

Excerpts from State Bar of Michigan Audited Financial Statements

and Other Supplementary Information, Year Ended September 30, 2015



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December 16, 2015

Honorable Robert P. Young Jr.
Chief Justice
Supreme Court of Michigan
Hall of Justice
925 W. Ottawa Street
Lansing, MI 48915

**RE: STATE BAR OF MICHIGAN
ANNUAL FINANCIAL REPORT—FY 2015**

With this letter, please accept the FY 2015 Annual Financial Report of the State Bar of Michigan. The Annual Financial Report covers the fiscal year ended September 30, 2015, and contains the audited financial statements and other information required by accounting standards or useful to understanding the operations and effectiveness of the State Bar of Michigan.

MAJOR ACCOMPLISHMENTS IN FY 2015

FY 2015 witnessed continued successful implementation of the State Bar of Michigan's Strategic Plan and the provision of enhanced services to the members and the public in a cost-effective manner. The Strategic Plan can be accessed on the State Bar's website at <http://www.michbar.org/generalinfo/pdfs/strategicplan.pdf>.

Major accomplishments:

- 1,177 new member applications were processed. Attorney membership of the State Bar of Michigan grew to 44,504 members in good standing, an increase of 1.5 percent over FY 2014.
- The State Bar achieved a financial surplus of \$208,856 primarily through continued cost control, operational efficiencies, changes in actuarial assumptions, and deferral of expenses.
- The State Bar processed 1,114 character and fitness applications for the July 2014 and February 2015 exams. There were 133 fewer applications filed compared to the previous year. A national trend of decreasing law school enrollments began several years ago. We are now seeing the result of that trend, with smaller graduating classes and fewer applicants for admission. There were 52 District Committee interviews, 38 formal Character and Fitness Standing Committee hearings, and 9 hearings before the Board of Law Examiners during the most recent reporting year (May 1, 2014–April 30, 2015).
- With input from the Board of Law Examiner's staff, the State Bar made several significant enhancements to the bar exam application process to make it more convenient for applicants, reduce submission errors, enhance processing efficiencies, and streamline the fee payment process. The new electronic submission process uploads the electronically completed application to the State Bar of Michigan secure portal during the electronic payment process. Effective with the February 2016 bar application cycle, the bar exam fee and the investigation fee must be paid online through the State Bar's e-Commerce system. As fee payments are processed, the completed application is uploaded and a receipt generated. Applicants receive immediate confirmation that the

application and fees have been received. The electronic submission process eliminates the requirement that applicants mail a hard copy of the entire application to the State Bar. The Application to Sit for the Bar Examination traditionally collected by the State Bar and mailed to the Board of Law Examiners is now automatically e-mailed to the Board upon receipt through the e-Commerce system. The Board of Law Examiners and State Bar staff routinely receive specially designed electronic reports that track payments and electronic submissions.

- The Board of Commissioners approved 36 Client Protection Fund claims totaling \$161,997 for payment to reimburse clients whose funds held by their attorneys were misappropriated. A total of \$502,070 in claims payments was disbursed from the fund in FY 2015, including a portion of claims previously approved by the Board of Commissioners in FY 2014. There is \$7,000 in authorized but unpaid claims as of September 30, 2015, pending receipt of signed subrogation agreements from the prospective payees.
- There were 89 complaints alleging the unauthorized practice of law (UPL) received during FY 2015. The Board approved litigation in 18 matters where UPL is believed to have occurred. Of the remainder, 10 were closed after investigation, 20 are pending committee review after investigation, 10 are pending resolution, 2 are recommended for litigation pending Board review, and 29 remain open for further investigation and review.
- State Bar staff counsel responded to approximately 10 to 20 inquiries daily from attorneys and judges seeking informal advice through the Ethics Helpline. The "Tips and Tools for a Successful Practice" ethics seminar was presented twice during the bar year to help lawyers strengthen their law practices. The "Lawyer Trust Accounts" seminar was presented three times during the bar year (once in Oakland County and twice in Ingham County) to assist lawyers with the ethical management of their trust accounts and to provide resources for effective traditional and electronic recordkeeping. Staff counsel also gave several ethics presentations, including to the University of Detroit Mercy Law School Incubator Program, the PMRC Boot Camp, various lawyer associations, State Bar sections, and bar-related entities.
- The Lawyer Referral Service (LRS) responded to telephone calls and on-line referral requests, providing a daily average of 92 referrals to members of the public.
- The Lawyers and Judges Assistance Program (LJAP) opened 102 new cases and provided monitoring or referral services to 251 clients. LJAP performed 78 assessments and monitored an average of 80 clients each month. LJAP provided 81 consultations on the telephone for attorneys, law students, judges, or concerned colleagues or friends struggling with addiction or mental health issues. LJAP clinicians have presented 36 times to law students, attorneys, and judges on issues including addiction, stress management, and dealing with difficult personalities. LJAP clinicians partnering with judges have facilitated six judicial roundtables for various regional judges' associations, with very positive evaluations.
- An Attorney Underearning seminar was held in Traverse City on the reasons why attorneys experience income difficulties, including financial styles, emotional or mental illness, and various process or chemical

