including wage inflation at 2.75 percent
Investment Rate of Return	6.70 percent net of investment and administrative expenses
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Male and Female Healthy Annuitant Mortality Tables adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, 93% of the table rates for males and 98% of the table rates for females were used. For active and disabled retirees, 100% of the table rates were used.

State Bar of Michigan

Required Supplementary Information

State Employees' Retirement System – OPEB

Schedule of the State Bar's Proportionate Share of Net OPEB Liability (amounts determined as of the prior fiscal year)

	2023	2022	2021	2020	2019	2018
The State Bar's proportionate share of the net OPEB liability:						
As a percentage	0.02973%	0.02287%	0.02366%	0.02008%	0.02020%	0.01982%
Amount	\$ 1,157,170	\$ 872,429	\$ 1,381,131	\$ 1,581,433	\$ 1,603,186	\$ 1,634,710
The State Bar's covered payroll	\$ 620,387	\$ 734,917	\$ 774,642	\$ 778,563	\$ 793,265	\$ 896,804
The State Bar's proportionate share of the net OPEB liability, as a percentage of its covered payroll	186.52%	118.71%	178.29%	203.12%	202.10%	182.28%
Plan fiduciary net position as a percentage of total OPEB liability	56.64%	57.12%	38.29%	27.88%	24.41%	19.89%

Schedule of the State Bar's OPEB Contributions (amounts determined as of the current fiscal year)

	2023	2022	2021	2020	2019	2018
Statutorily required contribution	\$ 174,444	\$ 177,708	\$ 176,165	\$ 164,771	\$ 153,421	\$ 139,752
Contributions in relation to the actuarially determined statutorily required contributions	174,444	177,708	176,165	164,771	153,421	139,752
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
The State Bar's covered payroll	\$ 487,639	\$ 620,387	\$ 734,917	\$ 774,642	\$ 778,563	\$ 793,265
Contributions as a percentage of covered payroll	35.77%	28.64%	23.97%	21.27%	19.71%	17.62%

State Bar of Michigan

Required Supplementary Information

State Employees' Retirement System – OPEB

Notes to OPEB Required Supplementary Information

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the other postemployment benefit obligations as a factor.

The Schedule of Contributions for OPEB is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

The Schedule of the Proportionate Share of the Net OPEB Liability and Schedule of Contributions for OPEB are schedules that are required in implementing GASB Statement No. 75. The Schedule of the Proportionate Share of the Net OPEB Liability represents in actuarial terms, the accrued liability less the market value of assets. The Schedule of Contributions for OPEB is a comparison of the employer's contributions to the actuarially determined contributions.

The actuarially determined contributions presented in the Schedule of Contributions for OPEB are calculated as of September 30, four years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the fiscal year 2023 contributions reported in that schedule.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2023

Valuation Date	September 30, 2019
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed Period
Remaining Amortization Period	15 years, as of October 1, 2021, ending Sept. 30, 2036
Asset Valuation Method	5-Year Smoothed Fair Value
Price Inflation	2.25 percent
Projected Salary Increases	2.75 – 11.75 percent, including wage inflation at 2.75 percent
Investment Rate of Return	6.90 percent net of investment and administrative expenses
Health Care Cost Trend Rate	7.50 percent year 1 graded to 3.50 percent year 15
Mortality	RP-2014 Male and Female Healthy Annuitant Mortality Tables adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, 93% of the table rates for males and 98% of the table rates for females were used. For active and disabled retirees, 100% of the table rates were used.