additions. Participants reviewed best practices and were provided practical, helpful suggestions to implement in their law practice.

- The Professional Ethics Committee issued four new ethics opinions, and the Judicial Ethics Committee issued two new ethics opinions and judicial campaign ethics FAQs.
- The State Bar's public policy program fully reviewed 54 bills and court rules and led the advocacy on approximately 45 formal legislative and court rule positions.
- In response to the report issued by the Supreme Court Task Force on the Role of the State Bar, the Board of Commissioners and Representative Assembly changed the Bar's public policy process. The changes were aimed at safeguarding members' First Amendment rights. The changes establish more deliberative, thorough, and explicit procedures for deciding if a public policy position is permissible under *Keller*:
 - Both the BOC and RA now require detailed written *Keller* analyses from legal counsel on each legislative issue before the body considers it.
 - The BOC and RA take a "*Keller* vote" before an issue is considered on its merits. Unless two-thirds of the members of the voting body agree the issue is permissible under *Keller*, the body takes no position.
 - Previously held positions on legislation also go through this enhanced *Keller* review process before the State Bar re-engages in advocacy.
 - The RA now provides a mechanism for a formal minority report to accompany recommendations to the Michigan Supreme Court when less than 75 percent of RA members support a recommendation.
 - Roll call votes of all non-unanimous BOC votes on legislative advocacy are posted on the State Bar website and in the *Michigan Bar Journal*.

With these changes, the State Bar of Michigan believes it now has the clearest, most comprehensive, and most transparent *Keller* scrutiny process of any mandatory state bar public policy program.

- The Board of Commissioners adopted or updated several policies this fiscal year including an update of expense reimbursement policies, implementation of a business credit card policy, an update of the investment policy, approval of a new contracts policy, and approval of a new and expanded conflict of interest policy.
- The State Bar created the 21st Century Practice Task Force to address the accelerating pace of change in the practice of law. Those changes include the influence of technology, globalization, the blurring of traditional jurisdictional borders, new models for regulating legal services and educating legal professions, changing public expectations about seeking and obtaining affordable legal services, and innovations that expand the ability to offer legal services. Over 160 people are actively involved in the work of the Task Force and its three committees: Affordability of Legal Services, Building a 21st Century Practice, and Modernizing the Regulatory Machinery. The Task Force will complete its work in March of 2016. SBM Best Legal Future Blog was launched with the Task Force to familiarize Michigan's legal and business community with the ideas under examination by the Task Force, and to help reinforce Michigan's presence as a leader in this field.
- Volunteers filled 748 positions on the 26 standing and special committees and four initiatives, to help carry out the mission of the State Bar of Michigan. 43 nonlawyers joined in that work. An in-person and webinar orientation for new committee members and leaders was conducted to promote effective participation in the committee process and compliance with court rules, administrative orders, and State Bar by-laws and policies.
- Services to the State Bar's 40 sections were enhanced and reviewed with section leaders at the annual Section Chair Orientation, "The Future of the Profession: Embracing Changes and Challenges in our Section Work." Recent enhancements to sections included introducing SBM Connect

as an online community, conducting section leader luncheons, enhancing event services, and automating several forms used by sections.