Other Supplementary Information

State Bar of Michigan

Schedule of Revenue and Expenses – Sections

	Balance October 1, 2022	Revenue	Expenses	Balance September 30, 2023
Administrative & Regulatory Law	\$ 85,970	\$ 12,469	\$ 1,541	\$ 96,898
Agricultural Law	17,366	4,025	653	20,738
Alternative Dispute Resolution	79,604	57,576	58,364	78,816
American Indian Law	14,938	4,080	1,137	17,881
Animal Law	19,726	3,595	3,689	19,632
Antitrust, Franchising, & Trade Regulation	35,733	5,720	4,239	37,214
Appellate Practice	81,674	24,165	9,675	96,164
Arts, Communication, Entertainment, and Sports	12,316	5,240	3,107	14,449
Aviation Law	48,999	3,125	42	52,082
Business Law	250,531	146,215	196,675	200,071
Cannabis Law	97,440	51,507	116,638	32,309
Children's Law	28,581	17,555	16,584	29,552
Consumer Law	31,015	6,855	3,941	33,929
Criminal Law	121,456	52,295	36,803	136,948
Elder Law and Disability Rights	107,811	75,385	84,162	99,034
Environmental Law	95,592	23,621	13,542	105,671
Family Law	241,664	247,383	262,823	226,224
Government Law	51,868	37,545	15,007	74,406
Health Care Law	84,871	34,435	53,760	65,546
Information Technology Law	98,697	19,030	27,070	90,657
Immigration Law	30,867	13,230	16,071	28,026
Insurance and Indemnity Law	51,631	34,360	46,148	39,843
Intellectual Property Law	63,273	36,471	81,829	17,915
International Law	49,467	10,675	3,852	56,290
Judicial	-	30,160	30,160	-
Labor and Employment Law	166,592	98,970	104,456	161,106
Latin American Bar Activities	10,084	-	-	10,084
Law Practice Management & Legal Administrators	46,374	6,995	6,875	46,494
Law Student	25,112	1,935	35	27,012
LGBTQ+ Law	27,092	9,240	4,563	31,769
Litigation	131,857	64,080	78,860	117,077
Military and Veterans' Law	23,248	4,625	81	27,792
Negligence Law	22,228	167,233	194,319	(4,858)
Paralegal/Legal Assistant	4,867	6,420	2,586	8,701
Prisons and Corrections	13,604	4,440	423	17,621
Probate and Estate Planning	232,021	117,463	128,043	221,441
Real Property Law	265,013	212,191	230,486	246,718
Religious Liberty Law	13,330	8,860	5,141	17,049
Senior Lawyers	21,599	7,225	309	28,515
Solo and Small Firm	66,673	23,910	5,391	85,192
Social Security Law	31,328	19,586	27,267	23,647
Taxation	119,846	36,199	65,447	90,598
Workers' Compensation Law	51,922	22,480	19,086	55,316
Young Lawyers	2,248	95,185	95,161	2,272
Total	\$ 3,076,128	\$ 1,863,754	\$ 2,056,041	\$ 2,883,841

State Bar of Michigan

Comparative Statement of Net Position – Administrative Fund

	September 30		Increase (Decrease)	
	2023	2022	Amount	%
Assets				
Current assets:				
Cash for operations	\$ 775,835	\$ 2,451,119	\$ (1,675,284)	(68.3)%
Investments	11,776,776	7,953,650	3,823,126	48.1 %
Accounts receivable:				
Trade	44,919	51,437	(6,518)	(12.7)%
Foundation	3,459	3,294	165	5.0 %
Due to other funds	(2,870,635)	(3,080,195)	209,560	6.8 %
Prepaid expenses	490,364	396,913	93,451	23.5 %
Lease receivable - current*	-	10,313	(10,313)	(100.0)%
Total current assets	<u>10,220,718</u>	<u>7,786,531</u>	<u>2,434,187</u>	<u>31.3 %</u>
Retiree healthcare trust investments	4,113,125	3,541,327	571,798	16.1 %
Lease receivable - noncurrent*	-	31,323	(31,323)	(100.0)%
Capital assets, net	3,228,115	3,193,128	34,987	1.1 %
Total assets	<u>17,561,958</u>	<u>14,552,309</u>	<u>3,009,649</u>	<u>20.7 %</u>
Deferred outflows of resources				
Deferred outflows related to pensions	24,225	38,227	(14,002)	(36.6)%
Deferred outflows related to OPEB	1,081,363	616,028	465,335	75.5 %
Total deferred outflows of resources	<u>1,105,588</u>	<u>654,255</u>	<u>451,333</u>	<u>69.0 %</u>
Liabilities				
Current liabilities:				
Accounts payable	463,715	336,346	127,369	37.9 %
Accrued expenses	697,379	633,546	63,833	10.1 %
Unearned revenue	2,282,284	2,263,179	19,105	0.8 %
Total current liabilities	<u>3,443,378</u>	<u>3,233,071</u>	<u>210,307</u>	<u>6.5 %</u>
Net pension liability	365,770	232,483	133,287	57.3 %
Net OPEB liability	1,157,170	872,429	284,741	32.6 %
Total liabilities	<u>4,966,318</u>	<u>4,337,983</u>	<u>628,335</u>	<u>14.5 %</u>
Deferred inflows of resources				
Deferred inflows related to pensions	3,373	103,071	(99,698)	(96.7)%
Deferred inflows related to OPEB	946,730	910,857	35,873	3.9 %
Deferred inflows related to leases*	-	41,530	(41,530)	(100.0)%
Total deferred inflows of resources	<u>950,103</u>	<u>1,055,458</u>	<u>(105,355)</u>	<u>(10.0)%</u>
Net position				
Net investment in capital assets	3,228,115	3,193,128	34,987	1.1 %
Restricted for retiree health care	3,090,588	2,374,069	716,519	30.2 %
Unrestricted	6,432,422	4,245,926	2,186,496	51.5 %
Total net position	<u>\$ 12,751,125</u>	<u>\$ 9,813,123</u>	<u>\$ 2,938,002</u>	<u>29.9 %</u>