- During FY 2015, membership in the sections totaled 70,362, including 34,358 paid memberships. Free section memberships are offered to new members, those qualifying for the Young Lawyers Section or Master Lawyers Section, and members of the judiciary.
- A new Marijuana Law Section was approved by the Board of Commissioners at its July 2015 meeting. Its jurisdiction is "to improve and expand the knowledge of lawyers who engage in the practice of marijuana law."
- The State Bar president and staff continued a tradition of visiting many of the approximately 135 local and special-purpose bars recognized by the State Bar of Michigan. The visits gather information about the state of the profession throughout Michigan, support local civic education programs, familiarize members with State Bar services, provide practice management and lawyers and judges assistance seminars, participate in bench-bar gatherings, and conduct strategic planning and organizational development programs. The bar visits began with the traditional Upper Peninsula Tour during which the State Bar president and Representative Assembly vice chair, accompanied by the District A commissioner, visited seven bar associations in three days.
- The State Bar of Michigan supported diversity and inclusion in the profession by:
 - Increasing the number of signatories to the State Bar of Michigan's Pledge to Achieve Diversity and Inclusion to 797 individuals, 358 law firms, 39 voluntary bar associations, 36 State Bar sections and committees, 16 governmental and law-related entities, 7 corporations, 9 legal aid providers, and each of the five law schools in the state for a total of 1,266 signatories.
 - Developing a strategy through the Diversity and Inclusion Advisory Committee (DIAC) to monitor the progress and implementation of the recommendations from the State Bar Task Force on Race/Ethnic and Gender Issues in the Courts and the Legal Profession promulgated in 1996. The committee prioritized 21 recommendations regarding Ethics and Professional Development out of the total of 167 to focus on in the coming year.
 - DIAC continues to add resources to the "Pipeline Program Guide" developed last year that describes various programs across the state and is available online and in hard copy. To date, over 20 programs have been inventoried.
 - DIAC and the Equal Access Initiative of the Committee on Justice Initiatives, in partnership with the Michigan Roundtable for Diversity and Inclusion, the Michigan Diversity Council, the National Organization of Black Law Enforcement Executives, and 25 affinity bar associations hosted a seminar on bias awareness that trained over 100 participants on improving their awareness and cultural competency.
- The State Bar of Michigan hosted the seventh annual Pro Bono Workshop on May 19, 2015. The workshop provided an opportunity to showcase the many advancements in the State Bar's pro bono work, including the successful development of several Pro Bono Initiative sponsored programs. The Tax Pro Bono Referral Panel Program was created in partnership with the Taxation Section and Michigan's Low-Income Taxpayer Clinics. The Michigan Patent Pro Bono Project was created in partnership with the Intellectual Property Law Section. The Tax Program has placed almost 90 cases with pro bono lawyers, while the Patent Project has already received almost 40 requests for assistance in its first year.
- For the sixth year in a row, the State Bar of Michigan Pro Bono Initiative sponsored Pro Bono Month with the American Bar Association's Pro Bono Week celebration, a national recognition of pro bono

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activities. The Pro Bono Month celebration is an opportunity to recruit more pro bono volunteers, increase legal services to the poor, mobilize community support for pro bono, foster collaborative relationships, and recognize and publicize the pro bono efforts of Michigan's lawyers. Pro Bono Month continues to grow, and October 2014 was one of the most successful in terms of events planned and posted on the State Bar's Pro Bono Month website, which included about 60 events throughout Michigan.