* Lease receivable and deferred inflows of resources related to leases recorded in FY 2022 were determined in FY 2023 to relate to a short-term lease and were therefore reclassified in FY 2023.

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Position Compared to Prior Year – Administrative Fund

	Year Ended September 30		Variance	
	2023	2022	Increase (Decrease) Amount	%
Operating revenue				
License Fees, Section Dues, and Affiliate Dues	\$ 10,830,970	\$ 7,675,680	\$ 3,155,290	41.1 %
Character and Fitness	356,580	267,120	89,460	33.5 %
Lawyer Services	218,868	230,002	(11,134)	(4.8)%
Client Protection Fund administration fee	210,235	187,450	22,785	12.2 %
Bar Journal	169,561	158,260	11,301	7.1 %
Lawyer Referral Service	162,396	182,479	(20,083)	(11.0)%
Attorney Discipline System fee	115,962	66,449	49,513	74.5 %
Lawyers and Judges Assistance	61,064	49,245	11,819	24.0 %
Digital	60,781	68,174	(7,393)	(10.8)%
Print and Design	45,082	47,926	(2,844)	(5.9)%
Michigan State Bar Foundation rent	41,402	39,373	2,029	5.2 %
Great Lakes Legal Conference	36,305	33,968	2,337	6.9 %
e-Journal	28,085	28,270	(185)	(0.7)%
Inaugural and Awards Luncheon	17,885	8,550	9,335	109.2 %
50 Year Honoree Celebration	5,960	2,438	3,522	144.5 %
Practice Management Resource Center	2,880	939	1,941	206.7 %
Ethics	2,475	2,025	450	22.2 %
Diversity	-	5,000	(5,000)	(100.0)%
Other revenue	292,590	140,190	152,400	108.7 %
Total operating revenue	<u>12,659,081</u>	<u>9,193,538</u>	<u>3,465,543</u>	<u>37.7 %</u>
Operating expenses				
Labor expenses:				
Salaries	5,789,720	5,418,000	371,720	6.9 %
Employee benefits and payroll taxes	1,847,302	1,540,619	306,683	19.9 %
Total labor expenses	<u>7,637,022</u>	<u>6,958,619</u>	<u>678,403</u>	<u>9.7 %</u>
Nonlabor expenses:				
Legal:				
Human Resources	61,723	51,506	10,217	19.8 %
Character and Fitness	40,431	41,087	(656)	(1.6)%
Client Protection Fund	16,467	15,986	481	3.0 %
General Counsel	15,413	49,865	(34,452)	(69.1)%
Unauthorized Practice of Law	4,268	3,097	1,171	37.8 %
Ethics	3,526	1,819	1,707	93.8 %
Interim Administrator Program	2,907	-	2,907	N/A
Total Legal	<u>144,735</u>	<u>163,360</u>	<u>(18,625)</u>	<u>(11.4)%</u>
Public and Bar Services:				
Technical Services	535,888	515,689	20,199	3.9 %
Outreach	122,822	90,938	31,884	35.1 %
Great Lakes Legal Conference	60,894	23,755	37,139	156.3 %
Inaugural and Awards Luncheon	40,779	34,952	5,827	16.7 %
50 Year Honoree Celebration	34,967	30,677	4,290	14.0 %
Lawyer Services	29,460	26,435	3,025	11.4 %
Lawyers and Judges Assistance	21,812	13,970	7,842	56.1 %
Diversity	32,212	13,073	19,139	146.4 %
Practice Management Resource Center	6,989	6,133	856	14.0 %
Lawyer Referral Service	3,954	1,758	2,196	124.9 %
Upper Michigan Legal Institute	-	21,459	(21,459)	(100.0)%
Total Public and Bar Services	<u>889,777</u>	<u>778,839</u>	<u>110,938</u>	<u>14.2 %</u>

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Position Compared to Prior Year – Administrative Fund

	Year Ended September 30		Variance	
	2023	2022	Increase (Decrease) Amount	%
Operating expenses (continued)				
Nonlabor expenses (continued)				
Operations and Policy:				
Depreciation	\$ 420,981	\$ 434,271	\$ (13,290)	(3.1)%
Facilities Services	394,657	362,709	31,948	8.8 %
Financial Services	386,882	367,052	19,830	5.4 %
Bar Journal	338,468	334,933	3,535	1.1 %
Justice Initiatives	134,123	131,559	2,564	1.9 %
Board of Commissioners	120,453	83,874	36,579	43.6 %
Administration	105,214	99,170	6,044	6.1 %
Digital	101,252	104,197	(2,945)	(2.8)%
Governmental Relations	63,239	56,936	6,303	11.1 %
Print and Design	48,093	43,318	4,775	11.0 %
Research and Development	23,554	1,181	22,373	1894.4 %
Representative Assembly	21,723	23,799	(2,076)	(8.7)%
Executive Office	23,374	33,711	(10,337)	(30.7)%
e-Journal	15,713	14,644	1,069	7.3 %
General Communications	6,462	7,306	(844)	(11.6)%
Total Operations and Policy	<u>2,204,188</u>	<u>2,098,660</u>	<u>105,528</u>	<u>5.0 %</u>
Total nonlabor expenses	<u>3,238,700</u>	<u>3,040,859</u>	<u>197,841</u>	<u>6.5 %</u>
Total operating expenses	<u>10,875,722</u>	<u>9,999,478</u>	<u>876,244</u>	<u>8.8 %</u>
Operating income (loss)	<u>1,783,359</u>	<u>(805,940)</u>	<u>2,589,299</u>	<u>321.3 %</u>
Nonoperating revenue (expenses)				
Investment income	579,659	62,582	517,077	826.2 %
Investment income (loss) – retiree healthcare trust, net	574,984	(1,216,661)	1,791,645	147.3 %
Loss on disposal of capital assets	-	(78)	78	100.0 %
Total nonoperating revenue (expenses)	<u>1,154,643</u>	<u>(1,154,157)</u>	<u>2,308,800</u>	<u>200.0 %</u>
Change in net position	2,938,002	(1,960,097)	4,898,099	249.9 %
Net position at beginning of year	9,813,123	11,773,220	(1,960,097)	(16.6)%
Net position at end of year	<u>\$ 12,751,125</u>	<u>\$ 9,813,123</u>	<u>\$ 2,938,002</u>	<u>29.9 %</u>

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Position Compared to Budget – Administrative Fund