- In June, the Bar Leadership Forum and Upper Michigan Legal Institute were held on Mackinac Island. Jeffrey Cufaude, a nationally respected speaker and author, spoke to bar leaders about how to lead and innovate in a world of constant change, and was well-received.
- The Practice Management Resource Center (PMRC) continued to update and provide many practice management resources through its website, and both hard-copy and digital PMRC libraries inventory expanded as new publications were added throughout the year.
- PMRC staff continued to respond to telephone calls from lawyers and their staff seeking practice management advice via the PMRC helpline, authored practice management articles for the *Michigan Bar Journal* and external publications, and participated in and developed webinars and numerous seminars and programs sponsored by the PMRC and/or local bar associations, the American Bar Association, the Institute of Continuing Legal Education (ICLE), law schools, and bar-related entities.
- Through a customized training and consulting program, PMRC staff continued to perform individualized practice management consultations and customized technology training sessions for lawyers and law firms, and conducted consultations for members referred by the attorney discipline agencies. PMRC staff developed and implemented a day-long program called "Boot Camp: Starting a 21st Century Law Firm," offered to law students, new lawyers, and lawyers wanting to improve their practices, and conducted three sessions. PMRC staff also developed and delivered practice management training and guidance specifically designed for the incubator program at University of Detroit Mercy School of Law. PMRC staff remained active in and represented the SBM through their participation in committees and board seats, and general membership in various associations, including the American Bar Association and the Association of Legal Administrators.
- Member benefit programs were enhanced with the addition of Citrix Sharefile, Greenview Data, Rocket Matter, MyCase, and Green Light Business Technology. State Bar of Michigan members can now receive a 10 percent lifetime discount on Citrix Sharefile and a 15 percent discount on encryption and antispam/antivirus services from Greenview Data. Members will soon save 15 percent off the monthly subscription to Rocket Matter and 10 percent off MyCase subscriptions, both web-based legal practice management software platforms offering features that seamlessly cover all the daily functions that a modern solo and small law firm requires. Firms will also soon save between 5 and 10 percent off data backup and recovery services from Green Light Business Technology.
- The two-year project involving a total redesign of the main website pages and the new social media SBM Connect website was launched in May 2015. The State Bar also transitioned to a new and improved member directory allowing members to significantly enhance their profiles, including expanding their biographical listings and uploading photos, videos, articles, and publications.
- The State Bar of Michigan mobile directory app was updated and improved, providing direct access to the SBM online member directory, a directory of Michigan and U.S. legislators, and links to the latest digital issues of the *Michigan Bar Journal*, e-Journal, and SBM Blog. The app also has a text alert feature allowing members to sign up

for member alerts, dues notice information, special event news, and e-Journal alerts.

- The Access to Justice Campaign revenue (including pledges) for the fiscal year ended September 30, 2015, was more than \$1,045,000 (un-audited). The Access to Justice Campaign is a partnership of the State Bar of Michigan, the Michigan State Bar Foundation, and Michigan's legal aid providers to increase resources for civil legal aid to the poor in Michigan. Approximately \$14.2 million has been received to date by the Access to Justice Fund in donations and pledges. Access to Justice Fund contributions are received and administered by the Michigan State Bar Foundation according to the Access to Justice Fund guidelines at www.msbf.org/atjfund.
- The State Bar implemented GASB 68, Accounting and Financial Reporting for Pensions, in FY 2015, which resulted in a recording of an actuarially determined net pension liability to the State of Michigan for employees in the State of Michigan's defined benefit pension plan. As of September 30, 2015, the State Bar's net position in the Administrative Fund totaled \$12,776,023 (including the impact of implementation of GASB 68), the Client Protection Fund's net position totaled \$2,516,916, and the sections' net position totaled \$2,015,215. The Retiree Health Care Trust's net position totaled \$2,163,535, which will be used for future retiree health care premiums. The State Bar operates with no debt.

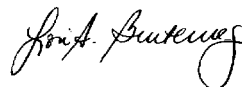
APPROVED FY 2016 BUDGET

The State Bar Board of Commissioners has approved a deficit budget for FY 2016 of (\$647,233) that focuses on continued spending for accomplishing the State Bar's strategic focus. Deficit budgets after several years of static membership dues are an expected and anticipated element of bar association funding and budgeting. Due to careful management, the State Bar's dues cycle has been extended well beyond the normal seven-year cycle, and after 14 straight years of budget surpluses, deficit budgets are now expected and planned for into the foreseeable future. A summary of the FY 2016 approved budget was published in the November 2015 *Michigan Bar Journal* and can also be found on the State Bar's website at <http://www.michbar.org/generalinfo/home>.

MANAGEMENT'S RESPONSIBILITY

The State Bar of Michigan's management is responsible for the information provided in this FY 2015 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, and their opinion is provided as a part of this report.

Questions or comments on this FY 2015 Annual Financial Report should be directed to Janet K. Welch, executive director of the State Bar of Michigan.



Lori A. Buiteweg
President



Janet K. Welch
Executive Director



Dennis M. Barnes
Treasurer



James C. Horsch
Director of Finance and Administration