	Year Ended September 30		Budget Variance	
	2023 Actual	2023 Budget	Favorable (Unfavorable) Amount	%
Operating revenue				
License Fees, Section Dues, and Affiliate Dues	\$ 10,830,970	\$ 10,929,500	\$ (98,530)	(0.9)%
Character and Fitness	356,580	291,310	65,270	22.4 %
Lawyer Services	218,868	207,800	11,068	5.3 %
Client Protection Fund administration fee	210,235	180,000	30,235	16.8 %
Bar Journal	169,561	150,500	19,061	12.7 %
Lawyer Referral Service	162,396	150,000	12,396	8.3 %
Attorney Discipline System fee	115,962	116,000	(38)	(0.0)%
Lawyers and Judges Assistance	61,064	60,000	1,064	1.8 %
Digital	60,781	47,500	13,281	28.0 %
Print and Design	45,082	41,000	4,082	10.0 %
Michigan State Bar Foundation rent	41,402	41,500	(98)	(0.2)%
Great Lakes Legal Conference	36,305	32,000	4,305	13.5 %
e-Journal	28,085	25,000	3,085	12.3 %
Inaugural and Awards Luncheon	17,885	25,000	(7,115)	(28.5)%
50 Year Honoree Celebration	5,960	3,350	2,610	77.9 %
Practice Management Resource Center	2,880	3,000	(120)	(4.0)%
Ethics	2,475	4,875	(2,400)	(49.2)%
Other revenue	292,590	368,600	(76,010)	(20.6)%
Total operating revenue	<u>12,659,081</u>	<u>12,676,935</u>	<u>(17,854)</u>	<u>(0.1)%</u>
Operating expenses				
Labor expenses:				
Salaries	5,789,720	5,894,702	104,982	1.8 %
Employee benefits and payroll taxes	1,847,302	2,012,614	165,312	8.2 %
Total labor expenses	<u>7,637,022</u>	<u>7,907,316</u>	<u>270,294</u>	<u>3.4 %</u>
Nonlabor expenses:				
Legal:				
Human Resources	61,723	76,780	15,057	19.6 %
Character and Fitness	40,431	60,050	19,619	32.7 %
Client Protection Fund	16,467	10,660	(5,807)	(54.5)%
General Counsel	15,413	45,250	29,837	65.9 %
Unauthorized Practice of Law	4,268	11,850	7,582	64.0 %
Ethics	3,526	10,285	6,759	65.7 %
Interim Administrator Program	2,907	19,215	16,308	84.9 %
Total Legal	<u>144,735</u>	<u>234,090</u>	<u>89,355</u>	<u>38.2 %</u>
Public and Bar Services:				
Technical Services	535,888	650,500	114,612	17.6 %
Outreach	122,822	133,000	10,178	7.7 %
Great Lakes Legal Conference	60,894	37,650	(23,244)	(61.7)%
Inaugural and Awards Luncheon	40,779	64,500	23,721	36.8 %
50 Year Honoree Celebration	34,967	37,900	2,933	7.7 %
Lawyer Services	29,460	31,100	1,640	5.3 %
Lawyers and Judges Assistance	21,812	28,000	6,188	22.1 %
Diversity	32,212	37,250	5,038	13.5 %
Practice Management Resource Center	6,989	10,725	3,736	34.8 %
Lawyer Referral Service	3,954	8,850	4,896	55.3 %
Upper Michigan Legal Institute	-	34,400	34,400	100.0 %
Total Public and Bar Services	<u>889,777</u>	<u>1,073,875</u>	<u>184,098</u>	<u>17.1 %</u>

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Position Compared to Budget – Administrative Fund

	Year Ended September 30		Budget Variance	
	2023 Actual	2023 Budget	Favorable (Unfavorable) Amount	%
Operating expenses (continued)				
Nonlabor expenses (continued)				
Operations and Policy:				
Depreciation	\$ 420,981	\$ 462,000	\$ 41,019	8.9 %
Facilities Services	394,657	446,500	51,843	11.6 %
Financial Services	386,882	465,050	78,168	16.8 %
Bar Journal	338,468	353,350	14,882	4.2 %
Justice Initiatives	134,123	138,725	4,602	3.3 %
Board of Commissioners	120,453	132,800	12,347	9.3 %
Administration	105,214	106,500	1,286	1.2 %
Digital	101,252	121,500	20,248	16.7 %
Governmental Relations	63,239	67,670	4,431	6.5 %
Print and Design	48,093	63,600	15,507	24.4 %
Research and Development	23,554	34,390	10,836	31.5 %
Representative Assembly	21,723	55,700	33,977	61.0 %
Executive Office	23,374	63,950	40,576	63.4 %
e-Journal	15,713	16,245	532	3.3 %
General Communications	6,462	14,000	7,538	53.8 %
Total Operations and Policy	<u>2,204,188</u>	<u>2,541,980</u>	<u>337,792</u>	<u>13.3 %</u>
Total nonlabor expenses	<u>3,238,700</u>	<u>3,849,945</u>	<u>611,245</u>	<u>15.9 %</u>
Total operating expenses	<u>10,875,722</u>	<u>11,757,261</u>	<u>881,539</u>	<u>7.5 %</u>
Operating income	<u>1,783,359</u>	<u>919,674</u>	<u>863,685</u>	<u>93.9 %</u>
Nonoperating revenue				
Investment income	579,659	194,000	385,659	198.8 %
Investment income – retiree healthcare trust, net	574,984	-	574,984	N/A
Total nonoperating revenue	<u>1,154,643</u>	<u>194,000</u>	<u>960,643</u>	<u>495.2 %</u>
Change in net position	2,938,002	1,113,674	1,824,328	163.8 %
Net position at beginning of year	9,813,123	9,813,123	-	0.0 %
Net position at end of year	<u>\$ 12,751,125</u>	<u>\$ 10,926,797</u>	<u>\$ 1,824,328</u>	<u>16.7 %</u>

State Bar of Michigan

Historical Financial Summaries – Administrative Fund

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Operating revenue:					
License Fees, Section Dues, and Affiliate Dues	\$ 7,750,310	\$ 7,732,165	\$ 7,764,197	\$ 7,675,680	\$ 10,830,970
Other operating revenue	1,601,165	1,390,427	1,409,807	1,517,858	1,828,111
Total operating revenue	9,351,475	9,122,592	9,174,004	9,193,538	12,659,081
Operating expenses:					
Salaries	5,051,419	5,281,014	5,089,955	5,418,000	5,789,720
Employee benefits and payroll taxes	1,833,191	1,776,147	1,694,812	1,540,619	1,847,302
Other operating expenses	3,680,777	3,211,185	3,073,735	3,040,859	3,238,700
Total operating expenses	10,565,387	10,268,346	9,858,502	9,999,478	10,875,722
Operating income (loss)	(1,213,912)	(1,145,754)	(684,498)	(805,940)	1,783,359
Nonoperating revenue					
Investment income	249,731	199,067	70,185	62,582	579,659
Investment income (loss) – retiree healthcare trust, net**	384,630	318,946	824,417	(1,216,661)	574,984
Loss on disposal of capital assets	(4,000)	(17,570)	(8,793)	(78)	-
Total nonoperating revenue	630,361	500,443	885,809	(1,154,157)	1,154,643
Change in net position	(583,551)	(645,311)	201,311	(1,960,097)	2,938,002
Net position at beginning of fiscal year	12,800,771	12,217,220	11,571,909	11,773,220	9,813,123
Net position at end of fiscal year	\$ 12,217,220	\$ 11,571,909	\$ 11,773,220	\$ 9,813,123	\$ 12,751,125
Net position as a % of total operating expenses	115.6%	112.7%	119.4%	98.1%	117.2%
Unrestricted net position as a % of total operating expenses	61.2%	54.8%	51.5%	42.5%	59.1%
Number of State Bar of Michigan attorney members in good standing as of September 30	46,092	46,320	46,523	46,773	46,824

** For FY 2020, FY 2021, FY 2022, and FY 2023, investment income (loss) – retiree healthcare trusts is presented net of investment expenses. FY 2019 presentation is not net of investment expenses.

State Bar of Michigan

Historical Financial Summaries – Client Protection Fund

	FY 2019*	FY 2020*	FY 2021*	FY 2022	FY 2023
Operating revenue:					
License Fees	\$ 649,286	\$ 645,814	\$ 645,566	\$ 645,784	\$ 641,066
Pro Hac Vice fees	13,410	13,425	12,990	11,970	12,330
Other operating revenue	51,860	107,357	37,159	43,576	161,615
Total operating revenue	<u>714,556</u>	<u>766,596</u>	<u>695,715</u>	<u>701,330</u>	<u>815,011</u>
Operating expenses:					
Claims payments	541,410	576,159	338,293	238,106	312,369
Other operating expenses	211,833	172,476	162,866	187,870	210,655
Total operating expenses	<u>753,243</u>	<u>748,635</u>	<u>501,159</u>	<u>425,976</u>	<u>523,024</u>
Operating income (loss)	(38,687)	17,961	194,556	275,354	291,987
Nonoperating revenue – investment income	<u>25,724</u>	<u>16,958</u>	<u>3,845</u>	<u>12,318</u>	<u>108,215</u>
Change in net position	<u>(12,963)</u>	<u>34,919</u>	<u>198,401</u>	<u>287,672</u>	<u>400,202</u>
Net position at beginning of fiscal year	2,009,754	1,996,791	2,031,710	1,834,119	2,121,791
Cumulative effect of change in accounting principle	-	-	(395,992)	-	-
Net position at end of fiscal year	<u>\$ 1,996,791</u>	<u>\$ 2,031,710</u>	<u>\$ 1,834,119</u>	<u>\$ 2,121,791</u>	<u>\$ 2,521,993</u>
Net position as a % of total operating expenses	265.1%	271.4%	366.0%	498.1%	482.2%

* Before any restatement of prior year's data